

These responses relate to a local council in South East England.

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 of services, as it encompasses the majority of providers delivering the early education funded entitlements. It is also helpful that the scope includes the range of provider types operating within the market, enabling consideration of how different business models contribute to parental choice, availability of places and market sustainability.

We agree with the proposed geographic focus on England. The childcare market in England is shaped by a substantial government-funded entitlement offer, which is broader than that available elsewhere in the United Kingdom. As a result, a significantly larger proportion of the market is directly influenced by government funding policy, eligibility criteria and local authority commissioning and sufficiency duties. Examining the English market separately is therefore appropriate and is likely to provide the most meaningful assessment of how funded childcare entitlement policies affect provider sustainability, parental choice and market functioning.

However, the CMA may wish to consider variations between local authority areas, as market conditions can differ significantly based on factors such as workforce availability, rurality, levels of deprivation, property costs and local demand for childcare places.

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 with the characteristics of a well-functioning childcare market as set out in paragraph 30. In our view, a well-functioning market is one in which families can easily access high-quality, affordable childcare that meets their individual needs, while providers are able to operate sustainably and respond to changing demand.

We consider that a well-functioning childcare market should be characterised by:

- Sufficient childcare places to meet demand across all age groups and localities.
- Affordable childcare that enables parents to access employment, training and education opportunities.
- High-quality provision that supports positive outcomes for children.
- A diverse range of providers, enabling genuine parental choice.

- Financially sustainable providers that can recruit and retain a skilled workforce and continue investing in quality.
- Accessible information that allows parents to make informed decisions about childcare options, costs and funded entitlements.
- Inclusive provision that can meet the needs of children with additional needs and disabilities and families with differing circumstances.

Ultimately, a well-functioning childcare market is one where every family that needs childcare can access suitable, affordable and high-quality provision, in the right place and at the right time, and where providers are able to deliver that provision on a sustainable basis.

From a local authority perspective, a well-functioning market is also one that enables authorities to fulfil their statutory sufficiency duty and ensures that childcare provision remains available and sustainable across all communities.

Q3: Do you consider that the childcare sector currently displays the characteristics of a ‘well-functioning market’ set out in paragraph 30? For each ‘yes’ and ‘no’ response, please explain why you consider this to be the case, what is driving this, and for ‘no’ responses how this could be remedied.

We do not believe that the childcare market currently displays all of the characteristics of a well-functioning market. While there are aspects of the market that operate effectively, there are several challenges that limit its ability to consistently deliver sufficient, accessible and sustainable childcare provision.

1. Availability of places – Local authorities have a statutory duty to secure sufficient childcare places for working parents and for children eligible for funded childcare entitlements. However, local authorities have limited powers to actively shape the childcare market. Whilst we can provide data, support, advice and guidance to providers regarding sufficiency needs, there are no powers to prevent provision opening where it may negatively impact the sustainability of existing provision or contribute to an oversupply in a particular area. The sector is heavily reliant on private, voluntary and independent providers who must make decisions that they feel are in the best interests of their business, rather than what may align with identified local need.

Similarly, local authorities have limited ability to influence the types of provision available. We are increasingly seeing term-time only provision closing and being replaced by full-day care provision. Whilst this may reflect provider business decisions and market demand, it can reduce the diversity of childcare options available to families.

In addition, workforce recruitment and retention challenges can restrict providers' ability to expand, even where demand for places exists. As a result, availability does not always align with local need.

2. Effective competition – In some areas, providers compete effectively, offering families a choice of provision types and delivery models. However, competition is not always sufficient to ensure genuine parental choice.

Affordability remains a significant factor influencing family decisions, and some parents are limited in their choice of provider due to the costs associated with childcare. Geographic factors can also restrict choice, particularly in rural areas where there may be a limited number of providers, or availability of physical premises for provision to operate from, within a reasonable travelling distance.

Consequently, the presence of multiple providers within a local area does not necessarily equate to meaningful consumer choice if financial or geographic barriers limit access.

