

OakNorth Sector Pulse

EDUCATION

May 2026



OakNorth

Industry overview

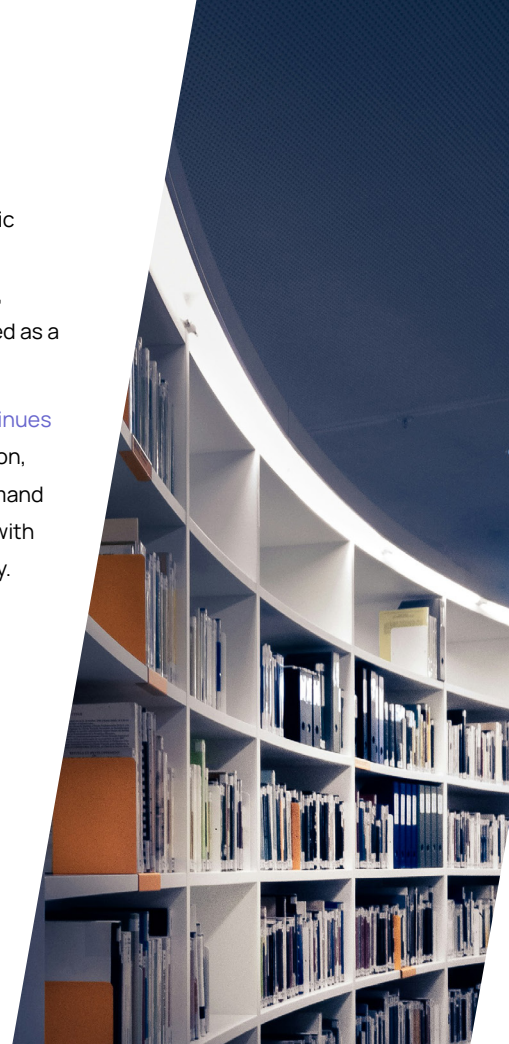
The UK education sector enters 2026 at the centre of one of the country's most pressing economic challenges: stagnant productivity and a persistent shortage of skills. As the UK continues to lag international peers, [productivity remains around 15–20% below the US and France](#), and education, spanning early years, specialist schools, vocational training, and EdTech, is increasingly recognised as a critical lever for unlocking long-term economic growth.

Demand across the sector remains structurally strong. Participation in early years education [continues to rise following the expansion of funded childcare hours](#), while the number of pupils with Education, Health and Care Plans (EHCPs) has [increased by over 60% since 2016](#), reflecting accelerating demand for specialist provision. At the same time, employer demand for training and upskilling is growing, with [around 40% of UK businesses](#) reporting that skills shortages are negatively impacting productivity.

This is reinforcing education's role as a core economic enabler, rather than solely a social service. Businesses are increasingly reliant on high-quality education and training providers to address skills gaps, improve workforce productivity, and support long-term competitiveness.

However, the sector continues to face a challenging operating environment. Staffing shortages, wage inflation, regulatory complexity, and funding constraints are placing sustained pressure on margins—particularly in labour-intensive sub-sectors such as nurseries and specialist schools. While demand remains robust, the ability to scale provision is often constrained by workforce availability and capital investment requirements.

As a result, well-capitalised operators with scalable models and strong outcomes are increasingly well-positioned to grow, particularly in fragmented areas of the market.



Key trends of the last six months

Education's role in addressing the UK's productivity and skills gap comes into sharper focus

The UK's long-standing productivity challenge continues to be closely linked to a shortage of skills across key sectors. Businesses are placing increasing emphasis on workforce development, with demand for training, upskilling, and specialist education continuing to grow.

Around [two in five UK organisations](#) report that skills shortages are negatively impacting productivity, reinforcing the need for more effective and accessible education pathways. At the same time, [UK investment in workforce training remains below OECD averages](#), further highlighting the opportunity for growth in the sector.

This is driving increased demand for vocational training providers, professional education platforms, and employer-led learning models.



Education and upskilling are vital to closing the UK's productivity and skills gap.

