Research Report DFE-RR213

Childcare Provider Finances Survey

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1. Executive summary

This report outlines the key findings of the Childcare Provider Finances Survey, which was designed to provide detailed information on the financial profile of providers offering childcare in England. The survey investigated topics such as the overheads that providers must take account of in their business models, the areas of their provision that are most in need of investment, and their profitability levels and financial concerns.

The key findings to emerge from the survey are outlined below. These headline findings are discussed in more detail throughout the main body of the report, as well as in the conclusions section (Chapter 8) which draws the various strands together.

1.1 The costs of provision

- Staff costs were clearly the main contributor to the total overheads affecting group-based providers. They accounted for 77% of total costs.

- Staff costs were the main overhead for all types of group-based provider. This was the case regardless of the size of the setting, their Ofsted rating, the deprivation level of the area they were based in, whether they were set up to operate on a 'for profit' or a 'not for profit' basis and all other key variables. There were some relatively small differences by sub-group, but staff costs accounted for more than 70% of total costs for all of them.

- Over the past few years, there has been upwards pressure on staffing costs because of increases in the qualification levels of those working in the sector. However, pay levels in the childcare sector remain below the national average, in spite of these increases.

- The large majority of total staff costs (82%) arose from contact time with children. This being the case, whilst reducing administrative burden may help to reduce overall staff costs, it is not the dominant element in the mix.

- In general, the other (non-staff related) costs affecting group-based settings were also consistent across the sector. Rent costs made up a larger proportion of 'for profit' settings' total costs than was the case for 'not for profit' settings (9% vs. 5%) – but in general the breakdown of costs was quite consistent across different types of provider.

- For group-based providers, the payment of interest on loans or overdrafts represented a very small proportion of their overall costs - less than 1% of total costs on average, though this did rise above 10% of total costs for a very small minority. There was a similar picture for childminders, where the payment of interest on loans or overdrafts accounted for only 1% of total costs.

- Relatively few providers were using *any* loans or overdrafts to support the funding of their business (2% of childminders and 9% of group-based settings). This is a significantly lower proportion than would be found in the broader UK business world, where 36% of UK companies with 1-9 employees use overdrafts and 18% use loans or commercial mortgages to fund their business.

1.2 Fees

- Many providers had frozen their fees to parents over the past two years (since January 2010). Childminders were the most likely to have implemented a fee-freeze, with more than half having done so (60%). Fees for full day care provision were the least likely to have been frozen, though a third of settings offering full day care had kept their fees unchanged over the period in question (34%).

- Fees for after school care had risen by the greatest amount over the past two years, with an average increase of 10%. This is broadly in line with CPI inflation over the same period (circa 8%).

- Average increases in the fees for other types of care ranged from 8% (for sessional care) to 3% (amongst childminders) over the past two years. While these increases were not large in absolute terms, it should be noted that average UK salaries have been increasing more slowly than CPI inflation over this period, so even small increases in fees will have been felt by parents.

- Parents with two children attending the same setting typically received a 9% discount per child. Parents with three children attending the same setting benefitted from an 11% discount in fees per child. This being the case, while there are genuine savings for parents with more than a single child, the burden of paying for the childcare of multiple children remains high.

1.3 Profitability

- Large group-based providers were more likely to make a profit or surplus than smaller ones (66% and 56% respectively). The going was harder for settings based in the 30% most deprived areas (51% of whom made a profit or surplus, compared to 66% of settings in the 70% least deprived areas).

- 'For-profit' settings made an average profit of £13,600. However, the notion of profitability in such settings is complicated by the fact that some owners may also draw 'salary' that they exclude from their profitability figures. As such, combining the data for salary and income, we see that (at best) owners of 'for profit' settings are generating an average income broadly in line with UK median earnings (circa £27,000). This is the top-end estimate of income for childcare providers, based on the assumption that they are not reinvesting any profit into the business and that the salary income of the ownership isn't divided amongst more than one person. This being the case, the main point to take out is that average earnings certainly do not appear to be excessive.

- The average income for childminders before costs was £12,200 and after costs were deducted the average income was £7,600.

- Sessional care and full day care required the highest proportion of places to be filled in order to generate a profit (77% and 71% respectively). After school and holiday care could function profitably with lower occupancy rates (66% and 59% respectively).

1.4 Areas requiring investment

- Amongst group-based settings, the area which received the highest mean score in terms of needing investment was 'Staff training', which scored 4.3 out of 10 (where 10 means investment is urgently required and 1 means investment is not required at all). However, this is still a relatively low score – there is a sense amongst most providers that there is some need for staff training, but it isn't generally seen as a massively pressing concern.

- Focusing on investment areas which were given a score of between 8 and 10 (i.e. there is a strong need for investment), the key area requiring investment amongst group-based settings was outdoor spaces or playgrounds. This was identified as an area urgently needing investment by between 13% and 22% of providers (depending on the type of provision offered).

- Computer equipment, repairs or decoration of buildings and/or interior spaces, staff training and additional staff members were the other main factors to emerge as having a strong need for investment in group-based settings.

- For childminders, the key areas requiring investment were training (17%), outdoor spaces or playgrounds (16%) and computer equipment (15%).

- In general, providers did not seem to have a strong sense that they urgently needed to invest heavily in their provision.

- However, around 1 in 10 providers said that they had not invested enough in their provision over the past two years and that they would have to invest even less in the next two years – effectively caught in a downward spiral. These tended to be smaller settings that were making a loss and had low occupancy rates (and included both 'for profit' and 'not for profit' settings).

1.5 Financial concerns

- Amongst childminders, insufficient demand for places (22%) and parents being unable to afford fees (21%) were the most frequently mentioned concerns.

- Amongst group-based providers, the most common financial concern was insufficient demand for places (25%), followed by the cost of employing staff (18%) and parents being unable to afford fees (17%).

- Concerns about insufficient demand may naturally decrease in the future due to the twin impact of demographic shifts (there will be an additional 458,000 children aged 0-10 between now and 2020, which will serve to increase demands on capacity very significantly) and the extension of the entitlement to 15 hours of free childcare to some 2 year olds (which will also increase demand).

- Indeed, this last point regarding increased demand may also impact on fees. As providers start to reach capacity there will potentially be less competition between settings to enrol children on their books, which may (in tandem with rising staff costs) serve to exert upwards pressure on fees in some settings.

2. Introduction

In this section, we look at the background to the survey and give an overview of the research method that was employed, as well as explaining some of our sub-group definitions

2.1 Background

The Government believes that the first few years of a child's life are fundamentally important and is committed to making the best of the opportunities presented during pregnancy and the first five years of a child's life, to set them on a course for success[1]. High quality pre-schooling is linked to better intellectual and social/behavioural development for children and the beneficial effects of pre-school remain evident to the age of 11 years.[2]

However, despite being classified as one of the biggest investors in families by the OECD[3], international evidence suggests that childcare in England is more expensive than in most other countries, and that parents contribute most to meeting that cost (though like-for-like international comparisons are difficult to make). The Department for Education's Childcare and Early Years Survey of Parents 2009 showed that the proportion of families assessing the affordability of childcare as very poor or fairly poor was 36% and that this had consistently been the case since 2004[4]. This is in spite of the Tax Credit support given to many families and the entitlement of up to 15 hours per week of free early education for all 3 and 4 year olds (as well as the extension of this entitlement to an increasing number of 2 year olds). Furthermore, research from the Daycare Trust shows that costs are rising more quickly than household income[5].

In this context, the Department commissioned TNS-BMRB to conduct a quantitative survey of group-based childcare providers and childminders in England, with a view to better understanding the financial factors that influence the cost of childcare. This report summarises the key findings from the survey, providing detailed information about the overheads that providers have to incorporate into their business models, their investment needs and financial concerns, as well as a raft of other measures relating to the finances of childcare provision.

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[1] Department for Education & Department for Health (2011), *Supporting Families in the Foundation Years*

[2] Sylva, K., Melhuish, E., Sammons, P., Siraj-Blatchford I. and Taggart, B. (2008), *Effective Pre-school and Primary Education 3-11 Project (EPPE 3-11). Report from the Primary Phase: Pre-school, School and Family Influences on Children's Development during Key Stage 2 (Age 7-11)*

[3] OECD (2011), *Doing Better for Families*

[4] Smith, R., Poole, E., Perry, J., Wollny, I., Reeves, A., Coshall, C., d'Souza, J. and Bryson, C. (2010), *Childcare and early years survey of parents 2009*

[5] Daycare Trust (2012), *Childcare costs survey 2012*

2.2 Method

Interviews were conducted using a CATI (Computer Assisted Telephone Interviewing) methodology. The sample consisted of childcare and childminding professionals in England, who had previously taken part in the 2010 Childcare and Early Years Childcare Survey (see Appendices A and B for further details of the sample composition).

Fieldwork was conducted between Monday 9th January 2012 and Tuesday 6th March 2012 and a total of 1,222 interviews were carried out - 1,045 amongst group-based settings and 177 among childminders.

The survey data were weighted to ensure that the sample was representative in terms of key variables (see Appendix B for full details).

Where Ofsted ratings are referenced throughout the report, these have been sourced directly from Ofsted and matched to the survey data at a setting level using Ofsted's unique ID numbers.

It should be noted that this report is strongly focused on drawing out the key findings from the survey in a concise manner, rather than trying to describe every detail contained within the dataset.

2.3 Collecting financial data

Many of the questions in this survey related to financial topics and, as such, were potentially challenging for respondents to answer. There was, therefore, a strong focus in the survey design on maximising the accuracy of the data collected, whilst minimising the number of 'don't know' responses.

To this end, all respondents were sent a data sheet (which contained the details of the questions that would be hardest to answer without forethought) in advance of the interview, allowing respondents to look up financial information prior to the interview. When first making contact with respondents, interviewers checked if they had been able to complete the datasheet – if not, the interviewer arranged to call back at a time when the respondent had been able to do so.

During the course of the interview, respondents were given the option of answering questions in the way that best suited their own financial practices. As such, respondents could self-define the most recent 12 month period for which they were able to provide accurate figures, provided that the year ending point fell between 2010 and 2012. This approach was taken because some settings tend to think in terms of calendar years, some in terms of financial years and some in terms of academic years when reporting their finances. Within these parameters, the most frequently used year-ending points were as shown in Table 2.1, showing that childminders were most likely to organise their accounts according to the financial year, while many group-based settings focused on the academic year.

Table 2.1 – The most frequently used year-ending points for financial reporting
Base: All group-based settings/childminders that specified a valid 12 month period for their finances (1016/177)

	Group-based settings	Childminders
December 2011	14%	11%
July-Sept. 2011	33%	1%
March-Apr. 2011	38%	72%
Other	15%	16%

To further improve the quality of the data recorded by the survey, respondents were also able to answer questions about costs and income using absolute values, percentages or banded answers, which helped to ensure that 'don't know' responses were kept to a minimum.

During the processing of the financial data, responses were checked for internal consistency, for example by checking to see if the sum of the specific component 'cost elements' was similar to the 'total cost' given by respondents. In cases where data were inconsistent, such answers were re-classified as 'outliers' and were not included in the calculation of mean scores, further helping to ensure the reliability of the quoted figures.

It should also be noted that the absolute values relating to providers' income and costs that are quoted in this report have been rounded, as follows:

Table 2.2 – Approach to rounding

Number	Rounded to:
1,000 or more	The nearest 100
100-999	The nearest 50
Less than 100	The nearest 10

2.4 Sub-group definitions

2.4.1 Size of setting and number of children attending

Throughout the report, we refer to small, medium and large settings. These groupings were defined according to the number of children attending *any* of the types of care offered by the setting on a typical day, as below.

Table 2.3 – Definition of the size of setting

Setting size	Number of attendees
Small	1-20
Medium	21-40
Large	41 or more

So, for example, a setting which offered both full day care and after school care, and which had 15 children attending the full day care and 10 children attending the after school care, would be classified as having a total of 25 attendees (and, therefore, as a 'medium' provider).

Similarly, where we discuss the average number of children attending a given setting, this also refers to the sum of the number of children attending each type of care offered by a given setting.

2.4.2 Number of care types offered

Throughout the report, we refer to 'group-based' settings – these are settings that offer any of the types of care outlined below. We generally look at the results for childminders separately to those for group-based settings, as the relatively small scale of childminders' provision means that they typically have their own specific behaviours.

The specific types of group-based provision focused on in the survey were defined as follows:

- **Full day care** for children under 5 - by full day care we mean where care is provided for a continuous period of 4 hours or more
- **Sessional care** for children under 5 - by sessional care, we mean where a session is less than a continuous period of 4 hours in any day, with a break between sessions with no children in the care of the provider
- **After school** activities or childcare for school aged children in term time for more than two hours in any day and for more than five days a year
- **Holiday** activities or childcare for school aged children during any school holidays for more than two hours in any day and for more than five days a year

A boost sample of settings offering full day care based specifically in children's centres was also incorporated into the survey, allowing us to compare children's centres with the other full day care providers operating in the sector.

3. Cost Factors

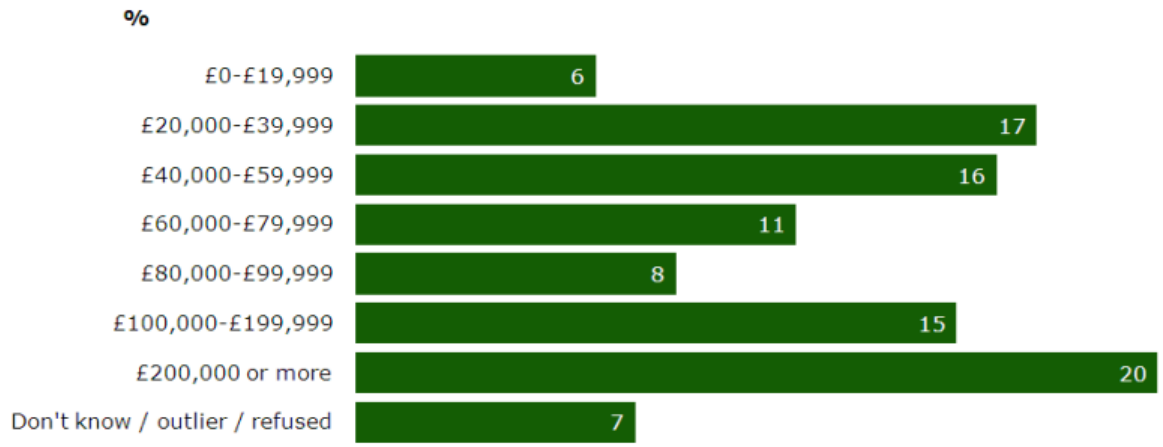
In this section, we look at the main overheads that impact on providers and see how these have changed in recent times

3.1 The total annual costs of provision

As one might expect, the size of the costs affecting providers varied widely depending on the scale and the type of the provision they offered. Chart 3.1 shows that a significant proportion of group-based settings had annual costs of under £40,000 (23%), but there were almost as many operating on a much larger scale, with annual costs of £200,000 or more (20%). Indeed, one in twenty settings crossed the £500,000 threshold (5%). The mean total costs of all group-based settings was £162,100, while the median cost for such settings was £72,500.

