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The nursery paradox

A BALLARDS WHITE PAPER

A 2026 strategic outlook for UK owners caught between record costs and record valuations.

FOREWORD

During my time working with nursery owners over the last decade, I have not seen the sector at a moment quite like this one.

The owners I speak to are running businesses that look, on paper, more valuable than ever. Strong appetite from investors and lenders, with consolidators paying multiples thats would have seemed implausible a few years ago. Yet the same owners are sitting in front of management accounts that tell a starker story: funding rates that have not kept pace with inflation, rising staff costs, and a National Insurance bill that has, for many, more than doubled overnight.

This is the paradox at the heart of the early years sector in 2026. The businesses you have built, many over decades, often at significant personal sacrifice, have never been more sought after by acquirers. They have also, by almost every measurable metric, never been more financially squeezed. Survival and value sit, uncomfortably, in the same room.

We have written this report for the owners who live with that tension every day. The single-site owner-operator wondering whether the next round of cost rises is sustainable. The growing group balancing the cost of expansion against the cost of standing still. The larger operator weighing succession, sale or another decade of leadership. The pressures are different at each scale; the underlying questions are remarkably similar.

What we have set out to do here is not to add to the chorus of bad news. There is no shortage of headlines reminding nursery owners how hard the next twelve months will be. Our intent is different: to give you a clear, evidence-based view of where the sector actually is, and where the highest-leverage work lives.

Whether your horizon is the next 90 days or the next ten years, the choices you make in 2026 will define the decade that follows. We hope this document helps you make them with improved clarity.

By Rob Burns
Head of Childcare and Early Years
Ballards

The UK early years sector in 2026 is defined by a paradox

By every operating metric, this is the most pressured environment owners have faced in a generation. By every transactional metric, it is the most valuable. Both are true, and the gap between them is widening.

The pressure is documented

Three-quarters of nurseries surveyed in NDNA's pre-Budget review reported that they were operating at a loss, or only just breaking even. The April 2025 changes to Employer's National Insurance added between £45,000 and £47,000 to the wage bill of an average setting. The National Living Wage rose to £12.71 on 1 April 2026. Funding rates, while increased for 2026/27, remain 3% below their 2017/18 level in real terms. Almost 70% of nurseries cannot operate at full capacity due to recruitment challenges. The Competition and Markets Authority is reviewing the relationship between funded and private fees.

The opportunity is equally documented

The average sale price of a UK day nursery rose by 3.8% in 2025, the second consecutive year of growth. Average EBITDA multiples currently range from three to seven times. The market is valued at approximately £10.5bn, up more than 50% since 2017. Kids Planet alone completed 40 acquisitions in 2025. Around 80% of UK day nurseries remain in independent ownership; the consolidation runway is long. Childcare has been converted into national infrastructure, with 1.7 million children registered for government funding.

This document is written for owners who live with both realities every day, and who increasingly recognise that doing nothing is no longer a neutral position.

It is built around a single argument

Three years of structural work on owner-independence, management depth, reporting quality and tax position can move an EBITDA multiple meaningfully, illustratively, from 3x to 5x. On a nursery generating £200,000 of EBITDA, that is £400,000 of additional value at exit. Prior to April 2026, we saw owners rushing to get deals completed ahead of the increase in Business Asset Disposal Relief rate from 14% to 18%. On a £1m gain, the tax saving was £40,000. Preparation work dominates tax-rate timing by an order of magnitude.

The implication is straightforward

For owners considering exit in the next three to five years, the most valuable decision available to you is not when to sell. It is what to do between now and then.

There is no version of 2026 in which the next twelve months are easy. There are many versions in which they are clarifying. We hope this document helps you make them so.

The paradox

The defining tension

The UK early years sector in 2026 is defined by a contradiction.

By every operating metric, this is the most pressured environment owners have faced. The NDNA's most recent pre-Budget survey found that 76% of nurseries are operating at a loss or only just breaking even. The Government Pulse survey published in October 2025 found that more than half of nurseries, and more than three-quarters of school-based providers, reported costs higher than their income.

And yet, in the same year, the average sale price of a UK day nursery rose by 3.8%, the second consecutive annual increase. Christie & Co, the dominant brokerage in the sector, describes the M&A market as buoyant, with competitive bidding driving prices upward. Consolidators are paying average EBITDA multiples of three to seven times. Three-quarters of professionals surveyed by Christie & Co intend to buy or sell in the year ahead.

How can both things be true?

How can a sector be simultaneously the most squeezed it has been in a generation and the most valuable it has ever been?