3. Informed parental choice – We believe this is an area where the market operates relatively well. Most local authorities maintain a Family Information Service that provides information on local childcare provision, and recent statutory guidance requirements for providers to publish information about their fees, funded offers and additional charges have improved transparency for families. However, it should be noted that digital exclusion and language barriers may still disproportionately impact access to information for some families.

However, funded childcare entitlements remain complex, and some aspects continue to cause confusion. For example, families are not always aware that eligibility typically begins from the term after a child reaches the relevant age or qualifying date. There can also be confusion regarding eligibility rules, application deadlines and the distinction between funded hours and any additional charges associated with childcare provision. Additionally, as charging structures vary so significantly across different providers, it can make it difficult for families to make comparisons.

Greater consistency and clarity in national communications regarding funded entitlements would help parents make more informed decisions and improve understanding across the sector.

4. Regulatory environment – The childcare sector benefits from a well-established regulatory framework. Ofsted inspections, the Early Years Foundation Stage and local authority quality improvement activity help to promote and maintain high standards of provision.

However, the statutory guidance governing funded entitlements is not always sufficiently clear and can be open to interpretation. While recent revisions have improved clarity in some areas, providers operating across multiple local authority areas continue to report differences in how requirements are interpreted and implemented.

Greater national consistency and more explicit guidance would reduce ambiguity, support compliance and improve the experience of providers operating across local authority boundaries.

While the childcare sector demonstrates some characteristics of a well-functioning market, particularly in relation to quality assurance and the availability of information for parents, challenges remain regarding market shaping, provider sustainability, genuine parental choice and consistency of implementation.

A further key consideration is that we do not consider provider sustainability to be consistently secure across the sector. Many providers report increasing financial pressures arising from staffing costs, inflation, business rates and premises costs. Where providers are unable to operate sustainably, there is a risk of market exit, reduced capacity and reduced parental choice. A well-functioning market requires providers to be financially viable whilst maintaining quality and affordability for families.

Addressing these issues would help create a more sustainable and effective childcare market that better meets the needs of children, families and providers.

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?

We believe the CMA should place particular focus on affordability, transparency of costs, parental flexibility and the practical experiences families encounter when accessing and navigating childcare services.

Affordability and transparency of charges - many families continue to experience challenges in accessing affordable childcare despite the expansion of funded childcare entitlements. Whilst the funded offer provides significant support, many families require childcare beyond the 38 weeks of term-time delivery. As a result, additional charges are often incurred when providers stretch funded hours across the year or where families require care outside funded periods. Providers frequently report that the funded hourly rates do not fully cover their operational costs. Consequently, providers may need to recover these costs through charges for additional hours or for the voluntary charges for meals, consumables or supplementary services. The CMA may therefore wish to explore whether how easy it is for families to understand what they

can and can't be expected to pay for, and how the delivery of funded hours may differ across different providers.

Complexity of funded entitlements - the childcare system can be difficult for families to navigate. Understanding eligibility requirements, application deadlines, funding start dates and the interaction between funded childcare and other forms of support can be challenging. Greater simplicity and consistency in national communications could support informed decision-making and improve the consumer experience. There remains a national underspend for Tax-Free Childcare, which may be symptomatic of some of the complexities associated with the system and lack of parental knowledge about what support can be utilised together.

Administrative systems and parental flexibility - consideration should also be given to the role of management systems used by local authorities and providers.

For example, the system currently used in our authority does not have sufficient functionality to support local authority administration of stretched funding claims. As a result, funded hours are administered on a term-time basis, although individual providers may choose to stretch funding themselves. This can create complexities where children move between providers during a funding period, potentially resulting in situations where a provider has delivered or claimed more funding than a child is entitled to, or where parents may incur additional charges.

Parents are increasingly seeking flexible childcare arrangements, and therefore it is important that system providers are able to support the range of funding delivery models permitted within national policy.

Switching providers - the CMA should also consider the practical ability of families to switch childcare providers. In our authority, parents sign a declaration confirming their intention to access funded entitlement hours with their chosen provider for the duration of a funding period and acknowledge that funding will only be transferred in limited circumstances.

