



## The UK Nursery Market

PMSI Insights

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# Cost inflation, underfunding, and workforce challenges are the key pressures facing nursery operators, contributing to operator fatigue and driving consolidation

## Overview of key challenges in the UK nursery sector

### Cost and margin pressures



- Rising National Living Wage (NLW) and National Insurance costs have significantly increased staffing expenses
- At the same time, broader operating costs remain elevated post-inflation
- Many nurseries have been unable to fully pass these cost increases on to parents due to affordability constraints

### Funding rates lagging costs



- Government-funded childcare hours (e.g. 15/30 hours in England and ELC in Scotland) are often funded below the true cost of delivery
- 'Sustainable rates' set by local authorities have frequently failed to keep pace with wage inflation, with the impact most acutely felt by providers with high exposure to funded places

### Workforce attraction and retention



- Significant staffing challenges for nurseries around the UK, with a National Day Nursery Association staffing survey indicating ~70% of settings lack sufficient staff to operate at full capacity
- Recruitment and retention issues are largely driven by relatively poor pay for demanding working conditions, leading to nursery staff exiting the sector

### Changing parental preferences



- The growth of hybrid working over the past five years has given parents greater flexibility and choice, though it has not reduced overall demand for nursery places
- Since COVID-19, there has been a modest softening in formal childcare usage, with some parents opting for a mix of nursery-based care and informal arrangements with friends or family

Source: PMSI interviews and research

# The market has nevertheless remained resilient, with demand continuing to outstrip supply. Recent government funding reforms provide an additional structural tailwind

## Key factors driving resilient market demand



### Growing waiting lists

Direction:

- There are significant day nursery waiting lists and challenges accessing sufficient childcare across the UK, particularly for children aged 2 and under, with many parents registering 6-12 months in advance to secure a place – reflecting demand considerably outstripping supply



### Declining numbers of registered providers

Direction:

- The number of childcare providers has been declining year-on-year, with OFSTED reports indicating a 1-2% decrease overall from 2024-25, largely driven by declining volumes of childminders. This tightening of supply helps to drive demand for registered nursery places



### Decline of childminder alternatives

Direction:

- Childminder volumes have been in structural decline for the last decade, with the drop-off exacerbated by COVID-19 and rising cost pressures, making childminding an increasingly untenable income stream. Coupled with stronger parental demand for formal, regulated childcare, this has driven demand for nursery places



### Growth in maternal employment

Direction:

- Female employment rates are expected to continue to drive demand for childcare, with rates steadily increasing in the last 30 years – overall UK female employment rates have grown from ~62% in the 1990s to ~72% in 2025



### Government funding tailwinds

Direction:

- From September 2025, working parents can claim up to 30 hours of funded care for children under 3, expected to drive demand for formal childcare and private nursery places
- Moreover, the hourly rate paid by Local Authorities for under-2s is generally higher per hour than for 3-4-year-olds

# Successful nurseries are typically characterised by well-located settings, supported by high occupancy levels and strong Ofsted ratings

## Overview of key success factors and what a 'good' nursery looks like

### 1 Portfolio – location and occupancy

#### What does it mean?

- Having well-positioned nursery settings in mid to affluent areas with large populations of 0-5-year-olds, near key transport routes and local primary schools' helps to drive demand

#### KPIs to track?

- Average weekly fees
- Occupancy rates

### 2 Quality of provision

#### What does it mean?

- OFSTED ratings give an indication of the level of care provided at a setting, with parents placing a premium on nurseries with higher scores

#### KPIs to track

- OFSTED ratings
- Staff to children ratios

### 3 Operational effectiveness

#### What does it mean?

- Wages comprise the key cost element for nurseries. As such, effective management of wages by reducing reliance on agency staff, managing staff ratios and ensuring safeguarding systems are in place help to drive operational effectiveness

#### KPIs to track

- Staff cost to fee ratio, Wages as a % of revenue

### Successful nurseries will therefore exhibit the following:

- ✓ High occupancy rates in mid to affluent areas
- ✓ Mid-to-premium fee rates
- ✓ Strong staff retention
- ✓ Strong OFSTED inspection results
- ✓ The ability to fund acquisitions for inorganic growth
- ✓ The ability to maintain property values

## Our sector leads

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For more information or to discuss potential opportunities, please contact our Business Services, Education and Technology sector expert:



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