The answer is that pressure and demand are operating on different timeframes.

The pressure is immediate:

A wage bill that grew faster than funding rates, a National Insurance shock that arrived in April 2025, and a regulatory expansion that brought 80% of places under government funding. The demand is structural: childcare is essential infrastructure for the UK economy, scale economics work, and well-run nurseries are scarce assets that institutional capital wants to own.

That is the paradox

And it is the defining strategic question of the next twelve months for every nursery owner in the UK: how do you survive the squeeze long enough to capture the value?

The squeeze: five forces compressing the sector

The pressures bearing down on nursery owners in 2026 are not isolated.

They are five interconnected forces.

01	The cost shock
02	The funding gap
03	The workforce crisis
04	The regulatory shift
05	The demographic headwind

01 The cost shock

The single most significant cost event of the past two years is the change to Employer's National Insurance that took effect on 6 April 2025. The rate rose from 13.8% to 15%, while the secondary threshold was cut from £9,100 to £5,000 per employee. The Employment Allowance was increased to £10,500 and the £100,000 cap removed, but for groups with multiple settings, the Allowance can only be claimed by one entity in the chain, materially reducing the benefit at scale. For the average nursery, NDNA estimates the change added between £45,000 and £47,000 to the annual wage bill: more than £2,500 per member of staff. Layered on top, the National Living Wage rose to £12.21 in April 2025 and again to £12.71 from 1 April 2026; the 18-20 age rate rose by 8.5% to £10.85, the 16-17 and apprentice rate to £8.00. For a sector where staffing accounts for around three-quarters of total expenditure, these are not marginal changes. They are structural.

02 The funding gap

The 30-hour funded entitlement rollout completed in September 2025, extending from nine months to school age. Approximately 80% of nursery places are now funded by government. The national average funding rate for 3-4 year-olds in 2025-26 was £6.12 per hour, a rate the House of Commons Library has confirmed is 3% lower in real terms than it was in 2017-18. The rates announced for 2026-27 represent the largest cash increase in years: 3-4 year-olds rise to an average of £6.42 per hour, under-2s to £12.04, 2-year-olds to £8.90, with the pass-through rate from local authorities tightening from 96% to 97%. Whilst the increases are welcome, they do not close the gap. NDNA's January 2025 sustainability survey found nurseries losing an average of £2.25 per hour on every funded place for a three-or four-year-old.

03 The workforce crisis

The funded expansion required tens of thousands of additional staff. The Department for Education estimated a need for around 35,000 to 36,000 new positions. The latest provider survey shows the workforce grew by approximately 600. The arithmetic of supply and demand is unforgiving. Around 70% of nurseries report they cannot operate at full capacity because of staffing constraints. The average setting carries 4.2 full-time-equivalent vacancies; filling each one takes around 13 weeks. Over 92% of nurseries have at least one Level 3 vacancy. Fifty-seven percent of nursery and pre-school staff have actively considered leaving the sector entirely. The capacity exists and is constrained by staffing pressures.

04
The regulatory shift

From 10 November 2025, Ofsted replaced its single-word inspection judgements with a five-point report card framework: urgent improvement, needs attention, expected standard, strong standard, exceptional. Safeguarding is now judged separately. inclusion is a standalone judgement. The inspection cycle moves from six years to four from April 2026. In May 2026, the education secretary referred the entire english early-years market to the competition and markets authority for review. The scope includes the relationship between funded and private fees, the use of consumables charges, and waiting-list deposits, all areas where many nurseries have built their pricing models in response to the funding gap. The regulatory environment is not just becoming more demanding. It is becoming structurally less forgiving of the workarounds that owners have used to survive.

05
The demographic headwind

In 2025, England and Wales recorded 585,396 live births, a 1.6% decline year on year, and the lowest figure since 1977. The total fertility rate fell to 1.39, the lowest on record. The implications for the sector are not uniform; demographic decline is geographically uneven, with some catchments seeing structural demand decline while others remain pressured. This is no longer a sector in which strong fundamentals can be assumed. Local demand modelling is moving from a nice-to-have to a strategic necessity.

The opportunity

If the analysis ended there, this would be a different document.

The defining feature of the current moment is that pressure is not the whole story.

Three forces are pushing in the opposite direction:

M&A activity

The UK day nursery market has grown by more than 50% in value since 2017, from around £7bn to approximately £10.5bn. Christie & Co's Business Outlook 2026 describes a competitive bidding environment that drove average sale prices up by 3.8% in 2025, the second consecutive annual increase. Average EBITDA multiples currently range from three to seven times, with the upper end commanded by businesses with strong Ofsted ratings, high occupancy, freehold optionality, strong management teams, reduced owner-dependency and robust management reporting.