Amongst childminders, costs were concentrated at the lower end of the scale, reflecting the smaller number of children they typically cared for. The mean total annual costs for childminders was £3,600 and almost half of childminders had costs of less than £2,500 (48%). The median cost for childminders was £2,500.

Chart 3.1 – The total costs for all group-based childcare provision offered over a 12 month period
Base: All settings which specified a valid 12 month period for their finances (1016)



Amongst group-based settings[6], there were large differences in costs depending on the type of provider. The mean total costs for small settings was £52,600, less than half that of medium settings (£135,000) and around a fifth of the total costs of large settings (£245,000).

[6] See Section 2.4.2 for details of what constitutes a group-based setting.

Settings based in the 30% most deprived areas faced larger mean costs than was the case for those in the 70% least deprived areas (£209,200 and £146,800 respectively). However, it should be borne in mind that the average attendance of settings in the most deprived areas was larger than that in the least deprived areas (50 vs. 42), which is likely to account for at least some of this difference.

Settings offering multiple types of care (e.g. full day care and holiday care) had higher costs than those focused on a single care type, though the differences were, proportionally speaking, relatively small. Settings offering a single type of care typically faced overheads of £172,600, while those offering four or more types of care faced overheads of £217,000. The relatively small difference appears to be driven by the fact that settings offering a single type of care were most likely to focus on either full day care or sessional day care, both of which are comparatively time-intensive types of care.

The total costs of 'for profit' settings were higher than those of 'not for profit' settings (£207,100 and £135,800 respectively). Again this is likely to be at least partially attributable to the differences in scale between their offerings ('for profit' had an average attendance of 53 children across all care types, while 'not for profit' had an average attendance of 38).

Total costs in London and the South East were almost double those of settings in other regions (£233,800 in London and the South East compared to £129,200 in other regions). This is not attributable to the number of children attending (which is actually slightly higher outside London and the South East). However, settings outside of London and the South East were more likely to offer multiple types of care, meaning that their focus on the time-intensive full day care and sessional care was less strong.

The costs of settings rated 'outstanding' by Ofsted (£218,600) were higher than those for settings rated 'good' (£157,300) or 'satisfactory' (£90,800). In this case, the differences do not appear to be primarily driven by differences in the scale of provision, as average attendance at 'outstanding' and 'good' settings is similar (44 and 42 respectively) and attendance at 'satisfactory' settings is not lower to an extent that would explain the difference in costs (38). 'Outstanding' settings were more likely to be based in London and the South East, and were more focused on full day care, which may explain some of the difference. However, the profile of 'good' and 'satisfactory' settings was similar, suggesting that a focus on keeping costs low may well be a contributing factor in failing to obtain a 'good' rating.

Base sizes for sub-group analysis amongst childminders were generally too small to draw firm conclusions from. However, the data suggest that costs in the 30% most deprived area were lower than those in better off areas.

3.2 The elements that contribute to total annual costs

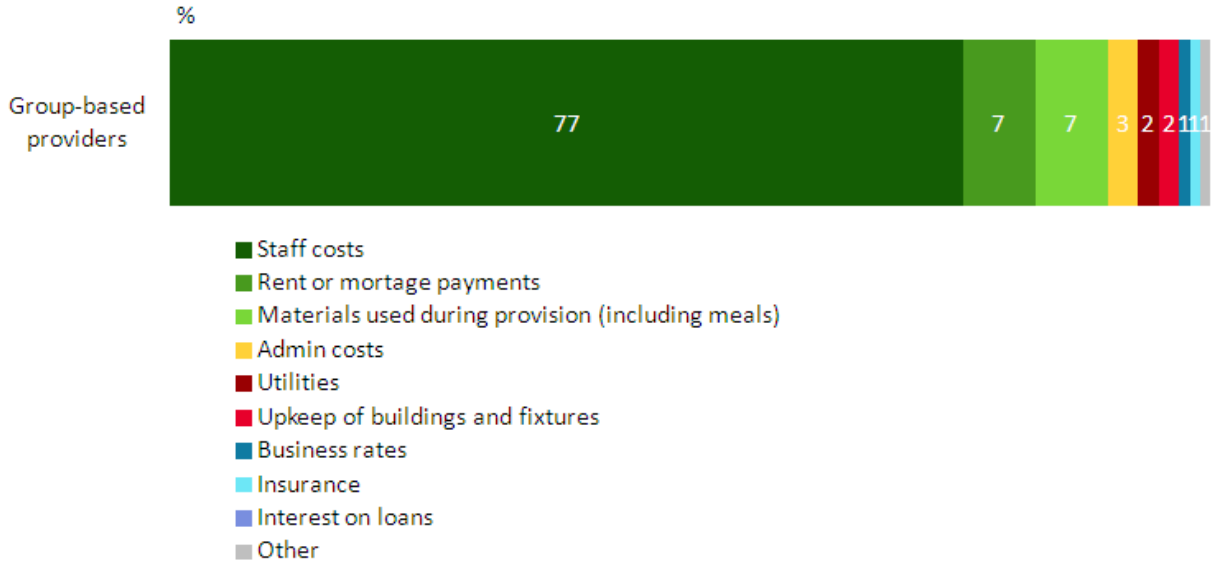
3.2.1 Group-based providers

As the specific costs that affect group-based settings differ significantly from the costs that impact on childminders, these two types of provider were asked questions with differing answer lists. In this section we focus on the group-based settings, while in Section 3.2.2 we move on to look specifically at childminders.

3.2.1.1 The importance of staff costs

Chart 3.2 – The proportion of group-based settings' total annual costs accounted for by specific elements

Base: All group-based settings that specified a valid 12 month period for their finances (1016)



As shown in Chart 3.2, it is clear that total staff costs (including wages, National Insurance payments, pension contributions and training costs) were by far and away the largest single element contributing to the total costs of group-based settings. On average, staff costs accounted for 77% of total costs, more than 10 times the proportion accounted for by the next largest cost elements. Rent or mortgage payments accounted for 7% of total costs, as did materials used in the course of childcare provision (such as books, toys, art materials and meals).

Administrative costs (including accountancy fees, legal fees, IT costs, advertising costs and any other admin) accounted for only 3% of the total costs of group-based settings, while utilities costs and the upkeep of buildings/outdoor spaces/fixtures and fittings each constituted 2% of the total costs. Insurance, business rates and interest payments on bank loans or overdrafts all accounted for 1% or less of the total costs.

Staff costs were the largest single overhead across the entire spectrum of group-based settings. There was no significant difference amongst settings of different sizes (78% in small and medium settings, 76% in large settings). Similarly the burden of staff costs was the same in the 30% most deprived areas (78%) and the 70% least deprived areas (77%). The proportion was slightly lower in privately run settings (72%) than in local authority (83%) and school/college run provision (85%). Staffing costs made up 73% of the total costs in settings with a 'satisfactory' Ofsted rating, compared to 76% in those with a 'good' rating and 77% in those with an 'outstanding' rating (these differences are not statistically significant). Regionally there were no significant differences at all and there were no sub-groups, of any type, where staffing made up less than 70% of the total costs.

In recent years we have seen significant increases in the level of qualifications held by the childcare workforce, with the proportion holding at least a Level 3 qualification rising from 65% to 76% between 2007 and 2010 alone[7] . At the same time, as one might expect bearing in mind the rapid rise in qualification levels, pay levels amongst the childcare workforce have been increasing at a faster rate than UK average pay (though they still remain significantly below the UK average)[8]. This process, almost inevitably, will have increased the proportion of total costs accounted for by staff costs in recent years.

3.2.1.2 Staff costs in terms of contact time with children

A high proportion (82%) of total staff costs in group-based settings was accounted for by the time that staff spent working directly with children (as opposed to doing admin or management tasks). Once again, this proportion was quite consistent across the sector, with no sub-groups falling below 77%, regardless of size, ownership or any other key defining characteristic. As such, while there may be some scope to reduce staff costs through the removal of administrative burden, it is clear that this is not the key driver of the costs impacting on childcare providers. It is the staff costs arising from contact time with children which make up by far and away the largest part of settings' total costs.

3.2.1.3 The smaller cost elements

Moving on to consider the overheads that account for a smaller proportion of the total costs of settings, there is a high level of consistency across the childcare sector for all of these smaller cost factors. There were very few significant differences between providers of different types. The breakdown of costs shown in Chart 3.2 gives a good overview of the typical costs which impact upon settings of all kinds.

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[7] Brind, R., Norden, 0., McGinigal, S., Garnett, E., Oseman, D., La Valle, I. and Jelicic, H. (2011), *Childcare and Early Years Providers Survey 2010*

[8] Brind, R., Norden, 0., McGinigal, S., Garnett, E., Oseman, D., La Valle, I. and Jelicic, H. (2011), *Childcare and Early Years Providers Survey 2010* & ONS Annual Survey of Hours and Earnings

The only notable differences were to be found in the relative importance of rent/mortgage costs. Businesses operating a 'for profit' model typically had higher rent/mortgage costs than was the case for 'not for profit' organisations (accounting for 9% and 5% of total costs respectively). The proportion of total costs accounted for by rent was lowest in settings managed by local authorities (3%) and schools and colleges (2%). Rent/ mortgage payments, as a proportion of total costs, were also relatively high in settings given a 'satisfactory' rating by Ofsted (10%).

During the interview, respondents were prompted with the specific categories shown in Chart 3.2. However, they were also given the option to spontaneously mention 'other' costs, which fell outside the scope of these prompted categories. For the large majority of respondents, these spontaneously mentioned costs were of a very low value (less than £250 for 75% of group-based settings) and covered a broad range of specific elements, each of which was only mentioned by a small proportion of all settings. Overall, 'other' costs only accounted for 1% of group-based settings' total costs.

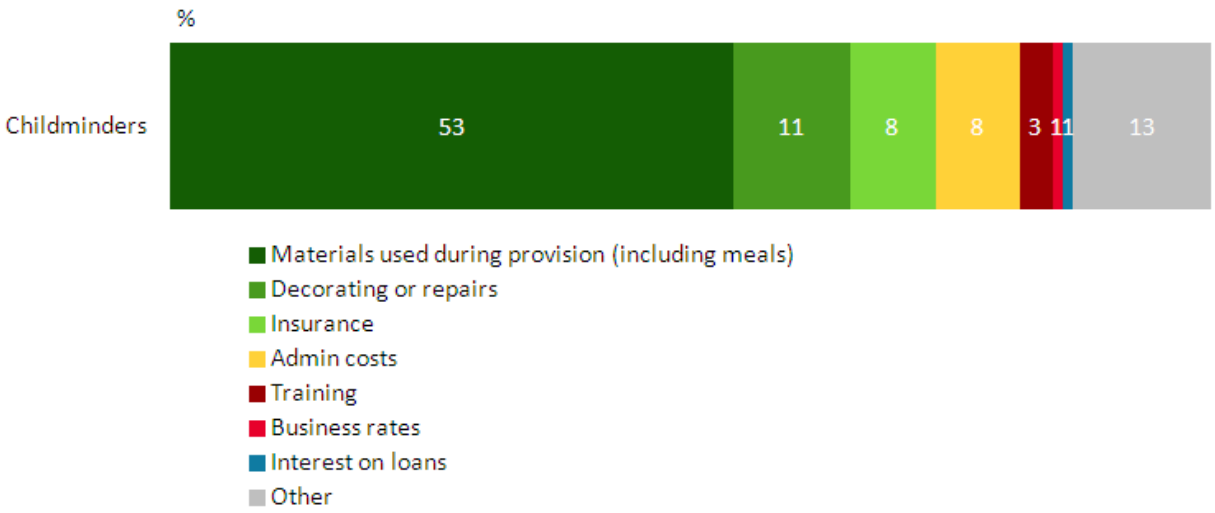
The most frequently mentioned 'other' response was costs relating to transport, which was raised by 6% of group-based settings. Membership/registration fees of professional bodies were mentioned by 4% of settings, while fundraising costs were cited by 2% of settings and cleaning costs/waste disposal was mentioned by 1%.

3.2.2 Childminders

Chart 3.3 shows that, amongst childminders, the single largest cost was for the materials used during their provision (including books, toys, art materials and any meals that are provided), which accounted for 53% of childminders' total costs. The cost of any decorating or repairs to their home or furnishings, which related specifically to their childminding, accounted for 11% of total costs, while insurance relating to their childminding represented 8% of total costs. The other major factor was administrative costs (including accountancy fees, legal fees, IT costs and advertising costs) which also made up 8% of childminders' total costs.

The main 'other' costs that childminders cited spontaneously were transport costs (mentioned by 22% of childminders) and membership/registration fees for professional bodies (8%). There were, however, a range of other costs mentioned by small proportions of childminders. Overall, other costs accounted for an average of 13% of childminders' total costs.

Chart 3.3 – The proportion of childminders' total annual costs accounted for by specific elements
Base: All childminders who specified a valid 12 month period for their finances (177)



One factor to bear in mind when looking at the breakdown of childminders' costs, is that staff costs do not impact on childminders. As such, the proportion of total costs accounted for by other cost elements will naturally tend to be higher than is the case for group-based settings. If we normalise childminder costs with those for group-based settings (by allocating 77% of total costs to a virtual 'staff' cost and downscaling their other costs accordingly), we obtain figures more directly comparable with those for group-based settings. For example, the cost of materials would scale down to 12% of total costs, decorating and repairs would account for 3%, while insurance and admin costs would each downscale to 2% of total costs.

3.3 Loans

As was shown in Chart 3.1, interest payments on bank loans and overdrafts accounted for a very small proportion of total costs for most group-based settings (less than 1% of total costs on average). Only one in a hundred settings said that such payments constituted more than 5% of their total costs. Indeed, only 9% of group-based settings said that they had ***any*** loans or overdrafts relating to their business. Amongst childminders, the proportion with a loan or overdraft relating to their provision was even lower (2%).