Vocational training and lifelong learning gain momentum

As technological and economic change accelerates, the importance of lifelong learning is becoming more pronounced. Employers are increasingly investing in continuous training to ensure their workforce remains productive and adaptable.

Forecasts suggest that up to [20% of the UK workforce could be under skilled for their roles by 2030](#), while participation in adult learning has [declined by over 40% since 2010](#), underscoring the scale of unmet demand.

Providers offering flexible, modular, and digitally enabled programmes are well-positioned to benefit.



Vocational and lifelong learning are growing as employers address rising workforce skill gaps.

Rising demand for specialist education continues to outpace supply

Demand for SEN provision remains one of the most significant structural growth drivers in the sector. The number of pupils with EHCPs [reached over 575,000 in 2024](#), with annual growth continuing at c.9–10%.

Limited capacity within the state sector is driving increased reliance on independent specialist providers. Local authorities continue to report [pressure on high-needs budgets and placement availability](#), and supply has been further constrained by the closure of more than 100 independent schools since the introduction of VAT on fees in January 2025, a disproportionate share of which were smaller specialist providers. This is supporting demand for established operators and creating selective acquisition opportunities for well-capitalised groups.

Operators are reporting high occupancy levels, long waiting lists, and strong forward visibility of demand.



Specialist education demand continues to outstrip available supply.

Early years provision expands amid strong demand and funding pressure

The early years sector continues to benefit from strong underlying demand, supported by the [phased rollout of expanded childcare entitlements](#). The UK currently has [over 70,000 registered childcare providers](#), yet availability remains constrained in many regions.

However, profitability remains under pressure. Staffing costs, typically accounting for 60–70% of operating expenditure, have risen sharply following increases in the [National Living Wage and employer National Insurance contributions](#).

At the same time, sector bodies continue to highlight a [gap between funding rates and delivery costs](#), placing pressure on operator margins and accelerating consolidation.



Early years demand grows, but rising costs and funding gaps pressure profitability.

EdTech evolves as a key enabler of scalable skills development

EdTech continues to play an increasingly important role in addressing the UK's skills gap, enabling scalable, flexible, and cost-effective delivery of education and training.

The UK EdTech sector is estimated to be worth [over £3bn](#), with continued growth expected. Demand remains particularly strong in corporate training, professional education, and skills-based learning.

Investors and lenders are increasingly focused on platforms that demonstrate clear monetisation, strong user engagement, and defensible intellectual property.



EdTech enables scalable, flexible, and cost-effective skills development.

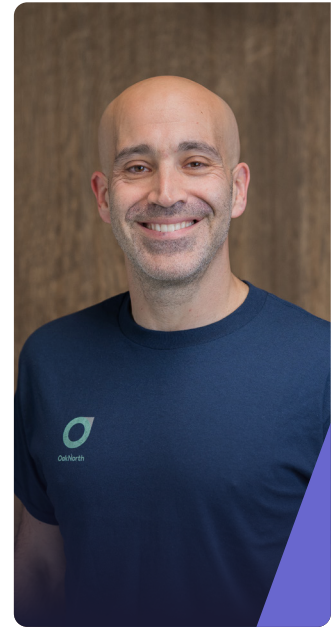


“The UK’s productivity challenge and persistent skills shortage are increasingly placing education at the centre of the growth agenda. High-quality education and training provision is no longer just a social priority—it is a fundamental driver of economic performance.

“Across early years, specialist schools, vocational training and EdTech, we’re seeing strong demand from both individuals and employers seeking to build skills and improve productivity. In early years in particular, demand continues to outstrip supply in many regions—highlighted by our recent support for Kinderzimmer’s new nursery in Surrey, helping to expand high-quality provision in a supply-constrained market.

“At the same time, operators are navigating a complex environment, with staffing pressures, funding constraints, and regulatory requirements all impacting growth. At OakNorth, we remain committed to supporting ambitious education businesses—providing flexible capital to scale provision, invest in quality, and ultimately play a critical role in unlocking the UK’s long-term growth potential.”

