

Response to the CMA's early years education and childcare market study



A. INTRODUCTION

1. [Redacted].

B. SUMMARY

2. [Redacted] recognises that many of the challenges in the sector could be most directly addressed through increased Government funding. [Redacted] would welcome such investment. However, [Redacted] is also mindful of the current constraints on public finances and the statement from the Secretary of State for Education that it would “*welcome CMA recommendations that recognise the fiscal context we are operating in, and that are deliverable within the overall funding envelope.*”¹ [Redacted] has therefore focused its initial views below on reforms that do not depend on significant additional funding and can be delivered at relatively low cost to Government.
3. Although the market study remains at an early stage and [Redacted] will continue to develop its thoughts as the CMA’s work progresses, [Redacted] has preliminarily identified the following areas as cost-efficient changes which could address challenges in the sector:
 - (a) **Introduction of greater flexibility into staff-to-child ratio compliance**, moving from a rigid, point-in-time hard limit to a rolling-average model, subject to an absolute staffing floor, allowing providers to manage ordinary staffing fluctuations and use existing capacity more efficiently;
 - (b) **Levelling Government funding across 52 weeks**, spreading the existing annual funding entitlement evenly across the full year rather than concentrating it into 38 term-time weeks, to better reflect real family need for year-round childcare;
 - (c) **Moving to rolling, flexible intake points**, so that funded hours become accessible from a child’s actual start date rather than being restricted to three fixed points in the year, removing enrolment bottlenecks, reducing waitlists and smoothing recruitment “pinch points” into a more even flow across the year;
 - (d) **Standardising local authority practice** on funding interpretation and reporting requirements, through clearer central guidance, to reduce the administrative burden and inconsistency currently faced by providers operating across multiple local authority areas;
 - (e) **Reform staff qualification requirements**, in particular removing the GCSE English pass requirement for Level 3 qualification, to widen entry into the workforce; and
 - (f) **Remove the business rates distortion between nurseries and school-based provision**, so that school-based providers compete with private and voluntary nurseries on a level playing field, rather than benefiting from a structural cost advantage that is unrelated to the quality or efficiency of the care they provide; and
 - (g) **Ensuring the portability of SEND funding** and specialist support, so that it follows the child across settings and local authority areas without unnecessary delay or

¹ See the letter from the Secretary of State for Education to the CEO of the CMA, dated 26 May 2026, [link here](#).

reassessment, alongside greater standardisation of local authority SEND processes and closer alignment of SEND funding with year-round provision.

C. [REDACTED]'S INITIAL OBSERVATIONS

4. The CMA's Statement of Scope identifies five themes for further exploration: (i) access; (ii) affordability and funding; (iii) information and consumer choice; (iv) the role of public bodies and (v) cost drivers and impact of provider types.² [Redacted] agrees these are key areas for consideration and provides initial observations on each below.

C.1 Access to high quality services

5. [Redacted]'s experience is that overall capacity is currently insufficient to meet demand, with pronounced "cold spots" concentrated in areas of deprivation.
6. One cause of this shortfall is a shift in the age profile of demand. Government funding reforms over the past decade have progressively extended entitlement to younger children, most recently to those from nine months old, making childcare more affordable and increasing demand for baby places. Babies are the most expensive age group to care for: they require the highest staff ratio (1:3, compared with 1:5 for two-year-olds and 1:8 for three-year-olds) and take up more physical space per child. A shift in demand towards babies therefore reduces a nursery's overall capacity and increases its staffing requirement, even where the physical estate is unchanged.
7. Supply faces structural barriers in responding to this demand:
 - (a) **Staffing.** This is the principal barrier to nursery expansion: it is difficult to recruit enough staff, particularly in deprived areas. The main drivers for this are:
 - **Pay.** Government funding rates do not adequately reflect the cost of a skilled, emotionally demanding role. Median pay for staff in private group-based settings was only £12.13 per hour in 2024,³ just £0.69 above the National Living Wage (and less than Tesco's rate for shop assistants, which is £13.28).⁴ The National Foundation for Educational Research (NFER) has since found that median earnings among staff in group-based providers fall within the bottom 13% of the national earnings distribution and that early-years staff earn around 30% less than otherwise comparable workers, such as care workers, retail assistants, administrators, cleaners and accounting clerks.⁵ This is despite the significant responsibility, emotional demands and qualification requirements associated with caring for young children, and contributes directly to recruitment and retention difficulties.