Small settings were the least likely to have loans or overdrafts, with only 3% using such mechanisms as a source of funding for their provision (compared to 10% of medium and large settings). The diversity of provision was also an influencing factor on the use of loans and overdrafts – providers of only a single type of care were significantly less likely to use loans or overdrafts than providers of four or more care types (7% and 15% respectively). There was also a pronounced difference between 'for profit' settings (19% of whom used loans or overdrafts) and 'not for profit' settings (only 3% of whom used loans or overdrafts).

The use of loans or overdrafts did not have any strong correlation to the profitability of a setting – 9% of profitable settings used them, while 8% of loss-making settings did so.

It is therefore apparent that group-based settings and childminders are less likely to employ these types of external finance than businesses in other sectors. For example, 24% of sole traders in the broader UK economy make use of a bank overdraft and 9% use bank loans or commercial mortgages. Focusing on companies that are of a similar scale to most group-based settings, 36% of UK companies with 1-9 employees use overdrafts and 18% use bank loans or commercial mortgages. These proportions are higher still in UK companies with 10-49 employees, where 43% use overdrafts and 26% bank loans or commercial mortgages[9].

Chart 3.4 – The size of the outstanding balance of loans and overdrafts relating to the childcare provision of group-based settings

Base: All group-based settings with a loan/overdraft relating to their provision (83)

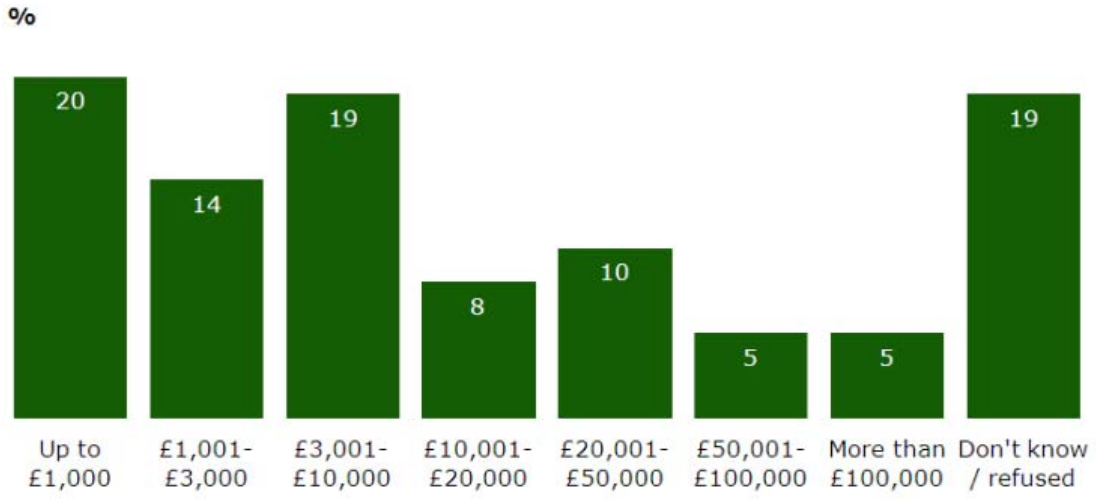


Chart 3.4 shows the size of the outstanding current balance of loans and overdrafts amongst the 9% of group-based settings that did use them. Whilst the average amount was £17,400, the chart shows that there is a very wide range in the size of loans and overdrafts being used, and that more than half (53%) had a value of £10,000 or less. Reflecting this, the median size of loans and overdrafts was £5,700 for group-based settings.

The base sizes amongst group-based settings with loans or overdrafts were too small to allow robust analysis of differences by subgroup. However, it does not appear that settings with large loans/overdrafts were any more likely to be loss-making than those with small loans/overdrafts.

Similarly, base sizes are too small to allow comment on the size of loans or overdrafts used by childminders.

[9] BDRC Continental (2011), *SME Finance Monitor, Q3 2011*

Taking into account the low proportion of childcare providers that were using loans or overdrafts to fund their provision, coupled with the fact that the profitability of those with loans was not apparently adversely affected, it appears that the servicing of existing debt is not a major factor for the childcare sector as a whole.

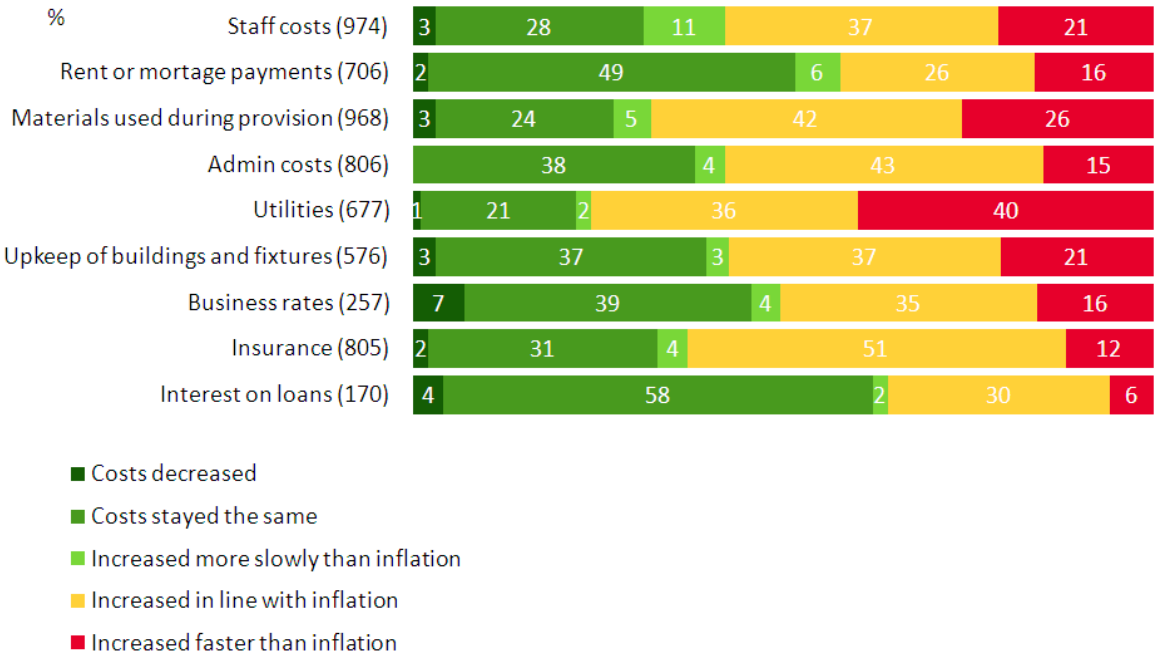
3.4 Changing pressures and future concerns

3.4.1 Rate of change of cost elements

Group-based settings were also asked about the rate of change of each of the individual cost elements affecting their business over the past 12 months. It should be noted that the data shown in Chart 3.5 is based only on those giving a response for each cost element (and that those unaffected by a given cost element are not included). When answering this question, if respondents were unsure about the general rate of inflation, interviewers clarified to them that the general rate of inflation had been around 5% over the previous year.

Chart 3.5 – The rate at which cost elements had changed over the past year

Base: All group-based settings giving a rate of change for each element (see below)



Utilities were seen as the cost element most likely to have increased more quickly than the general inflation rate 40% of settings said that their utilities costs had risen at an above inflationary rate, with a further 36% saying they had increased in line with inflation.

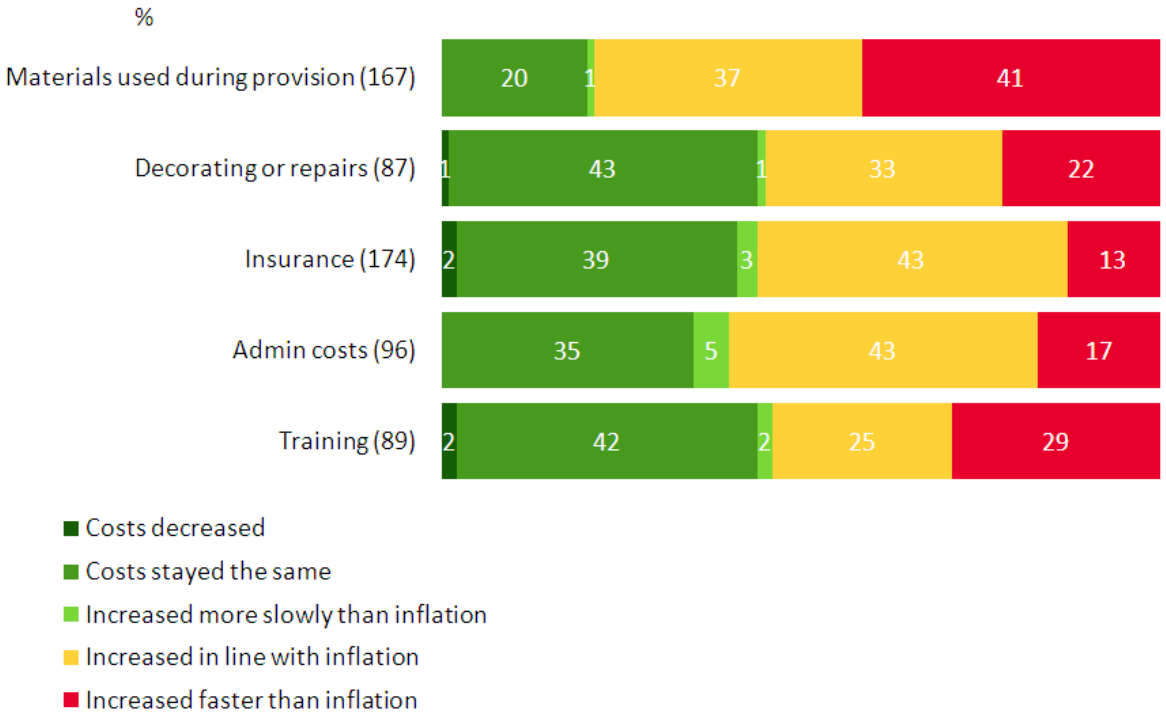
Materials used during the course of provision had also risen substantially over the preceding 12 months, with 26% of settings saying they had increased more quickly than the general rate of inflation and a further 42% said it the increase had been in line with inflation. Nonetheless, around a quarter of settings said that the cost of their materials had actually decreased or stayed the same (27%).

We have already seen that staff costs are the largest single constituent part of the total costs of group-based settings and, over the past year, costs relating to staffing had risen for around two thirds of group-based settings. 37% of settings said the rise in staff costs was in line with the rate of inflation, while 21% experienced an increase that was higher than the general rate of inflation and 11% had an increase that was lower than the general rate of inflation As we discuss in Section 3.4.2 a significant proportion of settings were concerned about parents' ability to pay fees, and the increasing cost of staffing is therefore a genuine issue, as the findings suggest that many settings feel that they are not in a position to pass increasing staff costs on to parents. Perhaps reflecting these broader financial pressures, a quarter of settings (28%) said their staff costs had not changed over the past 12 months, while 3% said that they had actually decreased.

Thinking more broadly, any increase in costs will be keenly felt by those providers who have had to freeze their fees (see Section 5.4), regardless of whether the costs are increasing more quickly than inflation or in line with the general rate of inflation. Even costs rising at a below inflationary rate will still impact, to some extent, on the margins of such providers.

Interest on loans or overdrafts was the cost element least likely to have increased substantially and 62% of settings giving a rating said that the costs had either stayed the same or decreased. Only 6% of settings said their costs associated with loans or overdrafts had increased faster than inflation over the past 12 months. This suggests that, if anything, group-based settings may currently be paying down their debts rather than extending them.

Chart 3.6 – The rate at which cost elements were changing for childminders
Base: All childminders giving a rate of change for each element (see below)



Amongst childminders, it was the cost of materials used during provision which was most likely to have risen at a rapid rate – 41% said that the cost of materials had increased more quickly than inflation, with a further 37% experiencing an inflationary increase. The definition of materials used in the course of provision included 'books, toys, art materials and any meals that you may provide'. As such, a wide range of factors may have influenced this increase.

Three in ten (29%) childminders giving a rating said that the cost of their training had increased at an above inflationary rate, with a further 25% saying training costs had increased in line with inflation.

In a challenging economic environment in which the majority of childminders have frozen the fees that parents are charged (see Section 5.4), any increases in costs will have resulted in a reduction in the income of the majority of childminders. This is particularly the case for the materials used during the course of provision, for which the large majority (80%) had seen an increase in costs over the past year.

3.4.2 The areas relating to finances that providers are most worried about

The 'Wordle' below gives a snapshot of the words which crop up most frequently in the verbatim responses given by respondents – the more frequently a word is mentioned, the larger the font of the text. It is interesting to note that settings, in framing their financial concerns for the future, refer to human factors more frequently than anything else – children, parents and staff.

Wordle 3.1 – Specific words used to describe providers' concerns about their finances in the future

Base: All group-based settings and childminders (1,222)

However, the Wordle is very much an overview of the raw survey responses, and the coded responses to the survey add more nuance to this output. As shown in Chart 3.7, the most widespread concern was an insufficient demand for places, which was mentioned by 25% of group-based settings and 22% of childminders.

> We have seen a gradual trend in reduction of places. Parents have lost jobs and a lot of children have reduced their hours.

Understandably, this was a particular concern in settings with a low occupancy rate (i.e. less than 60% of places occupied), where demand for places was mentioned by 40% of group-based settings. Settings with low occupancy rates typically tended to be small settings and were less likely to have an 'outstanding' rating from Ofsted than was the case for settings with higher occupancy rates. However, they mirrored the general profile of all group-based settings in terms of whether they were run on a 'for profit' or 'not for profit' basis, and in terms of whether they were to be found in areas of high or low deprivation.

A recurrent theme amongst those respondents raising this as a concern, was a decrease in demand for childcare due to parents losing their jobs, and therefore becoming able to care for their children themselves. Thinking in purely demographic terms, the projected increase in the number of children aged 0-10[10] should serve to offset these concerns to some extent, as should the extension of the free 15 hours of childcare to 2 year olds. However, it is possible that further suppressants to the market, such as continuing increases in unemployment levels, may also come into play.

[10] The Office for National Statistics, Centre for Demography predicts that there will be an increase of 458,000 in the number of children aged 0-10 between 2012 and 2020.

In September we're losing nearly 40 children who are going to school and we haven't got 40 children on the way to replace them.

Another theme amongst those concerned about insufficient demand for places is the impact of the provision offered by schools. There was particular reference to the fact that attendance drops dramatically at the point in the year where schools have an intake of children, with a lull in September having a significant impact on some settings. There were also mentions of schools starting to take on children earlier in the year and at an earlier age. Local authority run settings were less likely to be concerned about filling places than those under other types of management (14% compared to 25% or more).