Ben Barbanel
Chief Lending Officer at OakNorth



Sector spotlight



Kisimul

Education & Care Group

In October 2025, we participated in a club loan to specialist care and education provider, [Kisimul Group](#), to support the development of new supported living sites across the UK.



Nursery Expansion Financing

In November 2025, we provided a £30m loan to [Happy Days Nurseries](#) to support its buy-and-build strategy, with the aim of doubling in size in the coming years.



Hypha

PASS Acquisition Support

In February 2026, we provided a £5m loan to support private equity fund Hypha’s acquisition of leading edtech provider, [PASS](#).



Sustainable Nursery Expansion

In March 2026, we provided leading independent nursery and preschool operator, [Kinderzimmer](#), with a £3.4m loan, to open a new sustainable site in Surrey.

Outlook for the next six months

Skills shortages will continue to drive demand for education and training

As the UK continues to grapple with weak productivity growth, addressing skills shortages will remain a key priority for both businesses and policymakers. Employers across sectors, including healthcare, construction, and technology, are expected to increase investment in workforce development, driving sustained demand for vocational training, apprenticeships, and professional education.

Over the next six months, providers that can demonstrate strong employment outcomes, close alignment with industry needs, and flexible delivery models are likely to outperform. In particular, short-form, modular, and employer-led training programmes are expected to see increased uptake, as businesses seek more targeted and immediate solutions to skills gaps.

At the same time, policy uncertainty around apprenticeship funding and broader skills reform may continue to create some volatility. However, the underlying demand for upskilling and reskilling is expected to remain robust, reinforcing the sector's role as a key enabler of economic growth. This is expected to support continued growth in scalable, outcome-driven training providers with strong employer linkages.



Skills shortages will sustain demand for vocational, employer-led education and training.

SEN demand will remain structurally strong

Demand for specialist education provision is expected to continue rising, driven by increasing numbers of EHCPs, greater awareness of additional needs, and ongoing capacity constraints within the state sector.

Local authorities are likely to remain under significant pressure to source placements, particularly in high-acuity and specialist settings, supporting strong occupancy levels and revenue visibility for independent providers. As a result, expansion through new site development, capacity extensions, and targeted acquisitions is expected to continue.

However, funding pressures at the local authority level are likely to increasingly influence commissioning behaviour, with greater scrutiny on pricing and outcomes. Providers that can demonstrate high-quality provision, strong regulatory performance, and measurable outcomes will be best positioned to secure placements and maintain long-term growth.



SEN demand remains strong amid rising EHCPs and state-sector capacity constraints.

Consolidation across fragmented sub-sectors will accelerate

The education sector, particularly early years and specialist provision, remains highly fragmented, with a large number of small and independent operators. As cost pressures persist and regulatory requirements become more complex, scale is becoming increasingly important for operational resilience and financial sustainability.

Over the next six months, consolidation is expected to accelerate, driven by well-capitalised operators and private equity-backed platforms pursuing buy-and-build strategies. Larger groups are likely to benefit from economies of scale, stronger pricing power, and the ability to invest in centralised functions such as compliance, recruitment, and digital infrastructure.



Education sector consolidation continues as scale drives sustainable growth.

Technology-enabled delivery will continue to expand

Digital learning and technology-enabled delivery models are expected to play an increasingly important role across the education landscape. In vocational training and professional education, hybrid and fully online models are enabling providers to scale more efficiently, reach broader audiences, and respond more flexibly to employer needs.

Over the next six months, investment in EdTech is likely to remain focused on platforms that demonstrate clear commercial viability, strong user engagement, and the ability to deliver measurable learning outcomes. Areas such as AI-enabled learning, adaptive content, and data-driven performance tracking are expected to gain further traction.

For traditional providers, technology adoption will increasingly be seen as a competitive differentiator—supporting both delivery and operational efficiency. Providers able to successfully integrate digital capabilities into their core offering are likely to benefit from improved margins, enhanced learner outcomes, and greater scalability.



Technology-enabled learning continues expanding across the education sector.