Consolidation

The top three operators in the UK, Busy Bees, Kids Planet and Bright Horizons, together hold only around 7% of the market (by number of places). Kids Planet alone completed 40 acquisitions in 2025. Around 80% of UK day nurseries remain in independent ownership. The runway for further consolidation is long.

Structural demand

Childcare is no longer a discretionary purchase. The expansion to 30 funded hours has effectively converted childcare into national infrastructure. 1.7 million children are now registered for government funding, a 34% increase on the previous regime. The sector's underlying customer base is more secure than at any previous point, even as its margins are compressed.

For owners, this matters because it changes what your business is. Five years ago, an independent nursery was a small business serving local families. Today, it is a strategic asset within a sector that institutional capital wants to own, even if your day-to-day experience does not always feel that way.

The choice

This combination of pressure and demand creates a strategic moment unlike anything the sector has experienced before. It also creates a choice.

For some owners, the choice is whether to...

Continue

Roughly a fifth of nurseries that closed in the most recent academic year were in the 30% most deprived areas, where dependence on funded hours is highest and the gap between cost and funding rate is most acute.

Grow

The current consolidation cycle rewards scale. Larger groups absorb fixed costs more efficiently, have centralised head office functions allowing nursery managers to focus on running the setting, and access cheaper finance.

Exit

If so, how? Trade sale, sale to a consolidator, sale to private equity, employee ownership trust, family succession, and management buyout all sit on the table. Each has different tax, cultural and continuity implications.

What unites all three groups is this: doing nothing is no longer a neutral option. The cost base will continue to rise. The funding rate will continue to play catch-up. The regulatory environment will continue to tighten. The M&A window will eventually narrow. Every month that passes without a clear strategic position is a month in which optionality erodes.

> There is no version of 2026 in which the next twelve months are easy. There are many versions in which they are clarifying.

A self-assessment for your business

The most useful thing an owner can do in 2026 is sit honestly with their own numbers. Six dimensions matter most, and we have reduced each to its single most diagnostic indicator. None of these alone is the whole picture. Together they give you a fast, structured read of where you stand.

	Dimension and indicator	Red	Amber	Green
Revenue	Funded revenue as % of total	>90% or <10%: extreme concentration	70–90%: typical, exposed	50–70%: deliberately balanced
Costs*	Staff cost as % of revenue	>75%	60% - 75%	<60%
Workforce	Current vacancy rate, with key-person risk on top	>10% vacancy and/or no succession plan	5–10% vacancy and/ or partial succession	<5% vacancy, robust succession in place
Tax	Specialist capital allowances review on premises fit-out	Never reviewed	Reviewed by general accountant only	Specialist review undertaken
Property	Tenure and ownership structure	Inherited, freehold in trading entity, or onerous lease terms	Chosen but not reviewed in 3+ years	Deliberate strategy reviewed in last 12 months
Optionality	Owner-independence and reporting quality	Business cannot run without owner; accounts informal	Reduced involvement; accounts clean but not advisor-prepared	Owner removable; capable management; audit-grade reporting

* The thresholds above reflect Ballards' professional judgement from working across the sector; they are directional, not prescriptive.

The point is not the score

It is which dimension scores worst, because the highest-impact action is almost always in your weakest area, not your strongest. Improvements there lift the resilience of the whole business; improvements in already strong areas often produce diminishing returns.

Sit honestly with these five further questions

They are the ones we most often ask in first conversations with new clients, and they surface where the unattended value lives.

Most owners we work with can answer one or two of these confidently.

Almost none can answer all five clearly. The unanswered questions are usually where the most valuable advisory work begins.

#1

If you ran the next four weeks at exactly statutory ratios with no over-staffing margin, what would your staff cost as a percentage of revenue look like?

#2

Have you had a specialist capital allowances review on any premises fit-out in the last five years? Most nurseries have not, and could be sitting on unclaimed relief.

#3

If your manager or deputy were to leave tomorrow with four weeks' notice, what would the impact on your business look like over the next three months?

#4

If you were buying your business today, would you choose to be in this property on these terms?

#5

What is your intended outcome for this business in three years' time, and have you written it down?

PART THREE

The arithmetic of preparation

If you take only one argument from this document, take this one.

The single most consequential decision available to a nursery owner contemplating exit in the next three to five years is not when to sell, what tax route to take, or which buyer to engage. It is what to do between now and then.