Chart 3.7 – The area relating to the finances of respondents' provision that they were most worried about (responses coded from an open-ended question)
Base: All group-based settings (1045) / all childminders (177)

We have already seen that staff costs are the single largest contributor to the total costs of group-based settings, so it is no surprise that the cost of employing staff is the main concern for almost one in five (18%) of them. Some respondents mentioned the fact that they would like to be able to pay higher wages (and that their staff deserved

I'm not able to pay the rate that would attract high quality staff, because the rate that I can charge is commensurate to what a parent can pay.

> At the end of the day, we're providing the role of the teacher, but on a minimum wage.

them) but that they were inhibited by the need to keep fees at a level parents could afford. There was also discussion of the fact that the level of funding for free places, in some cases, also acted as an inhibiting factor. Staff costs were less of an issue for settings based in the 30% most deprived areas (12%) than for those in the 70% least deprived areas (20%).

> Staff get qualified and then this and a pay rise – (but) th funding does not allow us tc 4.22 per hour.

> I would say our biggest cost is wages. It takes up quite a large chunk of our income. The new pension contributions that come in this year could have an effect.

The ability of parents to afford fees was another key concern, mentioned by 21% of childminders and 17% of group-based settings. Again, this was often connected to the current economic climate and the fact that parents can no longer afford to pay for childcare (or for increases in fees). Some settings clearly felt there was a tension between their own need to bring in sufficient income and the inability of parents to afford childcare.

Settings based in the 30% most deprived areas were more likely to mention the ability of parents to pay than was the case for those in the 70% least deprived areas (27% and 14% respectively).

> We are stuck in a catch 22, because we can't put up fees because the parents can't afford it, but we have to up the wages to match the national minimum wage.

> Parents cannot pay for childcare – it's very expensive so they look for cheaper childcare…paying cash in hand.

Concerns about government funding (particularly of the 15 hours free entitlement for 3 and 4 year olds) was the main financial concern for 13% of group-based settings. These concerns ranged across a number of more specific areas – some providers worried that funding would be reduced or removed altogether in the future, while others mentioned that the current level of funding was not sufficient. The inability to charge top-up fees was highlighted as an issue by some respondents, while others focused on the fact that funding of the free entitlement was being frozen.
Settings with an 'outstanding' Ofsted rating were more concerned about this (21%) than those with a 'good' (13%) or 'satisfactory' rating (11%).

> The fact that the grant money we get from the government falls short by £1.12 per hour per child for 15hrs. It has just been crushing as we can't charge top-up.

Rent, because I don't have control of rent increases.

6% of childminders and 8% of group-based settings cited general business costs including rent and utilities costs, as their main area of concern. In particular, rent was a concern because this was a variable in providers' business models which could be highly unpredictable and over which they had very little control.

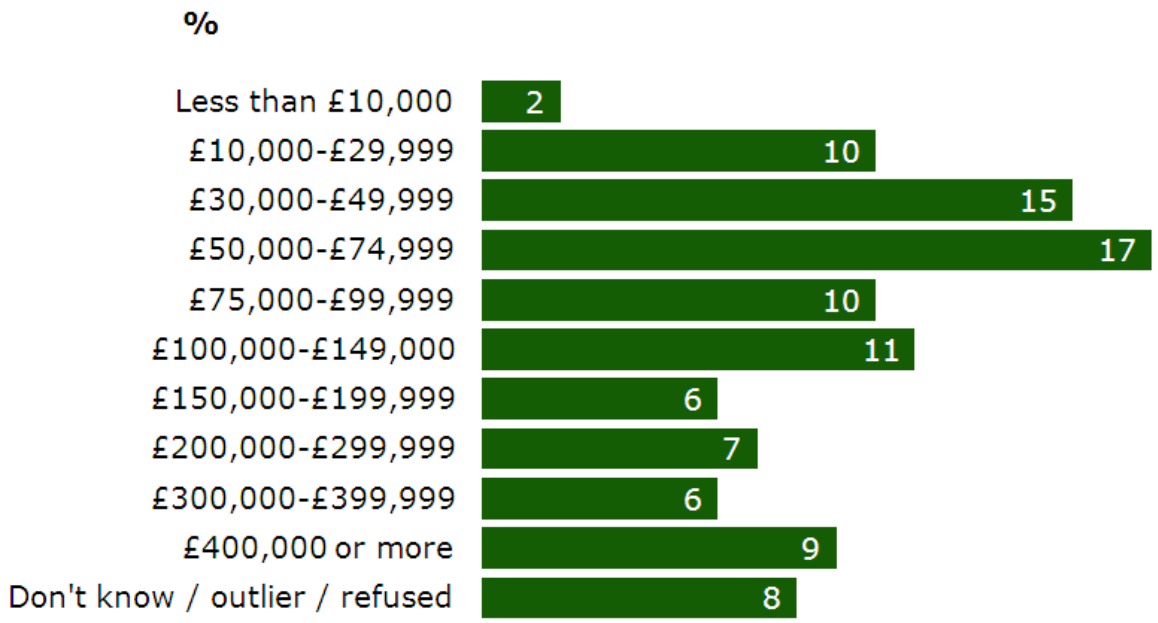
4. Income streams

In this section, we look at the sources of income that underpin childcare provision and how these vary across the sector

4.1 Total annual income levels

The overall mean annual income for group-based settings was £181,200. However, as Chart 4.1 shows, over a quarter of group-based settings had an annual income of less than £50,000 (27%), while at the higher end of the scale, a fifth reported an annual income in excess of £200,000 (22%). As such, it is clear that there is a very broad range in the financial profile of group-based settings.

Chart 4.1 – The total annual income of group-based settings
Base: All group-based settings that specified a valid 12 month period for their finances (1016)



As would be expected, annual income varied significantly depending on the number of children attending the setting. Small settings had an average annual income of £59,000 - less than half that of medium settings (£143,900) and a fifth of the income of large settings (£282,100).

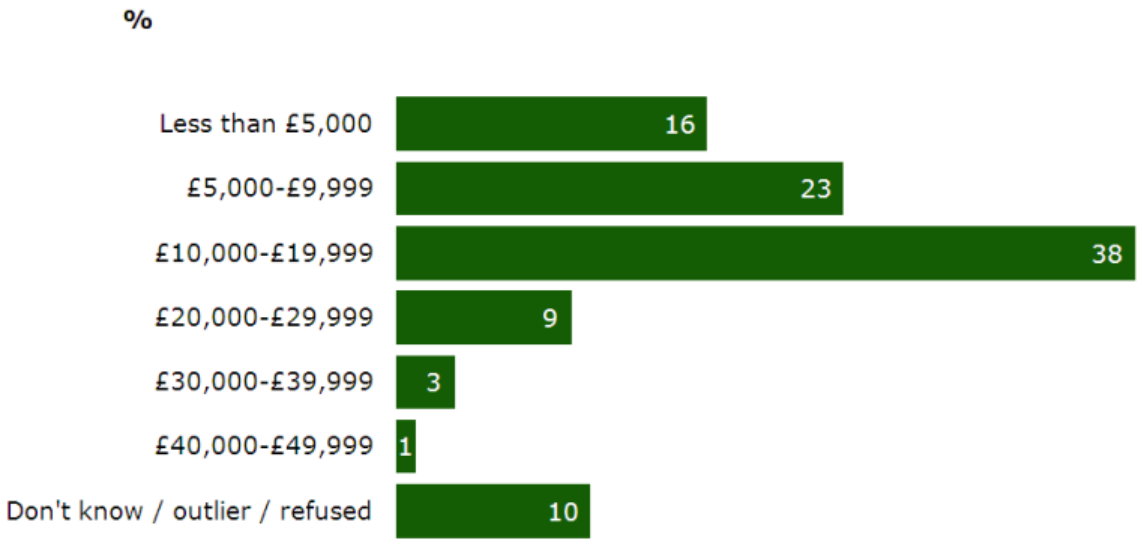
Average income in the 30% most deprived regions was a little higher than that in the 70% least deprived areas (£203,500 and £174,000 respectively). This reflects the typically larger scale of settings in the most deprived regions (which have an average of 50 children attending, compared to 42 children in the least deprived regions).

The income of 'for profit' settings was more than 70% higher than that of 'not for profit' settings (£250,100 and £144,200 respectively). Again, the number of children attending is an influencing factor in this difference (an average of 53 children attended 'for profit' settings, compared to 38 in 'not for profit' settings). The income in settings that were part of a chain was markedly higher than that of standalone settings (£309,400 compared to £165,800).

The income of settings rated 'outstanding' by Ofsted was £251,200, which was higher than the income of settings rated 'good' (£191,400) and settings rated 'satisfactory' (£106,000), in spite of the fact that average attendance levels were fairly similar. Outstanding settings were more likely to provide full day care as part of their offering than was the case for settings with lower ratings (79% of 'outstanding' settings, compared to 66% of both 'good' and 'satisfactory' settings), which may explain some of the difference in income, as full day care is a relatively high-cost type of provision. Nevertheless, it does also seem that income correlates to some extent with the standard of provision.

Settings in London had more than double the income of settings in any other English region (£369,200, compared to £173,700 in the North West, which had the second highest average income).

Chart 4.2 – The total annual income of childminders
Base: All childminders who specified a valid 12 month period for their finances (177)



As would be expected, childminder income was far lower than that of group-based settings, with an average income of £12,200. Four in ten childminders had an income of less than £10,000 (39%), while only one in twenty (4%) brought in £30,000 or more from their childminding activities (and this is, of course, income before the deduction of costs).

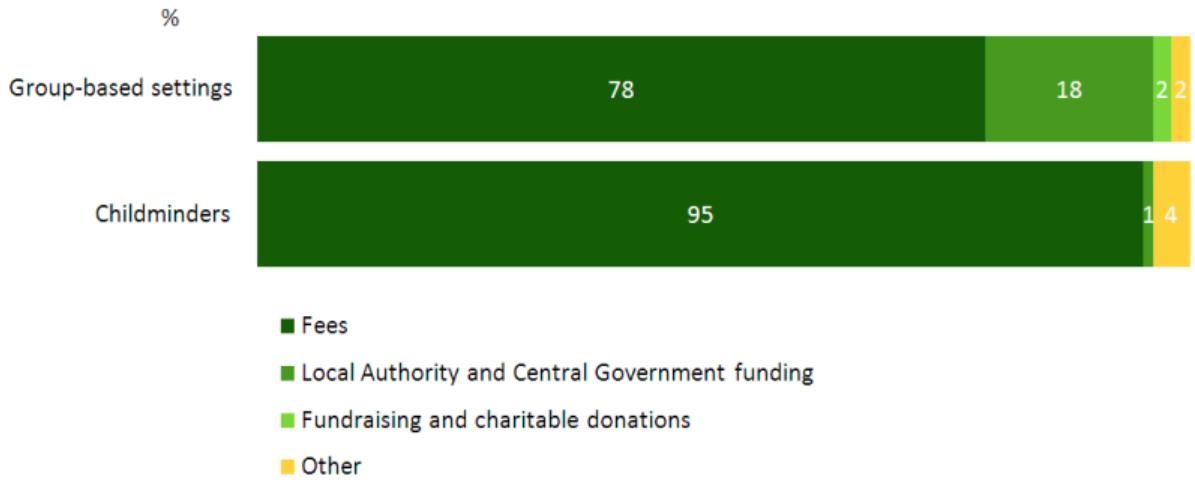
4.2 Income from specific sources

Fees were clearly the main income source for group-based settings, accounting for more than three quarters (78%) of their total income, as shown in Chart 4.3. Local authority and central government funding was, nevertheless, a significant contributing factor, accounting for around a fifth (18%) of total income. Fundraising, charitable donations and other sources of income were of relatively low importance for group-based settings as a whole, accounting for only 4% of total income.

It should be noted that funding for the 15 hours of free entitlement for 2-4 year olds was included in the figures for fees rather than under the local authority and central government category (which relate more to direct subsidy and sufficiency funding). Similarly, any indirect government funding of schemes such as employer voucher payments would also fall under the fees category rather than local and central government funding.

Fees were typically the main income source for all sizes of group-based provider (accounting for 76% of income in small and medium settings and 80% in large settings). In 'for profit' settings, fees accounted for 87% of total income, compared to 73% in 'not for profit' settings. Interestingly, fees accounted for a smaller proportion of total income for settings with high occupancy rates (71% of total income) than was the case for settings with medium (82%) and low occupancy (84%). Overall, only one in five settings (20%), generated less than half of their total income from fees.

Chart 4.3 – The proportion of total annual income accounted for by specific elements
Base: All group-based settings/childminders that specified a valid 12 month period for their finances (1016/177)



Local authority and central government funding was an important income stream in 'not for profit' settings, accounting for 22% of total income (compared to 11% in 'for profit' settings).

In settings that were owned/managed by local authorities, governmental funding accounted for 35% of total income – a relatively high proportion, though fees were still the main income source, accounting for 62% of total income.

As alluded to above, local authority and central government funding was proportionally higher in settings with high occupancy levels (24%) than was the case in those with medium and low occupancy (15% and 11% respectively).

While, on average, local authority and government funding accounted for around a fifth of total income, for a minority of group-based settings (17%) it actually accounted for more than half of total income. Bearing this in mind, in tandem with the relatively low levels of profitability discussed in Chapter 6, it is clear that local authority and government funding is a vital component in the financing of the sector as a whole.

Fundraising and charitable donations made up a small proportion of total income for all types of group-based setting. Even in 'not for profit' settings, only 2% of total income was accounted for by this source, highlighting once again the importance of fees to the whole sector. A very small proportion of settings generated more than 20% of their total income from fundraising and charitable donations, but these were very much the exception rather than the rule (less than 1% of all group-based settings).

Amongst childminders, fees accounted for the vast majority of total income (95%), while local authority and central government funding accounted for only 1% of income. As mentioned earlier, it should, however, be noted that this figure for local authority and government funding relates to any direct funding received by childminders and would not include any payments for the free entitlement to provision, or subsidy of employer voucher payments.