This approach seeks to balance parental choice with provider sustainability. Where a child leaves part-way through a funded period, providers may be unable to refill the place, resulting in financial pressures. However, such arrangements may also affect a family's ability to move providers and could result in variations in consumer experience across local authority areas, as this is not a universally adopted approach. Greater consistency in national guidance could help ensure that families receive a more consistent experience regardless of where they live.

Overall, we believe the CMA should focus on how affordability, transparency, administrative processes, funding arrangements and local implementation practices

influence families' ability to access childcare, make informed choices and move between providers when their circumstances change.

Q6: Are there any specific areas that we should focus on because they have the potential to disproportionately affect vulnerable consumers (for example, those who may be at greater risk of poor outcomes or face additional barriers, including due to low income, disability, mental health, or because they are making decisions under stress or emotional pressure)?

We believe the CMA should pay particular attention to groups of families and children who may face additional barriers to accessing childcare and early education, as these barriers can have a disproportionate impact on outcomes and opportunities.

Disadvantaged families and the Early Learning for 2 Year Olds entitlement - the eligibility criteria for the Early Learning for 2 Year Olds funded entitlement has not been updated for an extended period of time. Increases to the National Living Wage and National Minimum Wage have resulted in a gradual reduction in the number of families meeting the eligibility criteria, despite ongoing cost-of-living pressures.

With the introduction of the expanded working parent entitlement, we are concerned that there may be a growing cohort of vulnerable families who do not qualify for either form of funded childcare support. These families may be unable to afford childcare, resulting in some children missing opportunities to access high-quality early education.

This is particularly concerning given that the disadvantaged two-year-old entitlement was introduced in part to help reduce inequalities in children's early development and narrow the attainment gap before children start school. The CMA may therefore wish to consider whether current eligibility criteria continue to effectively identify and support the families most likely to benefit.

Children from disadvantaged backgrounds are often those who stand to benefit most from high-quality early education, yet they may face the greatest barriers to access if they do not meet eligibility criteria and their families cannot afford childcare.

Affordability and parental choice - as a larger proportion of the childcare sector becomes funded through government entitlements, we are increasingly seeing term-time only and sessional providers facing sustainability challenges and, in some cases, closing. Where replacement provision opens, it is frequently full-day care provision rather than the same operational model. This can reduce parental choice and may disproportionately affect lower-income families who may previously have benefited from more flexible or lower-cost sessional provision. In some areas, this may also increase reliance on larger providers or chains, reducing the diversity of provision available locally.

Children with additional needs and disabilities - our data and anecdotal evidence suggest that early years providers are supporting an increasing number of children with additional needs and disabilities (AN&D). Families of children with AN&D often face additional barriers in securing suitable childcare, particularly where a child's needs are complex or require enhanced staffing ratios, specialist equipment or additional training for staff. The distribution and operation of Special Educational Needs Inclusion Funding (SENIF) varies considerably between local authorities. As a result, the financial and practical support available to providers differs across the country, which can influence providers' ability and willingness to offer places for children requiring additional support. This variation may contribute to inequalities in access, meaning that a child's ability to secure suitable childcare can be influenced by where they live rather than solely by their level of need.

The CMA should consider how eligibility criteria, affordability, provider sustainability and support for children with AN&D interact to affect vulnerable families. Particular attention should be given to groups who may be excluded from funded support, face higher barriers to accessing provision, or be at increased risk of poorer outcomes if they are unable to access high-quality early education at an early age.

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?

The extent to which providers compete for consumers varies significantly depending on local market conditions. In areas where there is limited childcare capacity and demand exceeds supply, providers may have less incentive to compete actively for families, as places are likely to be filled regardless of differences in quality, service offer or pricing. In these circumstances, parental choice can be limited and providers may experience less competitive pressure to adapt their offer to meet the specific needs of local families.

Conversely, in areas where there is a greater supply of childcare places, providers are required to compete more actively for families. This often encourages providers to identify and promote their unique selling points, such as extended opening hours, specialist curriculum approaches, outdoor learning opportunities or greater flexibility for working parents. Increased competition can therefore promote innovation and provide greater choice for families.