² CMA, *Early Years Education and Childcare Services Market Study: Statement of Scope* (1 July 2026), para 7 and the table following para 27, link [here](#).

³ Department for Education, *Childcare and Early Years Provider Survey 2024*, "Hourly staff pay" dataset (12 December 2024), reporting median hourly pay of £12.13 for staff in private group-based providers, link [here](#). Low Pay Commission, *Minimum wage rates for 2024* (21 November 2023), reporting a National Living Wage of £11.44 from 1 April 2024, link [here](#).

⁴ In 2026, see announcement [here](#). The 2024 figure was £12.02, source [here](#).

⁵ National Foundation for Educational Research, *The Early Years Workforce in England: Annual Report 2026* (2026), pp. 14-15, link [here](#). NFER found that median hourly earnings among staff in group-based providers were at the 13th percentile of the earnings distribution, meaning that 87% of employees earned more, and that early-years staff consistently earned around 30% less than otherwise similar workers.

- **Qualification requirements:** Regulatory qualification requirements compound this: for meeting the ratio requirements, staff generally need a level 2 or level 3 Early Years qualification. For level 3, the equivalent of a pass in GCSE English is required, which creates significant hurdles for staff who did not previously pass GCSE English and the additional academic hurdle is not sufficiently incentivised given the low incremental pay increase.⁶ This is particularly prevalent in deprived areas.

- (b) **Access to capital.** Meeting demand requires capital investment for green-field openings, extensions and the reconfiguration of existing sites. The sector is fragmented, and it is predominantly larger, well-capitalised operators, including private equity-backed groups, that have ready access to the capital, real estate expertise and data/analytics needed to identify and open in under-served areas. However, that only constitutes 8% of the market, albeit this is expanding.⁷
- (c) **School-based pre-school expansion.** Government's expansion of school-based pre-school provision draws children away from nurseries at age three, which is nurseries' most profitable age band, due to staffing ratios being lowest at that age. School-based provision also stretches the same limited pool of qualified staff across more settings, and is difficult to plan for, since new school-based places can be introduced with little notice and can materially damage a nursery's local economics.
- (d) **Coverage gaps for non-working parents.** Non-working parents have not benefited from the expansion to 30 funded hours and remain limited to 15 hours. This weakens the case for opening in deprived areas, where a higher proportion of parents are non-working, reinforcing existing cold spots.
- (e) **Low profitability.** As the CMA recognised in its statement of scope, profits across the sector are low: the sector-wide median income-to-cost ratio in 2025 was just £1.01 per £1 of cost.⁸ Government funding rates do not fully cover the cost of delivering funded places. Providers have therefore relied in part on charges for consumables and other optional extras to make those places economically sustainable. New requirements allowing parents to opt out of such charges further constrain providers' ability to recover their costs and place additional pressure on already narrow margins. In a market with insufficient capacity, one might expect prices to rise to a level that incentivises new entry, but the funding arrangements in the childcare sector make those types of market forces more nuanced.
- (f) **Funding uncertainty.** The funding model has itself been subject to frequent recent change and is the subject of a live Government consultation on further reform (opened July 2026, with transition proposed for 2027-28).⁹ This ongoing uncertainty makes operators reluctant to commit to expansion or reconfiguration decisions until the economics of any new model have settled. This is a particular constraint on responding to the age-profile shift described above: shifting capacity toward baby places requires

⁶ Department for Education, *Early years qualification requirements and standards* (January 2026), paras 1.13–1.14, requiring staff counting within ratios at Level 3 to hold a suitable Level 2 English qualification and listing GCSE English at grade 4/C and Functional Skills Level 2 as qualifying credentials, link [here](#).