5. Fees and payments

In this section, we look at the criteria which affect the fees that providers charge, the way in which fees have changed over time and the use of vouchers

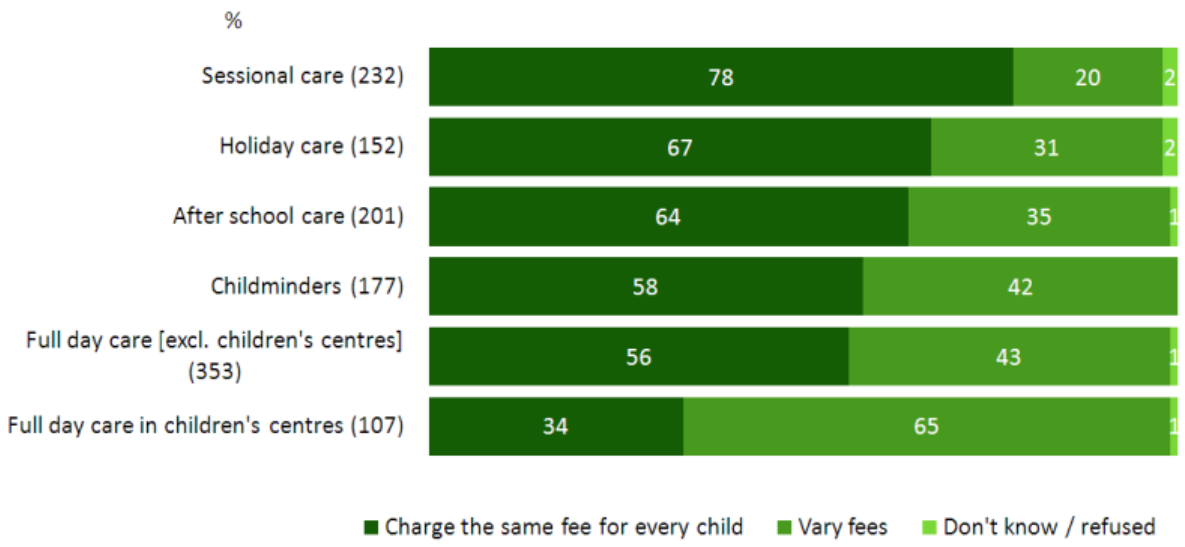
5.1 The prevalence of varying fees

For the section of questions relating to fees, providers were asked to focus on one specific type of care that they offered, rather than answering in reference to the whole of their provision (which was the focus of most of the other sections of the questionnaire). When answering about fees for that specific provision, providers were asked to give average values encompassing all of the children attending the provision.

Sessional provision was the type of care for which it was most likely that the same fee would be charged for every child, with 78% of settings charging a standard fee. Around two thirds of holiday and after school settings also charged a fixed fee (67% and 64% respectively).

The usage of standard fees was less frequent amongst childminders and full day care settings (58% and 56% respectively), while the full day care offered specifically by children's centres was the only type of care for which it was more common to vary fees rather than to offer a standard fee (65% of children's centres varied the fees of their full day care).

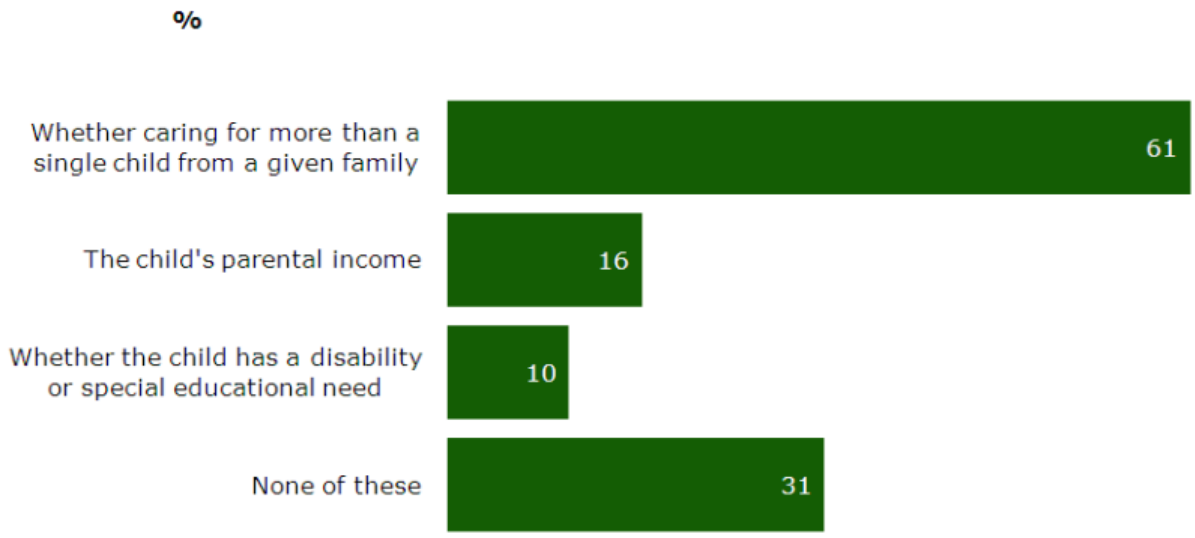
Chart 5.1 – Whether settings varied their fees from child to child
Base: All asked about each specific type of care



5.2 Factors which influence providers' fees

Because the proportion of settings that varied their fees was relatively low for each specific type of care, it is not possible to look at the specifics of fee variance for each care type individually. Instead, for this section we look at average values across all 6 types of care, giving each type of care equal weight. The six types of care incorporated in these averages are: full day care (excluding children's centres); full day care in children's centres; sessional care; after school care; holiday care; and childminders.

Chart 5.2 – The criteria which impacted on fees
Base: All who vary their fees from child to child (436)



When asked which criteria affected the fees that they charged, providers were most likely to vary their fees if they were caring for more than a single child from a given family. On average, 61% of those who varied their fees from child to child cited this as an influencing factor.

The income of a child's parents influenced the costs of 16% of those who varied their fees from child to child. One in ten providers who varied their fees cited disability or special educational needs as a factor that impacted on fees.

A sizeable proportion of those who varied their fees said that none of the prompted criteria affected what they charged parents. As such, it is clear that other elements, which were not specifically prompted during the interview, also impact on fees. It is likely that these other elements would include factors such as the age of the child or hours (or days) of care.

5.3 The size of fee variance

Respondents were asked to give the details of the fees they charged if specific criteria applied, and again we have taken an average of the answers given for each specific type of care (as base sizes are too small to look at each type of care on a standalone basis).

There was an average 9% reduction in fees per child if a family had two children attending, rising to 11% per child for families with three or more children attending the same setting (amongst those settings which varied their fees according to the number of children attending). It should, however, be borne in mind that only a minority of all settings vary their fees according to this criterion, and the impact for the sector as a whole would be considerably smaller (of the order of 1%).

Very few settings varied their costs for children with disabilities or special educational needs, so it would potentially be misleading to quote an exact figure for how this factor impacted on fees. However, the data does suggest that there were differences in the fees that were charged in such cases, with some settings raising their costs substantially and others reducing them substantially for children with disabilities or special educational needs.

Amongst those settings that altered their fees for children from low income families, there was a sizeable average reduction of 37% compared to their standard fees. However, once again, it should be borne in mind that only a minority of settings changed their fees according to this criterion.

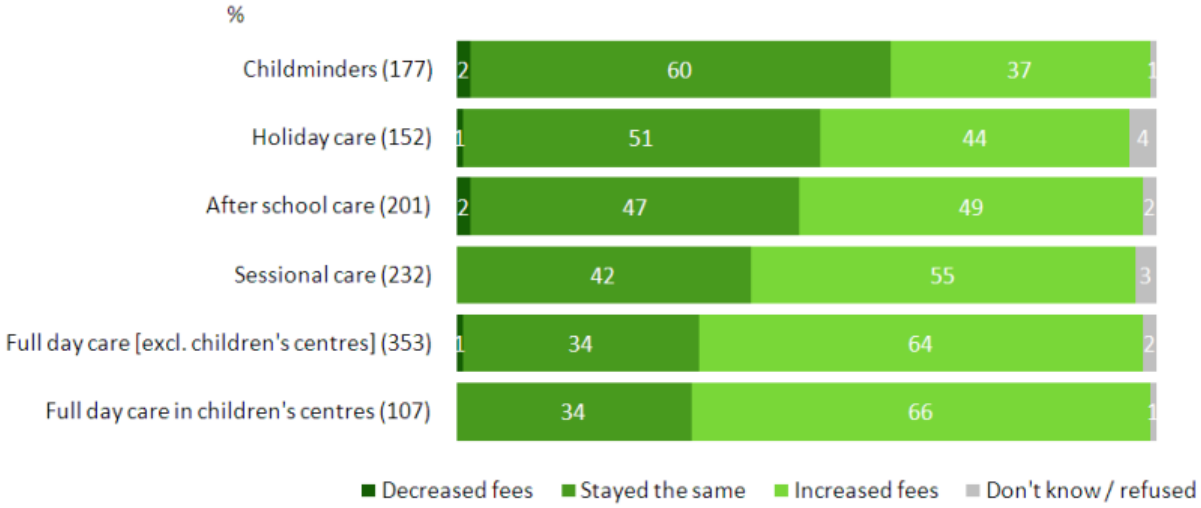
5.4 Changes in fees since January 2010

Respondents were asked whether they had changed their fees for a specific type of care since 1st January 2010. As fieldwork was conducted from January to early March 2012, this effectively gave a two-year frame of reference.

As shown in Chart 5.3, a significant proportion of providers had kept their fees unchanged over the past two years. Childminders were the most likely to have held their prices at the same level as in January 2010, with six in ten (60%) applying a freeze. Around half of those offering holiday care (51%) and after school care (47%) had maintained their prices at the January 2010 level. Full day care providers (in general, as well those operating specifically within children's centres) were the least likely to have frozen their fees (34% in both cases).

However, the proportion of providers reducing their fees over the past 2 years was minimal (no more than 2% for any specific type of care). As such, it appears that the approach of most providers when dealing with the difficult economic climate has been to avoid increasing the burden of cost to parents, rather than actively seeking to reduce it. Nonetheless, it should be highlighted that this fee freeze has taken place at a time when there have been significant upward pressures on most of the costs that providers have to incorporate into their business models (as discussed in Chapter 3).

Chart 5.3 – Changes in fees since January 2010
Base: All asked about each specific type of care



Moving on to consider the *size* of the increase in fees, most types of care had seen a below inflationary rate of increase over the past 2 years. CPI inflation for 2011 ran at 4.2% and in 2010 was 3.7% (which compounds to a total of 8.1% over the two year period)[11]. The alternative RPI inflation rate for the 2 year period was 9.8%[12]. Table 5.1 (see middle column) shows that, on average, most types of care saw below inflationary increases in their fees during 2010-2011. After school care was the only type of provision that saw an increase larger than the CPI inflation rate over this period (10%), while holiday care and full day care offered by children's centres increased by only 4% and childminders raised their fees by only 3%.

Nonetheless, as shown in the third column of Table 5.1, between 11% and 19% of all types of providers had increased their fees by more than 10%, which means that a small (but not insignificant) proportion of parents have had to deal with substantial increases in the burden of childcare costs over this two year period.

Furthermore, although the average change in fees was generally at a below inflationary level, it should be borne in mind that in recent years there has been a broader economic environment where average salaries have also been increasing at a below inflationary rate. Figures for the whole of 2011 are not currently available, but in the year to April 2011 median gross annual earnings for full time employees increased by only 1.4%, and in the year to April 2010 there was an increase of only

[11] ONS, Consumer Price Indices – March 2012 [see: http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/march-2012/index.html]
[12] ONS, Consumer Price Indices – March 2012 [see: http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/march-2012/index.html]

0.3%[13]. Barring a dramatic (and highly unlikely) upswing in salaries in late 2011, childcare fees therefore increased at a higher rate than the salaries of the parents paying for them over the period in question.

Table 5.1 – Average change in fees since January 2010 / the proportion of settings that had raised their fees by more than 10% since January 2010
Base: All asked about each specific type of care

Type of provision	Average change in fees since January 2010	Proportion of settings raising fees by more than 10%
After school care (201)	+10%	15%
Sessional care (232)	+8%	19%
Full day care in children's centres (107)	+5%	11%
Holiday care (152)	+4%	12%
Full day care [excl. children's centres] (353)	+4%	11%
Childminders (177)	+3%	11%

5.4.1 Reasons for increasing fees

Amongst those who had increased their fees since January 2010, the most frequently cited reason was simply to cover general increases in their costs/to keep track with inflation - this applied to all types of childcare provision. The proportion giving this response ranged from 64% for holiday care provision to 35% for sessional provision.

Staff costs were the second most frequently mentioned reason for increases in the fees of most types of provision. This was mentioned by around a third of each of the different types of group-based provision, apart from full day care in children's centres where it seemed to be less of an issue (9%).

> To give the staff a pay rise. Since the recession started, the increase each year has just about covered the staff increase.

Childminders were the most likely to say that the reason for increasing their fees was to keep in line with other providers in the area (22%). This reason was generally mentioned by around 1 in 10 of the group-based providers.

[13] ONS, 2011 Annual Survey of Hours and Earnings & 2010 Annual Survey of Hours and Earnings [see: http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/index.html]

(Fees) have been the same for four years so I have increased costs in line with the cost of food, petrol and generally everything going up.

Covering the cost of food was most likely to be cited as a reason by childminders (16%) and increasing utilities costs were also mentioned more regularly by childminders (11%) than was the case for group-based providers. The cost of food was also mentioned frequently in connection with after school provision (10%), but was not widespread amongst the other types of group-based provision.

Ensuring the sustainability of the business was most frequently mentioned by children's centres (15%), while the need to address the fact that the provision was making a loss was more widespread amongst after school provision (9%) than any of the other types of care.

Some providers indicated that they raised their fees in line with changes to the funding of the 15 hours of free entitlement, a reason that was most frequently mentioned for sessional provision (12%).

5.4.2 Reasons for keeping fees unchanged

Amongst those who had kept their fees unchanged, the most frequently cited reason was that parents would not be able (or willing) to pay an increased fee. This applied across all types of childcare, with proportions ranging from 44% amongst childminders to 22% for full day care provision.

I've had several dodgy months where parents have been made redundant. I thought if I increased the fees, I'd lose the parents… I try to be fair.

We felt we couldn't charge more childcare fees due to the recession and (the parents) not being paid more at their employment. As their bills will increase, we wanted to help them out. We need to make some money but we're essential here to provide parents a service for their children.

The need to stay competitive with other local providers was the second most frequently mentioned reason given for full day care (19%) and sessional provision (14%) as well as by childminders (17%). For holiday provision, the second most frequently cited reason was the need to make sure childcare is affordable and accessible for parents (22%), while for after school provision the second most frequently cited reason was that it simply wasn't necessary to raise costs as the provision was already covering costs or making a profit (21%).

Freezes in the fees for full day care and sessional care were frequently linked to the fact that the provision was offered in a deprived area (10% for both full day care and sessional care). This reason was less widespread for the other types of provision.

> Mainly because we are situated in a poor area and the price reflects what can be afforded by parents. Also, we're a charity, so as long as the overheads are covered we'd rather not increase (fees).