However, competition within the childcare market is not driven solely by quality. Parents frequently make decisions based on practical considerations such as location, affordability, opening hours, availability of places and proximity to schools or

workplaces. As a result, providers that best meet these practical requirements may be favoured even where alternative provision is rated more highly for quality.

The CMA should also consider the impact of workforce availability on providers' ability to respond to consumer demand. In many areas, recruitment and retention challenges limit providers' capacity to expand places, increase opening hours or diversify their offer, even where there is clear parental demand. Providers may also experience similar challenges in terms of availability of premises, or permissions for expansion. For example, often childminders struggle with obtaining the appropriate permissions to offer additional places from a residential dwelling due to associated charges and rates.

Additionally, the increasing proportion of childcare provision funded through government entitlements has altered market dynamics. Many providers report that funding rates do not fully cover delivery costs and therefore rely on income from younger age groups, privately funded hours and additional services to maintain financial viability. This cross-subsidisation can influence business decisions, including which age groups providers prioritise, the services they offer, and the charges outside of the funded hours.

We therefore recommend that the CMA examines how local supply and demand conditions, funding arrangements, workforce pressures and provider sustainability interact to influence competition and the extent to which providers are incentivised and able to meet families' preferences and needs.

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?

We believe the CMA should focus on practices that affect transparency, comparability of costs and families' ability to access their funded entitlements in practice.

Transparency of charges and optional extras - whilst providers are now required to publish clearer information about their fees, funded offers and additional charges, there remains considerable variation in how this information is presented to families. Some providers are more transparent than others regarding the costs associated with meals, consumables, activities and other chargeable extras, and in explaining what alternatives are available where parents choose to opt out of these charges. This can make it difficult for families to compare providers on a like-for-like basis and may influence decision-making. It may also create an uneven competitive environment, as providers who clearly explain optional arrangements may experience higher levels of families opting out of charges, potentially affecting their sustainability relative to providers that present information differently. The CMA may therefore wish to consider

whether existing transparency requirements are delivering sufficiently consistent and comparable information for consumers.

Access to funded entitlements in practice - the CMA should also consider whether operational models can unintentionally limit families' ability to access their full funded entitlement. For example, where providers offer stretched funding across 51 weeks of the year, a 15-hour entitlement equates to approximately 11.17 funded hours per week. If a provider operates a model based on 10-hour sessions, it may not be operationally practical to offer the remaining 1.17 hours separately due to staffing, occupancy and administrative constraints.

Consistency of delivery - we also recommend that the CMA considers the extent to which variations in local implementation, provider practices and interpretation of statutory guidance affect consumer experience. Greater consistency in how funded entitlements are delivered and communicated would support informed parental choice and improve fairness and transparency across the sector. This stems from the statutory guidance having areas that can be interpreted differently, rather than there being a clear expectation or requirement.

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?

Local authorities have a responsibility to ensure that funded entitlements are delivered in accordance with the statutory guidance. Most local authorities have established compliance monitoring arrangements and processes through which concerns can be investigated and, where necessary, funding can be withdrawn where providers are found to be non-compliant. However, the CMA may wish to consider whether current regulatory and enforcement arrangements provide sufficient consistency and assurance across the sector.

Compliance monitoring and enforcement capacity - whilst compliance processes are in place, many local authorities have a large number of providers delivering funded entitlements and limited resources available to undertake comprehensive compliance auditing. As a result, compliance activity is often risk-based rather than providing full assurance across all providers.

In recent years, increasing numbers of parental enquiries, complaints and changes to the statutory guidance have required significant local authority resource to be redirected towards compliance and enforcement activities. In some cases, teams

funded through centrally retained funding are now heavily focused on compliance work, reducing capacity for broader market development and support activity.

Consistency of interpretation and enforcement - a particular issue for providers operating across multiple local authority areas is the variation in how aspects of the statutory guidance are interpreted and applied. Whilst recent revisions to the guidance have improved clarity in some areas, certain requirements remain open to interpretation. This can result in situations where a provider is considered compliant in one local authority area but challenged in another. Such variation creates uncertainty for providers and may lead to inconsistent experiences for families depending on where they live.