⁷ CMA, *Early Years Education and Childcare Services Market Study: Statement of Scope* (1 July 2026), para 17, link [here](#).

⁸ CMA, *Early Years Education and Childcare Services Market Study: Statement of Scope* (1 July 2026), para 18, link [here](#).

⁹ Department for Education, *Early years funding: proposed changes to the entitlements funding system, Government consultation* (6 July 2026), link [here](#).

providers to reconfigure room layouts and facilities, which requires capital spend that operators are wary of committing while they cannot be confident the funding rates in place once that work is complete will justify the investment.

8. [Redacted] is aware many of the issues above, such as funding to increase staff pay and increased funding coverage to non-working parents, can only be addressed via significant additional funding, which [Redacted] recognises may be difficult given competing fiscal needs. The following interventions would be low-cost interventions which could alleviate some pressures on capacity:
 - (a) **Reform of staff qualifications:** in particular removing GCSE-equivalent English pass requirements, to widen entry into the workforce; and
 - (b) **Removal of distortions:** ensure that school-based providers compete on a level playing field with other nurseries, including by subjecting them to equivalent business-rates treatment, so that their expansion does not distort competition or discourage entry and investment by private providers.
9. For completeness, [Redacted] also notes and supports the planning reforms introduced, which reclassified nurseries into the new Class E use class alongside other commercial uses.¹⁰ This allows nurseries to convert from a wide range of existing commercial premises (offices, shops, and similar) without a change-of-use planning application, reducing the cost and delay involved in opening new locations. Any further flexibility in the planning regime that lowers costs for new nurseries, or reduces the time it takes to set one up, is highly welcome and will benefit parents. We would recommend that the CMA looks into this issue.

C.1.1 Special educational needs and disabilities provision

10. [Redacted] considers that support for children with special educational needs and disabilities (**SEND**) is an area requiring urgent attention.
11. The current system is characterised by delays in assessment, inconsistent local thresholds and funding levels, limited access to specialist input, and significant variation in process between local authorities. Support is frequently tied too closely to formal diagnosis and does not move with the child, creating gaps in provision when a child changes setting or moves local authority area. As with the wider funding model described above, SEND funding is not typically available on a year-round basis, despite the need for continuity of support.
12. This creates both a practical and a financial barrier to inclusion: providers may need to begin supporting a child immediately, while specialist input, formal assessment and the associated funding (including through SEND Inclusion Funds and the Disability Access Fund) can lag well behind. Providers should not be placed in a position of choosing between inclusive practice and financial sustainability.
13. [Redacted] recommends that the CMA consider:

¹⁰ The Town and Country Planning (Use Classes) (Amendment) (England) Regulations 2020, SI 2020/757, reg 13, inserting Class E(f) ("creche, day nursery or day centre") into the Town and Country Planning (Use Classes) Order 1987, with effect from 1 September 2020, available [here](#).

- (a) **Portability:** ensuring SEND funding and specialist support follow the child across settings and local authority areas, avoiding unnecessary delay or reassessment;
- (b) **Standardisation:** standardised, transparent local authority processes for assessment, eligibility and funding; and
- (c) **Year-round alignment:** aligning SEND funding with year-round provision, consistent with [Redacted]'s broader recommendation on 52-week funding at C.2 below.

C.2 Affordability and funding

14. [Redacted]'s initial observations on affordability and funding relate principally to the design of the Government funding model:

- (a) **Cross-subsidy.** As the CMA recognised in its Statement of Scope, profits across the sector are low.¹¹ Funded hourly rates do not fully cover delivery costs, meaning providers rely on income from full-time and non-funded hours, and from consumables (meals, nappies and similar), to make up the shortfall - in practice, one of the only ways providers can recover their true costs. The funded/ non-funded hour cross-subsidy can distort parents' labour-market decisions: for some families, the cost of an additional day's childcare outweighs the incremental earnings from working that day, creating an incentive to reduce hours or move to part-time work.
- (b) **Term-time only funding.** Funded hours are calculated on a 38-week academic year, not a full 52-week year. This does not reflect real family need, since most working parents require year-round childcare and providers must staff and run their settings across 52 weeks regardless of how funding is calculated. Certain childcare providers, like [Redacted], smooth the difference over the year, such that families pay the same monthly rate. However, given only some local authorities provide stretched provision across the year, this creates additional complexity and working-capital and cash flow exposure where payments do not match the provider's year-round cost base.