Around one in ten group-based providers mentioned that it would not be appropriate to raise fees for the various different types of provision because of the difficult economic climate. There were various other reasons that were mentioned at relatively low levels, including the need to keep fees in line with government funding and the fact that fee rates were set by external bodies such as local authorities.

5.5 Charging for extras

Around a third of group-based settings said that they sometimes charged parents additional fees for things that fell outside the scope of their standard fees (ranging from 32% for after school care up to 38% for full day care provision). The equivalent proportion for childminders was 42%.

Respondents were also asked what specific aspects of their provision they charged additional fees for. Base sizes were too small to allow robust analysis for each of the different care types individually – as such, we have again taken an average of the answers given for each of the different types of care.

As shown in Table 5.2, trips away from the premises were clearly the most widespread cause of additional fees. More than half (53%) of those who charge extra fees for additional provision mentioned this specific aspect, rising to 76% for holiday provision (although base sizes are small this is, nevertheless, significantly higher than for the other types of provider).

Meals or snacks were the second most widely cited element, mentioned by an average of 28% of providers, closely followed by fees for parents who picked up their children late (24%). Group-based settings were more likely to charge late fees (27% on average) than was the case for childminders (7%). Again, base sizes were small, but after school providers were the most likely to charge late pick-up fees (51%).

Care provided outside regular hours was mentioned by an average of 15% of providers, while all of the other factors applied to an average of less than 10% of providers.

Table 5.2 – Top 10 elements which incurred additional fees

Base: All who charged additional fees for elements outside the scope of their standard provision (443)

	Proportion who charge for this additional provision
Trips or activities away from premises	53%
Meals or snacks	28%
Late pick-up fees*	24%
Care provided outside regular hours*	15%
Sporting activities	8%
Late payment fees*	6%
Transport to and from setting*	3%
Foreign language tuition	3%
Hours above the free entitlement*	2%
Membership/registration fees*	2%

N.B. In this question, respondents were prompted with a list of pre-coded answers and were also given the option to specify other additional chargeable elements themselves. In the table above, all asterisked codes were 'other' responses that respondents mentioned spontaneously.

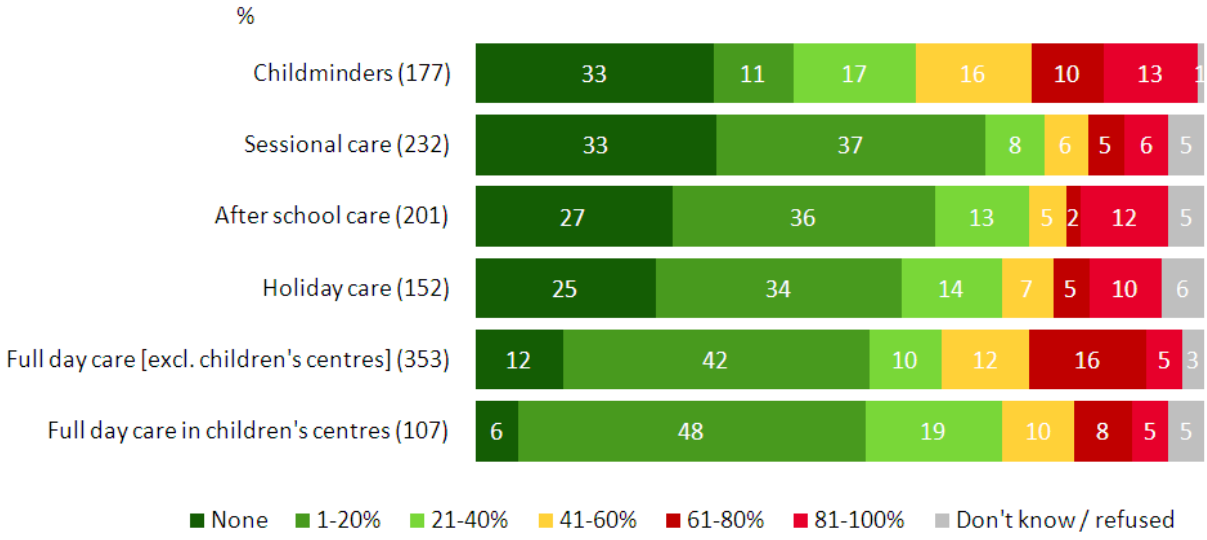
5.6 Employer and voucher payments

Chart 5.4 shows how the use of employer or voucher payments varies between different types of provision. Childminders and sessional care providers were the most likely not to have any places at all paid for in this manner (33% of each). However, amongst childminders this may in part be a reflection of the relatively small scale of their provision – when few children attend, the chance that none of them will pay with vouchers or via their employers is greater than would be the case in a larger provider.

Full day care provision was the care type that was the least likely to have no payments directly from employers or via vouchers - 12% in general full day care providers and 6% in children's centres offering full day care.

For all types of provision, the use of voucher payments and payments from employers was generally the exception rather than the rule. Only around 1 in 5 (19%) said that this payment mechanism accounted for 40% or more of their after school places. Even amongst childminders, where the proportion was highest, only 4 in 10 (39%) had more than 40% of their places paid for in this way.

Chart 5.4 – The proportion of children attending specific care type that have their places partially or totally paid for by payments directly from the parent's employer or via voucher payments
Base: All asked about each specific type of care



Settings were also asked whether the parents of children receiving voucher payments tended to be relatively well off, tended to come from low income families or came from a variety of backgrounds.

Across all types of provision, the majority felt that vouchers payments were used by parents from a variety of backgrounds, ranging from 64% for sessional care to 84% for full day care in children's centres.

Very few respondents perceived voucher or employer payments as a payment mechanism that was more widely used by parents with a low income (ranging from 1% for childminders to 5% for holiday and sessional provision). Sessional providers were the most likely to see voucher payments as the preserve of parents from relatively well of families (28%).

6. Profitability

In this section, we investigate the profitability of different types of providers, as well as the occupancy rates necessary to make provision sustainable

6.1 Were group-based settings profitable?

Overall, as shown in Chart 6.1, almost two-thirds (63%) of group-based settings had made a profit or surplus over the recent 12 month period they reported on. A further one in ten (11%) had broken even and around a quarter (24%) had made a loss.

Chart 6.1 – Whether specific types of group-based settings made a profit or a loss over a 12 month period

Base: All group-based settings (excluding children's centres) in each subgroup

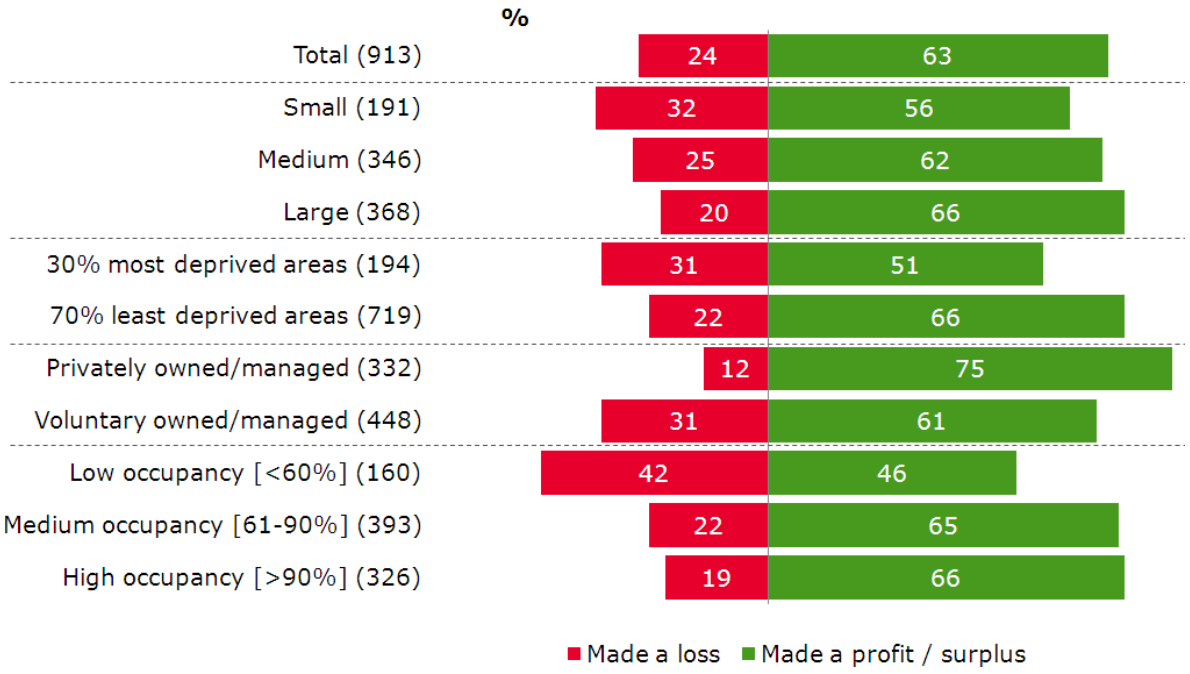


Chart 6.1 also highlights the key differences in profit and loss-making status amongst different types of group-based provider, showing that the scale of provision was a key influencer, with large settings more likely to make a profit (66%) than small settings (56%).

Settings in the 30% most deprived areas were less likely to be profitable than those in the 70% least deprived areas (51% and 66% of each, respectively). Settings under voluntary ownership/ management were more than twice as likely to have made a loss as those under private ownership (31% and 12% respectively).

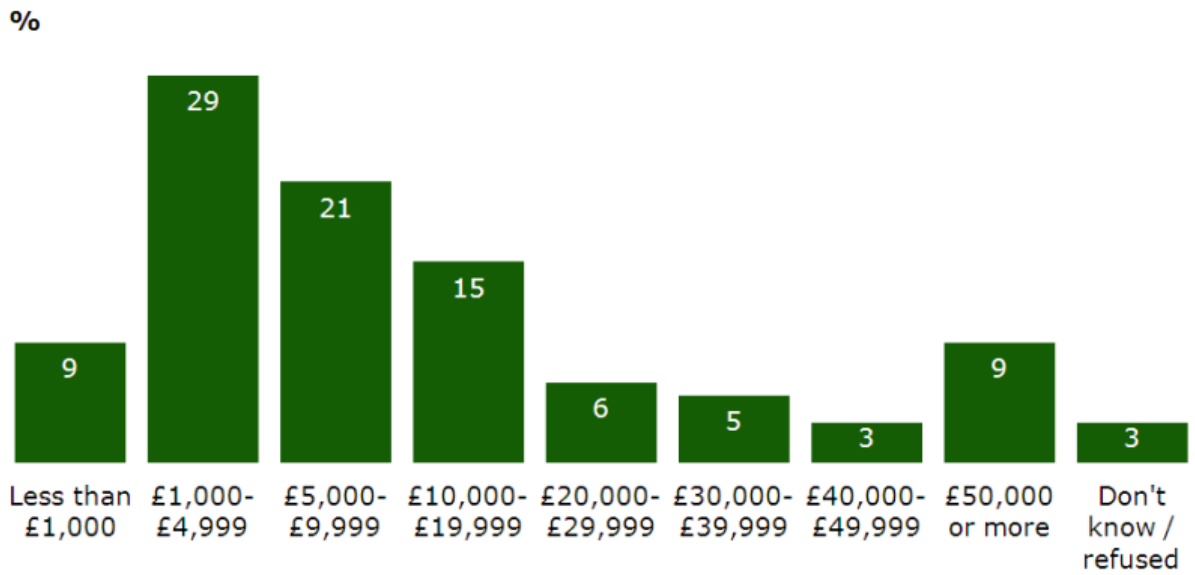
Interestingly, there was little difference between settings with medium and high occupancy rates, but those with a low occupancy rate (i.e. with less than 60% of their available places taken on a typical day) were around twice as likely to be loss-making (42%). This suggests that while there is some allowance for slack in providers' business models, occupancy rates do need to be kept relatively high for settings to break even.

Because childcare provision represents only a part of the range of services offered by children's centres, this group was asked a separate question about profitability, which asked them to focus specifically on the childcare aspect of their offering. Overall, 22% of children's centres offering full day care had made a profit or surplus on it, while 32% had broken even and 42% had made a loss.

6.2 The scale of profit and loss

Settings that made a profit or surplus were also asked *how much* profit or surplus they had made. The average pre-tax amount amongst group-based settings was £14,300, while the median profit was £5,300. However, there were very sizeable differences in the level of profitability of each setting, as shown in Chart 6.2. Six in ten settings that made profit or surplus, generated less than £10,000 (59%), while at the other end of the spectrum, around one in ten profit-making settings generated £50,000 or more (9%).

Chart 6.2 – The amount of pre-tax profit or surplus made over 12 months
Base: All group-based settings (excluding children's centres) which made a pre-tax profit (571)



This broad range in profitability was reflected in differences between different types of settings. Small settings that made a profit or surplus typically brought in £7,100, while medium settings generated £10,800 and the average amongst large settings was much higher, at £21,100. There was little difference in the level of profitability between settings in the 30% most deprived areas (£15,900) and those in the 70% least deprived areas (£14,000), though it should be remembered that fewer settings in the most deprived areas were profitable overall, as discussed in Section 6.1. Offering a variety of different types of care did not seem to guarantee higher profit levels. Settings offering only a single type of care averaged £14,800, while those offering two types of care averaged £11,100, those with three types of care averaged £13,200 and those offering four or more different types of care made £19,800.