The arithmetic is straightforward

EBITDA multiples in the UK nursery M&A market currently range, on average, from three to seven times. The upper end of that range is commanded by businesses that are genuinely sale-ready: clean reporting, capable management not dependent on the owner, strong Ofsted ratings sustained over time, a defensible property arrangement, and a fee model that does not depend on the workarounds the CMA review is now scrutinising. The lower end goes to businesses that are profitable and well-loved but carry visible structural issues a buyer will price into the multiple.

Three years of deliberate work (formal succession planning, investment in management depth, due-diligence-standard reporting, a specialist capital allowances review, and a structural review of the entity and property arrangements) can move a business meaningfully along that range. On a comparable business, illustratively from 3x to 5x.

Consider what that means in cash-terms

A single-site nursery generating £200,000 of EBITDA, sold at 3x today with the structural issues priced in, would imply an enterprise value £600,000. The same business, presented in three years with the same EBITDA but the work done, defensibly brings a valuation of £1,000,000 at 5x. The additional £400,000 is the value of preparation.

For comparison:

The Business Asset Disposal Relief rate moved from 14% to 18% on disposals on or after 6 April 2026. On a £1 million gain, that is a £40,000 increase in tax. It is real money. But it is one-tenth of the value the preparation work creates.

In the months prior to April 2026, we saw owners rushing decisions to capture the lower rate. In most cases, that urgency did not serve them well. A deal completed under time pressure to save £40,000 in tax can easily cost multiples of that in a lower multiple, weaker terms, or the wrong buyer. As the rate settles at 18% and future changes remain possible, the lesson is the same as it was before April: the value of preparation dwarfs the value of timing. With further budget changes a near-certainty in the years ahead, owners are best served by structural readiness rather than chasing the next fiscal threshold.

The illustrative profile below brings the arithmetic to life. It is not a real client; the numbers and circumstances have been constructed to make the choice visible.

An illustrative case

A 70-place single-setting nursery in a suburban commuter location. Established 18 years ago, owned throughout by the founder, now 58. Annual revenue of £1.1m. EBITDA of approximately £130,000. Sustained occupancy of 78%. Around 80% of revenue from funded hours, with the balance from private fees and consumables. Ofsted rating: Good. The founder owns the freehold building, which sits inside the trading company.

The founder faces three paths...

Stay the course

The business is profitable, viable and well-loved. But on current trajectory, with sector-average margins compressed by future NIC and NLW increases, the £130,000 EBITDA is unlikely to grow, and the structural issues remain: freehold inside the trading entity, no specialist capital allowances review since fit-out, founder-dependent operations, informal management accounts. A sale in five years from this position would likely attract a 3x–4x EBITDA multiple.

Sell now

The current M&A environment is favourable. But the same structural issues would be priced into the multiple. A buyer would discount for founder-dependency, weak reporting and the property structure, likely landing at the lower end of the 3x–4x range. The owner captures less than the business is worth.

Prepare, then exit in two to three years

Specifically: a specialist capital allowances review on the historic fit-out, potentially recovering £30,000 to £60,000 of unclaimed relief; restructuring of the freehold out of the trading entity, creating asset protection and improving exit flexibility; investment in management depth so the founder is no longer the binding constraint; and the tightening of management accounting to due-diligence standard. The same business presented to a buyer in three years, sale-ready, with clean reporting, capable management, and a structured property arrangement, would defensibly attract a 5x EBITDA multiple on a likely higher absolute EBITDA. The difference in sale proceeds dwarfs the cost of the preparation.

The point is not the precise numbers. The point is that for most owners considering exit in the next five years, the decision is not binary. The third path that is usually the most valuable: prepare, then sell. That preparation is where the highest-leverage advisory work lives, and where Ballards' engagements with nursery clients most often begin.

PART FOUR

The planning horizon

The argument is most useful when it generates action. Action lives across three timeframes.

The next 90 days

The June to September window of any year is the most consequential operational period for a UK nursery business. Pre-school aged children have left nursery to start primary school, new academic-year intakes are confirming; staff resourcing for the autumn term is being finalised; budgets for the next financial year are being set. Five priorities sit on the agenda.

01 Confirm your funding-rate position for 2026/27. Each local authority confirms its pass-through rates ahead of April; headline rates rose by 4.28% to 4.95% with pass-through tightening from 96% to 97%. Confirm what your authority is actually paying against the national average for each age band and challenge any shortfall.