In addition, the Government entitlement is commonly presented as "30 hours of free childcare a week"¹², which can be misleading for families who may assume that the full 30 hours apply throughout the year, when in fact the entitlement equates to approximately 22 hours per week when stretched across 52 weeks.
- (c) **Restricted intake points.** Funded hours can only be accessed from three points in the year - January, April and September - rather than flexibly around a child's actual start date. This creates affordability issues for families who enrol children between those start dates. It also causes enrolment bottlenecks, contributes to waiting lists and produces sharp recruitment "pinch points" across its portfolio. [Redacted] expects to onboard c.[Redacted] new starters each September alone. Staff are not able to be recruited at a termly rhythm – they have varying needs and want to start at different times. This creates an avoidable constraint that can force [Redacted] to turn away children it would otherwise have capacity to accommodate.
- (d) **Inconsistent local authority rates and requirements.** See *C.4 Role of Public Authorities* below.

¹¹ CMA, *Early Years Education and Childcare Services Market Study: Statement of Scope* (1 July 2026), para 18, link [here](#).

¹² HM Government (GOV.UK), *Free Childcare for Working Parents: What you'll get*, accessed 22 July 2026, link [here](#).

15. Addressing the term-time structure, restricted intake points and local authority inconsistency need not increase the overall funding envelope - these are principally questions of how the same annual funding is distributed and administered, rather than how much is provided. [Redacted] therefore recommends:

- (a) **Levelling funding across 52 weeks.** The total annual funding entitlement should be spread evenly across the full year, rather than concentrated into 38 term-time weeks. This would better reflect real family need for year-round childcare, remove the administrative cliff-edge at the end of each term, and allow providers to pay for staffing and capacity on a consistent basis throughout the year, without exposing them to cash flow risk;
- (b) **Moving to rolling, flexible intake.** Funded hours should be accessible from a child's actual start date, rather than restricted to three fixed points in the year (January, April and September). This would remove the enrolment bottlenecks and waiting-list pressure that the current fixed-point system creates, and would smooth recruitment "pinch points" into a more even flow across the year, without requiring any increase in overall funding; and
- (c) **Standardising local authority administration.** See *C.4 Role of Public Authorities* below

C.3 Information and consumer choice

- 16. [Redacted] already applies a high degree of transparency in its dealings with families and considers that equivalent standards should be adopted consistently across the sector.
- 17. All fees should be made transparent to parents throughout the onboarding process, so that families can make a fully informed decision before enrolling. [Redacted] already operates on this basis across its settings.
- 18. Consumer law under the new Digital Markets, Competition and Consumers Act 2024 provides a baseline in terms of transparency for consumers. For example, it prohibits misleading communications and practices such as "drip pricing", i.e. adding extra mandatory charges that the consumer is not made aware of at an early stage. For providers who deliver the funded entitlements, this is also an additional formal requirement: the statutory guidance requires providers to publish on their website the costs of any chargeable extras - including consumables, additional hours and optional services - together with the pattern of hours in which funded provision may be taken.¹³ This information must be kept clear, up to date and easily accessible to parents, so that they can compare providers and plan their finances accordingly.
- 19. In relation to invoices, again, for providers delivering the funded entitlements, the Government already requires itemised invoices. Since January 2026, local authorities have been required to ensure that providers' invoices and receipts separately identify: funded entitlement hours, additional privately paid hours, food charges, non-food consumables and activities charges.¹⁴

¹³ Department for Education, *Early education and childcare: statutory guidance for local authorities* (updated 1 April 2026), paras A1.39-A1.41, link [here](#).