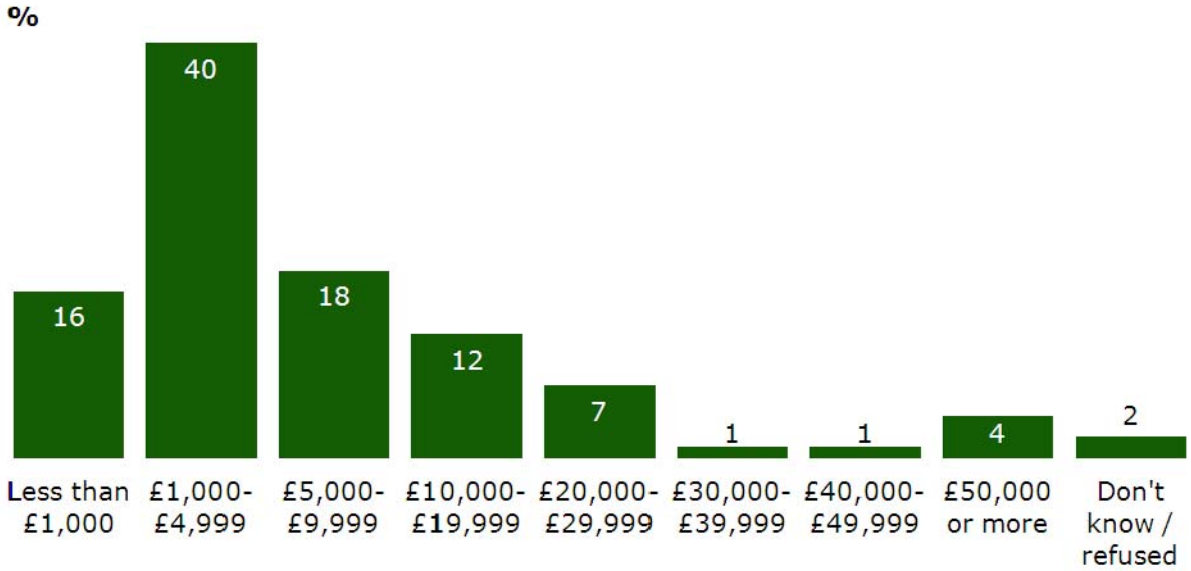
Settings which were run on a 'for profit' basis brought in an average of £22,100, while those that were set up as 'not for profit' organisations made an average surplus of £9,200 (again, it should be emphasised that all of these figures relate only to those settings that did actually generate a profit or surplus).

Amongst those settings that were in the black, the average profit of settings with an 'outstanding' Ofsted rating was £17,900, while that of settings rated 'good' was £15,400 and settings with a 'satisfactory' rating typically brought in £12,200.

Settings that included full day care as part of their offering typically generated more profit/surplus than those which included sessional care in their offering (£18,300 and £11,900 respectively).

Chart 6.3 – The amount of loss made over 12 months

Base: All group-based settings (excluding children's centres) which made a loss (224)



Settings that had made a loss were also asked to specify the scale of that loss. The average loss was £8,700, while the median loss was £2,600, though again there was significant variation in the scale of losses, with a small minority of settings falling £50,000+ into the red (4%). The total base size for

loss-making settings was smaller than that for settings making a profit or surplus, so there is less scope for sub-group analysis. However, there are indications that the absolute size of losses tended to be higher amongst large settings than was the case for medium or small settings. It also appears that the scale of losses in voluntary run settings was smaller than that in settings that were privately run.

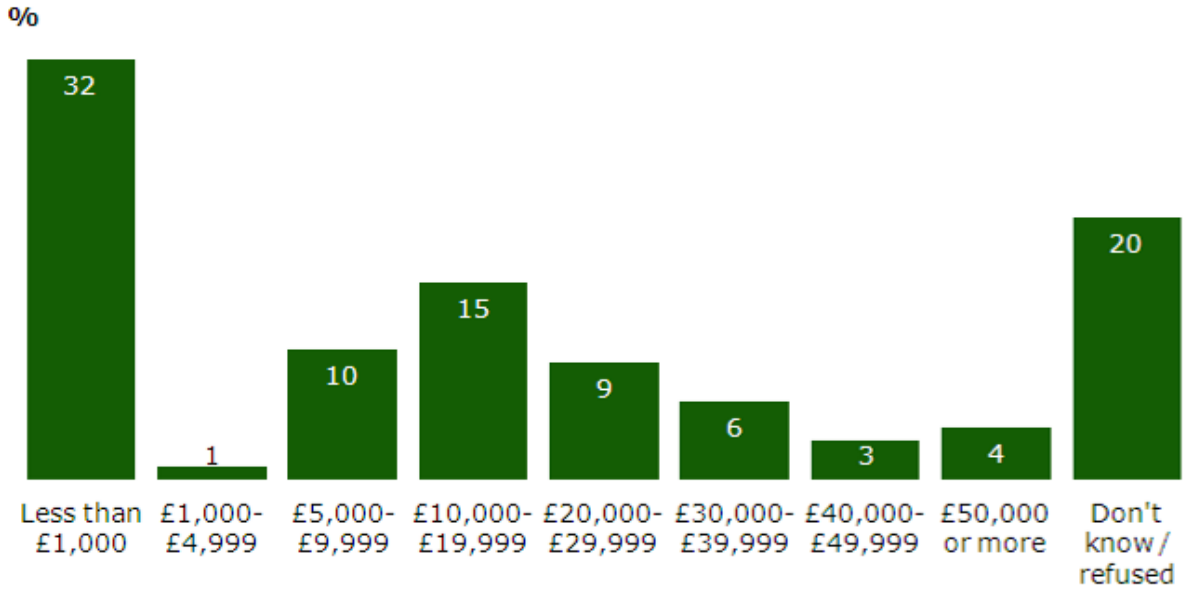
6.3 The salary drawn by owners

The average salary drawn by the owner or owners of group-based settings (that were not set up as a charity or non-profit organisation) was £13,500. Though base sizes were small for some sub-groups, there are indications that this was lower in small settings (£7,900)[14] than was the case in medium (£13,800) and large (£14,900) settings. Again, there was significant variation across the sector, with almost a third of owners drawing no salary over the preceding 12 month period, and more than half taking a salary of less than £20,000 (58%). There was a small minority of settings where the owners drew more than £40,000 in salary (7%), though it is possible that in some cases these settings may have been under joint ownership (thus reducing the income per-owner accordingly).

Because this was a particularly sensitive question, a relatively high proportion of settings refused to divulge this information (20%), which could potentially have impacted on the average salary data. It should also be noted that a significant proportion of owners drew less than £1,000 in salary (32%). In such cases this can generally be attributed to the fact that owners did not draw a salary per se, and instead drew their income from any profit generated by the setting. This is discussed in more detail below.

[14] NB There was a low base size for small settings (47 respondents)

Chart 6.4 – The amount of salary drawn by the owner / owners over 12 months
Base: All group-based providers (excluding children's centres) that are not a charity or non-profit organisation (348)



The salary of owners in the 30% most deprived areas was typically lower than that in the 70% least deprived areas (£11,300 and £14,100 respectively).

As one might expect, the owner's salary in settings with a high occupancy rate was higher than that in settings with low occupancy (£14,900 and £9,800 respectively). Likewise, the owners of profitable settings drew larger salaries than those in settings that were making a loss (£15,400 and £5,500 respectively[15]).

While there were differences in the salary drawn by owners, according to what type of setting they ran, it should be noted that for **all** sub-groups, the average earnings of owners were significantly lower than the UK median earnings of £26,200 for full time employees[16]. As we have already discussed, the pay of staff employed by settings is increasing (driven in part by increases in qualification levels). At the same time, many settings find that they are unable to increase the fees that they are charging parents in the current economic climate. As such, owners of 'for profit' childcare settings are faced with reductions in their own income, unless other variables in the market change (for example via an increase in attendance through expansion of free childcare places, or changes to the subsidy structure).

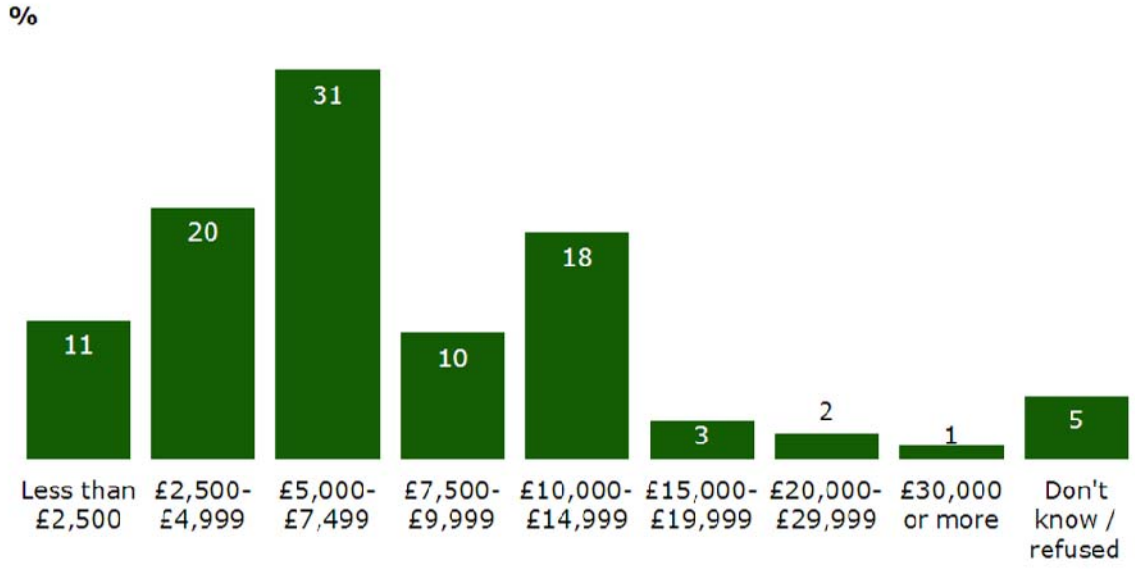
[15] NB There was a low base size for settings making a loss (48 respondents)
[16] 2011 Annual Survey of Hours and Earnings (SOC 2000), Statistical Bulletin, 23rd November 2011

For group-based providers there was a slightly grey-area when it came to overlap between profitability and the salary of the owner/owners of the setting. Respondents were asked to separate the two factors in their answers, but there were indications in the data that some respondents may not have done this. If we focus on for-profit full day care providers, the average profit (including those settings that made a loss or broke even) was £13,600. The average salary of the owners of such settings was £13,700. Assuming that there was no double counting at all between salary and profitability, that all settings were owned by only a single person (i.e. so that profit and salary were not divided), and that none of the profit was to be reinvested in the business or shared with co-investors, this would give a theoretical maximum average income of £27,200 for setting owners. Even with these many assumptions, this figure is essentially in line with the UK median earnings of £26,200. As such, it does not appear that excessive income is typically being generated, even amongst the 'for profit' settings.

6.4 Income from childminding

After deducting all costs relating to their provision, childminders earned an average annual income of £7,600. On average they worked on between four and five days per week, though we did not record the number of hours they worked each week in this survey (and, in some cases, childminders may have worked part-time hours on some or all of the days they worked on)[17]. Again, this is significantly lower than the UK median earnings of £26,200 for full time employees[18] and only 3% of childminders earned an annual income of more than £20,000 after costs. Almost three quarters of childminders had an annual income of less than £10,000 (72%).

Chart 6.5 – The annual amount of income from childminding after the deduction of costs
Base: All childminders (177)



[17] Further information on childminders' hours and income can be found in the main Childcare and Early Years Providers survey series

[18] 2011 Annual Survey of Hours and Earnings (SOC 2000), Statistical Bulletin, 23rd November 2011

Childminders were also asked what annual income they aimed to achieve through childminding. On average, childminders targeted an annual income of £10,600, which represents a substantial increase of approximately 40% on current average income levels.

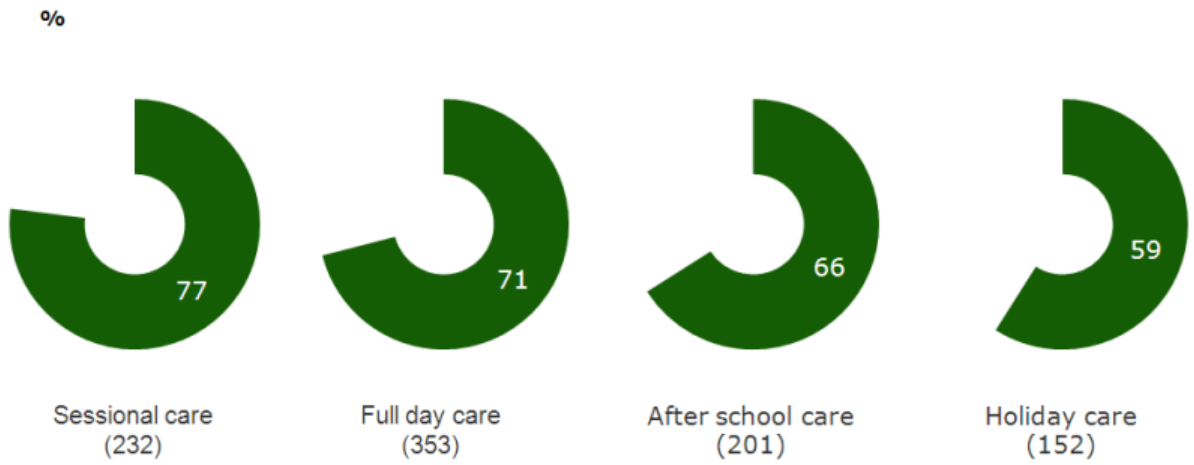
At the top end of earnings, 1% of childminders targeted an income of £30,000-£39,999, while 10% of childminders aimed for the £20,000-£29,999 range. However, 38% of childminders had target earnings of less than £10,000, so there is a broad range of aspirations within the sector. Nevertheless, 74% of those answering said that they aimed to bring in a higher income from childminding than was currently the case.

6.5 Proportion of places that must be filled to generate a profit or surplus

Settings were asked to estimate the proportion of places that needed to be filled in order for a specific type of care to generate a profit or surplus. Chart 6.6 shows that the occupancy rate that was necessary for a profitable business varied significantly according to the type of care offered. Sessional care required the highest occupancy rates – on average, more than three quarters of sessional places (77%) needed to be filled in order to generate a profit or surplus. Indeed, one in five settings offering sessional care (19%) said that they needed to fill 96-100% of their places in order to generate a profit/surplus, showing that a significant proportion of sessional provision operates on very narrow margins.

Chart 6.6 – The percentage of places that must be filled for a specific type of care to be profitable or generate a surplus

Base: All settings asked about each specific type of care



The figures for full day care settings were similar to those for sessional care – 71% of places typically needed to be filled to generate a profit or surplus, and 15% of those asked about full day care said that they needed to fill more than 95% of their places.

However, there was less need for after school and holiday care providers to fill their places. After school care required two thirds of places to be occupied in order to generate profit (66%), while holiday care needed only 59% occupancy.

Children's centres which offered full day care provision were also asked this question, and it was this specific type of provision that required the highest occupancy rates. In children's centres, an average of 84% of places needed to be filled in order to push finances into the black. Indeed, around 6 in 10 children's centres offering full day care (56%) said that they needed to fill more than 80% of their places to generate a profit or surplus. From the main Childcare and Early Years Providers Survey 2010, we know that the mean hourly fee for full day care in children's centres is actually higher than that of full day care offered elsewhere (£4.10 and £3.70 respectively). As such, the need for children's centres to fill a greater proportion of their places suggests that they face larger overheads per child than is the case for other full day care settings.