02 Reconcile your wage bill against the new National Living Wage (NLW £12.71; 18-20 £10.85; 16-17 and apprentice £8.00 from 1 April 2026). Confirm the actual cost impact, including the compression of pay differentials for Level 3 and senior roles whose rates may not have moved in line with the minimum.

03 Model your NIC position against the optimised Employment Allowance claim. For groups, confirm which entity is claiming the Allowance and whether the deployment is optimal.

04 Work through the self-assessment in Part Two honestly, identify your weakest dimension, and book the structured time to think about it.

05 Book the conversations that 90 days from now you will wish you had started. If exit is on your horizon, the M&A conversation is now, not in 12 months. If growth is on your horizon, the corporate finance conversation about funding is now, not when the opportunity arrives.

The next 12 months

Three larger events sit on the calendar between now and mid-2027.

01 The first is the Autumn Budget 2026. Successive Budgets have introduced material changes for the sector: the April 2025 NIC change, the November 2025 EOT relief reduction, the April 2026 BADR rate change. There is no reason to assume the next budget will not contain something material. Owners part-way through structural decisions should factor the Budget calendar into their timeline.

02 The second is the CMA review of the early-years market, the outcome of which is expected within this window. The review's findings will affect how nurseries can structure their private-fee, consumables and waiting-list charging models. For owners whose revenue model relies materially on these charges, the outcome will determine whether the model needs to be redesigned. Pre-emptive review of the fee structure is more comfortable than reactive redesign after publication.

03 The third is the April 2027 round of fiscal and regulatory changes. The pattern of recent years suggests April 2027 will bring a further NLW increase, further changes to the funding rate, and very likely some recalibration of business rates or other tax provisions. The most resilient businesses are those whose budgets are not dependent on the absence of these changes.

The next three years

Three forces will shape the sector through to mid-2029.

01

The first is demographics. The 2025 birth rate was the lowest since 1977, and the trajectory is downward. The full effect will not arrive until the babies born in 2025 reach age two, that is, 2027. By 2028 and 2029, demand-side pressure from a smaller cohort will be measurable in catchments where birth rates have fallen most sharply.

02

The second is consolidation. The top three operators currently hold around 7% of the market. The appetite of institutional capital is unlikely to diminish. Owners who intend to sell within this window will operate in a buoyant market; owners who intend to remain independent will operate in a market where the largest competitors are increasingly well-capitalised and operationally sophisticated.

03

The third is the regulatory and fiscal trajectory. The direction of travel (more funded provision, more regulatory scrutiny, tighter charging rules) is unlikely to reverse. The businesses that thrive will be those that have built financial and operational resilience to a tighter, more regulated environment.

Across these three years, the most important question for every owner is the one this document has been building towards: what is the intended outcome for this business, and what is the work between now and that outcome?

Three years is short enough to plan and long enough to prepare. Owners who use it deliberately will reach 2029 with options; owners who do not will reach 2029 having chosen by default.

CLOSING

How we help

Ballards works with nursery owners and operators across every part of the sector, from single-site independents to multi-setting groups and private equity-backed consolidators. Our work is built on three principles. First, that nursery businesses sit at the intersection of finance, regulation, workforce, property and tax, and the advisor's job is to understand all five, not just the headline numbers. Second, that the most valuable work is done before it becomes urgent. Third, that the test of good advice is whether it produces better outcomes, not whether it sounds sophisticated.

For owners whose strongest needs are around...

Financial control and reporting

We provide bookkeeping, payroll, management accounting, statutory accounts preparation, audit and the kind of regular financial review that turns a set of numbers into an early-warning system.

Tax efficiency and structuring

We provide specialist tax advisory: capital allowances reviews, group structure design, and the corporation tax planning that delivers material annual savings.

Growth, acquisition, succession or exit

We provide corporate finance advisory: deal structuring, valuation, financial and tax due diligence, M&A representation, and the pre-sale preparation that distinguishes the exits that capture full value from the exits that do not.

In practice the boundaries between these services are rarely clean. A piece of work that begins with management accounts often surfaces a tax-planning opportunity; one that begins with succession planning often surfaces a property structuring issue.

The benefit of working across all of them is that the conversation does not have to start again with a different firm at every juncture.

If anything in this document has prompted a question about your own business, we would welcome the conversation.

The first conversation costs nothing. We do not ask for accounts, we do not ask for commitments, and we do not assume every conversation will lead to engagement.

We do believe that a structured half hour with an advisor who understands the sector is a more useful way to test your thinking than another six months of working with the same questions on your own.

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