¹⁴ Department for Education, *Early education and childcare: statutory guidance for local authorities* (updated 1 April 2026), para A1.42, link [here](#).

20. In relation to consumers exiting the contract:
- (a) To the extent that exit fees are charged within the sector, [Redacted] considers that they should be prohibited.
 - (b) That said, [Redacted] considers that a reasonable notice period (up to 6-8 weeks) remains appropriate and should continue to be permitted. Providers plan staffing and occupancy levels in advance and may have recruited employees specifically to meet anticipated demand. Given the mandatory staffing ratios, a nursery may need to recruit an additional member of staff for one additional child. Given the sector's narrow margins, the loss of fee income at short notice can therefore have a disproportionate impact, particularly where employment obligations and regulatory staffing requirements mean that the corresponding costs cannot be reduced immediately. A reasonable notice period provides providers with the certainty needed to manage these commitments and maintain the continuity and quality of care.
21. Finally, the Government has introduced statutory guidance requiring charges for meals and consumables to be voluntary. This creates significant challenges for nurseries that rely on such charges to cross-subsidise the cost of delivering funded places and has placed a significant proportion of revenue at risk. It also creates practical and safeguarding difficulties where parents opt to provide their own food or consumables, particularly in relation to allergies, dietary requirements. Measures encouraging families to opt-out of consumables, or price restrictions on those consumables, without corresponding funding reform, could reduce investment and supply, particularly in less viable areas.
22. More generally, the early years childcare sector is very complex for families to navigate. We would welcome the opportunity to work with the CMA to work through the details of how the process could be simplified for families.

C.4 Role of public authorities

23. [Redacted]'s principal concern in this area is the degree of inconsistency across local authorities, which manifests in:
- (a) **Interpretation of funding rules.** Although the funding entitlements are set nationally, individual local authorities frequently interpret the accompanying guidance differently, particularly around headcount dates, approaches to stretched provision, what providers may charge for, how supplements should be applied, and what counts as an acceptable pattern of funded hours. This means a provider operating across multiple local authority areas, as [Redacted] does, cannot rely on a single consistent approach and must instead manage a patchwork of local practices.
 - (b) **Variable reporting and transparency requirements.** Local authorities also differ considerably in the level of financial and operational detail they expect providers to submit, and in how transparent they are in turn about how funding rates have been calculated. This creates a disproportionate administrative burden for larger, multi-site operators, who must adapt their reporting processes to each authority's individual expectations rather than following a single national standard.
24. Taken together, this inconsistency makes it difficult for [Redacted] to plan and budget with confidence at a national level, increases the administrative cost of compliance, and creates uncertainty as to how funding decisions in one area may be applied differently in another.

25. [Redacted] considers that greater standardisation of local authority practice - whether through clearer central guidance or a standard reporting template - would meaningfully reduce this burden without requiring significant additional public funding.

C.5 Cost drivers and impact of provider types

C.5.1 Ratio rules

26. In England, staff-to-child ratios operate in practice as a point-in-time minimum rather than an average calculated over a session, day or week. The requirements apply to the total number of staff available to work directly with children. Providers must therefore ensure that sufficient qualifying staff are available throughout the period in which children are present, including by arranging cover for staff who are on breaks or otherwise unavailable to work directly with children, and in the first few minutes and last few minutes of the day. For ordinary registered nursery provision, the minimum ratios are:¹⁵
- (a) one member of staff for every three children aged under two;
 - (b) one member of staff for every five children aged two; and
 - (c) ordinarily, one member of staff for every eight children aged three and over, increasing to one for every 13 children where a person with the prescribed teacher or early-years professional status is working directly with the children.
27. The statutory framework permits exceptional departures where the quality of care and the safety and security of children remain protected. However, it does not provide a defined tolerance on which providers can rely when planning their ordinary staffing arrangements.
28. The binary and point-in-time nature of these requirements creates two related inefficiencies.
- (a) First, providers must maintain significant staffing headroom to protect against staff absences, breaks, training, administrative duties and employee turnover. A temporary staffing shortfall can require a provider to restrict admissions or close a room, even where the provider considers that the quality and safety of care would not be materially affected. This increases costs and makes existing capacity more difficult to use efficiently.
 - (b) Second, the ratios create substantial step changes in the marginal cost of accepting an additional child. For example, while three babies may be cared for by one member of staff, admitting a fourth requires a second member of staff; similarly, admitting a tenth baby requires a fourth. Unless the provider can fill the remaining places within the new staffing block, the revenue generated by the additional child may be insufficient to cover the additional staffing cost. Providers may therefore decline additional children despite having sufficient physical space.
29. [The English regime is more rigid than the approach adopted in some European jurisdictions, which operate a rolling-average model for ratio compliance. This demonstrates that such flexibility can work in practice while maintaining quality and safety.]