Complaints and consumer redress - the CMA may also wish to consider whether families are able to easily understand how concerns relating to funded entitlements, provider charges or service delivery should be raised and resolved. Responsibility for different aspects of regulation is shared across providers, local authorities and Ofsted, which can make complaint routes difficult for families to navigate.

Potential improvements - we believe that greater clarity from the Department for Education regarding expectations, definitions of non-compliance and recommended enforcement actions would strengthen consistency across the sector. More explicit national guidance would support local authorities in undertaking compliance activity, provide greater certainty for providers and help ensure a more consistent consumer experience for families.

Overall, whilst the regulatory framework provides important safeguards and quality assurance, there is scope to improve consistency, clarity and enforceability to support better consumer and competition outcomes across the childcare market.

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?

Whilst the regulatory framework plays an important role in maintaining quality and safeguarding standards, there are elements of the wider funding and operating environment that may unintentionally create barriers to market entry, expansion and innovation.

A consistent theme in feedback from providers is that government funding rates do not always fully cover the cost of delivering funded childcare places. Whilst funding rates have increased in recent years, many providers report that these increases have not kept pace with rising employment costs, inflation, utility costs, premises expenses and

broader cost-of-living pressures. This has implications for competition and market development. Lower profitability and tighter operating margins reduce providers' ability to invest in expansion, open new settings or develop innovative delivery models. Prospective providers may also be discouraged from entering the market where there is uncertainty regarding long-term financial sustainability.

These pressures can have a disproportionate impact on smaller and independent providers, which may have reduced financial resilience and fewer opportunities to benefit from economies of scale than larger organisations or childcare chains. As a result, we have observed instances where independent providers have been acquired by, or become part of, larger groups. Whilst consolidation can bring benefits in some circumstances, a reduction in the number of independent providers may reduce the diversity of provision available to families and potentially limit parental choice within local markets.

Workforce-related requirements also present challenges for both new and existing providers. Recruitment and retention difficulties can restrict providers' ability to expand capacity or establish new provision, even where there is clear evidence of local demand.

There is also a structural challenge arising from the relationship between local authorities' statutory sufficiency duties and their limited ability to influence market development. Whilst local authorities are responsible for ensuring sufficient childcare provision is available, they have very few powers to shape the market directly. Providers are free to make business decisions regarding where they open, expand, reduce capacity or close, regardless of identified sufficiency needs. This can result in situations where provision develops in areas that are already relatively well served, whilst shortages persist elsewhere. The inability of local authorities to more actively influence market development may limit the sector's ability to respond efficiently to local demand and creates challenges in ensuring a balanced and sustainable childcare market.

We would therefore encourage the CMA to examine the extent to which current funding arrangements, workforce pressures and regulatory requirements interact to affect provider sustainability, market entry, business expansion and the diversity of provision available to families.

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?

Yes. We believe there are a number of barriers to market entry and business expansion within the childcare sector, some of which have a disproportionate impact on smaller providers.

The most significant barrier is financial sustainability. Many providers report that funding rates do not fully reflect the costs of delivering funded childcare places, particularly in the context of rising staffing, premises and operating costs. This can limit the ability of providers to generate sufficient surplus to invest in growth, expand capacity or establish new settings. It may also discourage new entrants from entering the market where there is uncertainty about long-term financial viability.

Workforce recruitment and retention remain a further challenge. Many providers report difficulty attracting and retaining suitably qualified staff, and in some cases, this limits their ability to expand existing provision despite clear evidence of demand. Workforce shortages can also act as a barrier to new providers entering the sector.

The availability and affordability of suitable premises can present additional challenges. Establishing new childcare provision often requires significant upfront investment, and providers may face difficulties identifying appropriate premises that meet regulatory requirements whilst remaining financially viable.

Administrative and compliance requirements can also have a disproportionate impact on smaller providers. Whilst regulation is essential to ensure quality and safeguard children, smaller providers often have less capacity to respond to changes in policy, funding arrangements and compliance requirements than larger organisations with dedicated administrative functions.

These challenges are often felt most acutely by smaller independent providers, which may have reduced financial resilience and fewer opportunities to benefit from economies of scale. This may contribute to market consolidation and reduce the diversity of provision available to families over time.