¹⁵ Department for Education, *Early Years Foundation Stage statutory framework for group and school-based providers* (effective from 1 September 2025), paras 3.47-3.50, link [here](#).

30. Ideally, [Redacted] considers that England should introduce a flexibility mechanism. Staffing ratios should be assessed as a rolling average over a defined period, subject to: (a) a minimum staffing floor at all times; (b) an overriding requirement to maintain the quality and safety of care; and (c) appropriate record-keeping and regulatory oversight. This would allow providers to manage temporary fluctuations and use existing capacity more efficiently, without removing the core safeguards provided by the ratio requirements.

C.5.2 Business rates

31. Nurseries are charged business rates in the same way as any other commercial premises, whereas schools, including school-based pre-school provision, are not.
32. [Redacted] considers this an obviously unfair and longstanding distortion: two providers delivering equivalent early years care are treated entirely differently depending on whether that provision sits within a school setting, which is not a level playing field and adds a material and avoidable cost to nursery-based providers that their school-based counterparts do not bear. This is compounded by the fact that 3 year-olds are the most profitable age-group for nurseries, given the lower staffing ratios. The existence of a nearby school may act as a disincentive to a provider who is considering opening a new nursery.

C.5.3 Impact of provider types

33. [Redacted] considers that the sector displays relatively few true economies of scale: every setting still requires its own site manager and its own capital expenditure, regardless of the size of the group that owns it.
34. However, scale does allow larger operators to invest in central functions that smaller, independent providers cannot support on their own - [Redacted], for example, maintains [Redacted] person central quality and safeguarding team overseeing its estate. This investment correlates with generally stronger and more consistent Ofsted outcomes across larger provider groups compared with smaller independents.¹⁶ Through this investment, [Redacted] is able to identify best practice and rapidly spread it across its portfolio, provide high-quality training and development to continually raise the quality of our staff teams, and conduct internal quality assurance visits which proactively identify and address settings falling short of high standards without waiting for the next Ofsted report (up to 4 years away).
35. [Redacted], like other larger groups, is able to mitigate the difficulty of finding enough staff by running its own apprenticeship programme. This type of step would be more difficult for a smaller provider to undertake.
36. Another point, mentioned above, is that larger, private-equity owned, providers are more able to invest in data monitoring and capital required to open new sites to meet capacity.

¹⁶ This is based on internal analysis/ understanding – the CMA can verify this using Ofsted's public reports [online](#).



D. CONCLUSION

37. [Redacted] is pleased to work with the CMA on its market study and welcomes the thorough and logical approach the CMA has set out in its Statement of Scope. We do not believe that a referral for a market investigation would be an appropriate step for the CMA to take in this case.
38. [Redacted] considers that the sector's capacity and affordability challenges could be materially alleviated through targeted, relatively low-cost reforms. Greater flexibility in staffing ratios, year-round and more accessible funding, consistent local-authority administration, proportionate qualification requirements and a level playing field between nursery and school-based provision would reduce avoidable costs, support investment and expand capacity without compromising the quality or safety of care.
39. [Redacted] remains available to assist with the CMA as the market study progresses.