6.6 Profitability of different care types

Group-based settings that offered more than a single type of care were asked whether each of the care types they offered was profitable or not. Overall, full day care was seen as being the care type most likely to generate profits - 55% of those who offered full day care as part of a multiple offering found that it was profitable. After school (47%) and sessional provision (44%) were also widely seen as profitable by the settings that provided them as part of a broader multiple offering.

Before school care was the least likely type of multiple provision to be seen as profitable (33%), followed by holiday care (39%). Indeed, before school care and holiday care were actually described as loss-making for a significant proportion of settings (23% and 25% respectively). This would seem to suggest that in some cases these care types are being offered as a means of generating subscriptions to the more profitable (particularly full day care) types of care offered by a given setting – a kind of loss leader for parents who need extended hours provision.

7. Investment needs

In this section, we discuss the areas of provision which most require investment and look at future investment plans

Wordle 7.1 – Specific words used to describe the main area requiring investment
Base: All group-based settings and childminders (1,222)

7.1 The highest priority for investment

To gain insight into investment priorities, settings were asked what area they would invest in if they could choose only one. The 'wordle' above gives a snapshot of the words which cropped up most frequently in the verbatim responses to this question. Two themes immediately stand out; investing in staff and training; and investing in the environment the children have around them, in terms of buildings, equipment and outdoor spaces.

When coding these raw verbatim comments into groups, the picture remains the same; the three areas most commonly cited by group-based settings as needing investment were the buildings (27%), staff (25%) and outdoor spaces (22%).

When talking about the need to invest in buildings, most providers talked about a need to simply update or enhance existing facilities. However, it was apparent that some settings had genuine issues, with several respondents mentioning that they were using portacabins or were based in settings that had originally been designed for another purpose and hadn't been fully adapted for their new purpose. Others highlighted genuine issues with the state of repair of their premises.

> The flooring is poor, part of it is wooden and the kids get splinters from it. Part of it is concrete and it has got no covering on it.

When discussing the need to invest in staff, settings focused on the need to increase staff wages, to conduct additional training and development and to recruit more highly qualified members of staff.

> I'd like to get a safety-surface put in and a climbing frame. The perimeter fence needs replacing.

Those mentioning outdoor spaces as their number one investment area frequently mentioned a desire to have a larger outdoor space (though obviously this would be a very difficult area to address in most cases, as adjoining land would not typically be available). Others focused on specifics, such as installing specific play surfaces or items such as sand pits or sunshades.

The next most frequently mentioned area for investment was equipment for children to use (16%), covering a broad range of areas including toys, games, learning materials, art materials, crash mats and specialist items for children with disabilities.

Other areas requiring investment were less frequently mentioned by group-based providers. One in twenty of them (5%) raised the need to invest in IT equipment, while there were other infrequent mentions of furniture (2%), marketing (2%), storage (1%), vehicles (1%) and the introduction of other types of care (1%).

Delving a little deeper reveals some differences between certain provider subgroups. Private providers were more focused on the need to invest in the setting's building and less focused on staff investment (31% of private providers mentioned buildings and 21% mentioned staff). However, settings that were part of a chain were significantly less likely to mention buildings as the main area requiring investment (13% vs. 28% of independent settings).

For large settings, investment in outside space was mentioned more frequently than a need to invest in staff (25% and 22% respectively).

It is also interesting to note that those with 'satisfactory' Ofsted ratings were less likely to highlight staff as the main area requiring investment than those with 'outstanding' ratings (21% compared with 33%). The priority for 'satisfactory' settings was more focused on outdoor spaces (30%) and equipment for children to use (18%). At first glance, this may seem to suggest that lower performing settings have simply got more basic investment needs than is the case for higher performers. However, when asked if they felt that enough had been invested in the setting over the past two years, there was little difference in the responses of low and high performing settings (around seven in ten felt that there had been sufficient investment). As such, the differences in the focus of investment needs should perhaps be viewed as a difference in priorities rather than being strictly driven by necessity.

Settings in London were less likely to cite the need to invest in outdoor space than those in other areas, potentially due to the reduced scope to offer outdoor areas in densely populated areas such as London.

Unsurprisingly, for childminders investment in staff was less frequently cited as the main investment need than was the case for group-based providers (11%). Those who did mention this area often focused on training and development needs.

The main investment priorities for childminders were equipment for the children (30%), outdoor spaces (24%) and buildings (19%), while a further 8% of childminders mentioned a need to invest in IT equipment.

7.2 The extent to which investment is needed in specific aspects of provision

Providers were asked to rate how urgently investment was needed in a number of specific areas, in relation to one of the particular care types they offered[19]. The highest mean score for any item was 4.6, the average given by full day care providers in relation to the need to invest in staff training, whilst the lowest was 1.4, given by childminders in relation to needing additional staff. In general, mean scores for full day care, children's centres and sessional care were higher than for afterschool care, holiday care and childminders, suggesting that the former provider types generally felt investment was more urgent.

However, there are two important points to note. Firstly, there is no single investment category which received an average that was so high that it signified a strong need for investment across the whole sector. Even the highest mean score (4.6) is still a relatively low score on a 10 point scale – it indicates that there is a sense amongst providers that there is some need for staff training, but that it isn't generally seen as a pressing concern. Secondly, there was not a great deal of variance in the mean scores across the different investment areas. Broadly speaking, the investment scores appeared in two clusters; investment in books, additional staff members, furniture and kitchen facilities all had mean scores of around 3; outdoor spaces or playgrounds, staff training, repairs and decorations, toys and art materials, and computers were clustered around a mean score of 4.

Whilst means give a good average measure of investment needs, an alternative (and perhaps more revealing) measure is to focus on the proportion of settings giving a rating that suggests investment in a given area is *urgently* needed. For the purposes of our analysis, urgent investment has been defined as a score of eight or more out of ten and Table 7.1 shows the percentage of providers giving such a score to each area of investment. Relatively high scores are highlighted in red, while relatively low scores are highlighted in blue.

[19] On a scale where 10 means investment is urgently required and 1 means investment is not required at all

Table 7.1 - Percentage of providers who felt investment was needed urgently (area by care type)
Base: All settings asked about each specific type of care

Investment area	Full Day Care (excl. children's centres) (353)	Sessional care (232)	After school care (201)	Holiday care (152)	Children's centres (107)	Childminders (177)
Outdoor spaces / playgrounds	16	22	14	13	15	16
Computer equipment	15	14	21	15	11	15
Repairs / decoration	17	17	16	17	11	12
Staff training	16	15	13	14	11	17
Additional staff members	13	11	13	11	14	3
Toys & art materials	11	8	13	16	11	12
Kitchen facilities	9	12	12	11	4	5
Furniture	6	8	9	7	2	6
Books	5	6	8	7	5	6

While there was some degree of variation depending on the type of care being offered, across all providers a significant minority felt there was an urgent need for investment in outdoor spaces/playgrounds (particularly for sessional provision) and computer equipment (particularly for after school provision). There was a similar need for investment in repairs/decoration of buildings and staff training, though childminders and children's centres were less focused on repairs/ decoration than other providers.

Only around one in ten providers flagged investment in additional staff as an urgent investment concern. This could be seen as an indication that under-staffing is not a major problem in the childcare sector, a factor which may well be related to the relatively strict controls on staff to children ratios that exist. Unsurprisingly, very few childminders raised this as a major investment concern (3%).

Furniture and books were rarely seen as areas requiring urgent investment.

7.3 Past and future investment levels

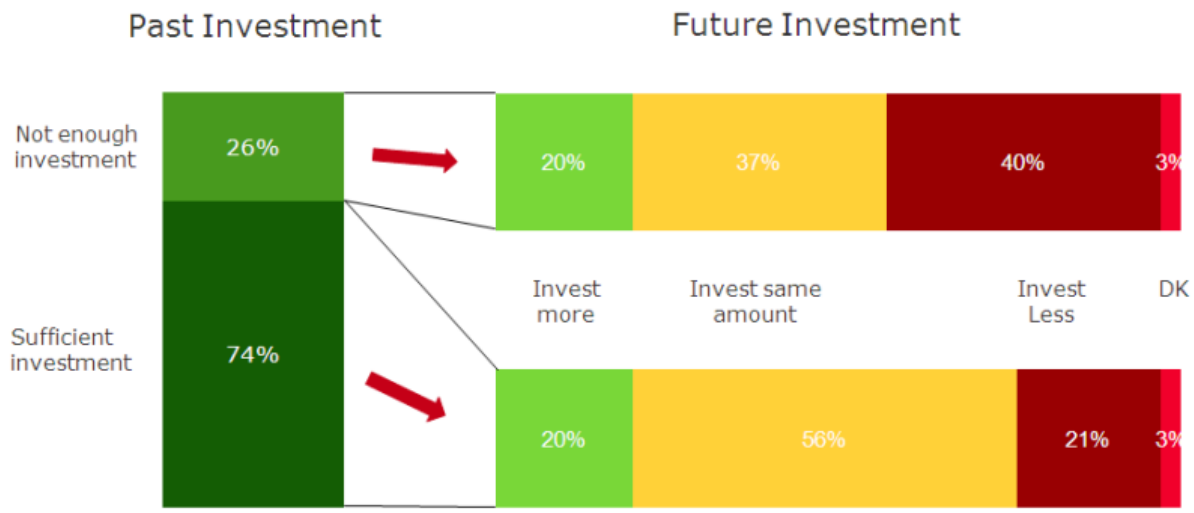
A quarter (26%) of group-based providers felt that over the past two years not enough had been invested into their childcare provision to maintain or improve standards. 'Not for profit' providers were more likely to feel they had under-invested than was the case amongst 'for profit' settings (28% compared with 21%). Those with low occupancy rates were also more likely to feel that there had been under-investment over the past two years (34% compared to 23% with high occupancy rates). Connected to this, providers who made a loss were far more likely to feel that there had not been enough investment in their setting (38% compared with 21% of those who made a profit or surplus).

Childminders were more positive about recent investment; only 16% felt there had not been enough investment in their provision over the past two years.

When asked about likely levels of investment over the next two years, a quarter (26%) of group-based providers felt that they would have to invest less than they had done over the past two years. Furthermore, those who felt that investment had been lacking in the past were also more likely to report they would have to invest even less in the future, as shown in Chart 7.1.

In this chart, the top horizontal bar displays the likely future investment of those that thought they hadn't invested enough in the past, while the bottom bar relates to those who had invested sufficiently in the past.

Chart 7.1 – Future investment broken down by previous investment
Base: All group-based settings (1045)



Only 21% of those who felt they had sufficient investment in the past said they would have to invest less in the future. The equivalent proportion is higher (40%) amongst those who felt there had been insufficient investment previously, suggesting that those who have struggled with investment in the past are likely to find the going even harder in future (and that the gap between high and low investors will actually widen in the future).

A potentially positive finding is that those with 'satisfactory' Ofsted ratings were more likely to say that they would be able to invest more in the coming years than those with 'outstanding' ratings (28% and 17% respectively). This suggests that there is scope for upwards mobility in ratings (at least in so far as concerns improvement that can be achieved through financial as opposed to managerial factors).

Perhaps surprisingly, the profitability of settings had little effect on future investment plans, suggesting that some providers may be working on the assumption that they need to invest now in order to return their business to profit in the future.

Two-thirds (64%) of childminders felt that they would be able to invest the same amount in the future as they had done over the last two years. Only 13% thought they would have to invest less while 20% thought they would invest more, giving a positive overall picture in terms of the future investment plans of childminders.

8. Conclusions

There is evidence to suggest that the affordability of childcare is a significant concern for parents. This report is intended to shed light on what is driving the costs of childcare and to suggest areas where further exploration would be beneficial.

As we have seen in Chapter 3 of the report, staff costs were clearly the largest single element that contributed to the total costs of group-based settings. On average, amongst all group-based settings, staff costs accounted for an average of 77% of total costs. However, not only are staff costs currently the main overhead for group-based providers, but there are also significant factors at play in the market which are continuing to force staff costs upwards.

Evidence shows that the level of qualifications held by the workforce is a significant factor in determining the quality of childcare, which in turn has a positive and lasting impact on children's development, and later attainment and behaviour[20]. Over recent years, there have been positive initiatives to improve the qualification levels of the childcare sector workforce and these have yielded a significant increase in the number of workers holding relevant childcare qualifications. However, as qualification levels rise, so too do the pay demands of the workforce. This is a trend which has already been apparent in the data from the Childcare and Early Years Providers Survey series, where the average salaries of the childcare workforce have been increasing more quickly than salaries in the broader population since 2003 (although, it must be noted, pay levels for the sector remain significantly below the UK average wage[21]). Statutory increases to the minimum wage also affect some of the childcare workforce, though this is currently increasing at a below inflationary rate and represents less of a cost pressure than the wages of higher-earning staff.

While it is undoubtedly possible to earn a good living from childcare provision, it is striking that even if we apply the most generous assumptions about the profitability and salary of those who run a 'for profit' setting (as discussed in Section 6.3), their average income is still only in line with UK median earnings. Furthermore, a significant proportion of the group-based childcare sector is run on a 'not for profit' basis, which intrinsically lends itself to modest recompense to the leadership of settings. Meanwhile, childminders had an average annual income of £7,600 after costs were deducted. Many providers have frozen their fees during the recessionary period, whilst still having to deal with rising costs for utilities, staffing and materials used in the course of their provision. Bearing all of these factors in mind, there is little evidence of profiteering within the sector.

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[20] Sylva, K., Melhuish, E., Sammons, P., Siraj-Blatchford I., and Taggart, B (2008). 'Effective Pre-school and Primary Education 3-11 Project (EPPE 3-11). Report from the Primary Phase: Pre-school, School and Family Influences on Children's Development during Key Stage 2 (Age 7-11)'. DCSF Research Report 061.

[21] For example, the 2010 survey recorded average hourly pay ranging from an average of £7.80 per hour in sessional providers, up to £10.90 per hour in children's centres offering full day care. The UK mean hourly pay rate at that time was £14.60.

It should be mentioned that there are complex external factors which may influence providers' costs and profitability in the future, though it is difficult to be sure what impact they may have. The market is currently functioning at a time when most providers have spare capacity – this would suggest that there should be competition between providers to secure attendance numbers, pushing fees down. We know that there will be an increase in future demand on capacity stemming from demographic factors, as there will be an additional 458,000 children aged 0-10 between 2012 and 2020. If there is no commensurate increase in supply to meet the additional demand created by these demographic changes (and by the extension of the free entitlement to some two year olds), there may be upward pressure on fees in the future.

It is clear that staff costs are the dominant driver of overall costs for group-based providers (which constitute the bulk of childcare provision). Furthermore, the increasing qualification levels of those working in childcare, coupled with the comparatively low wages within the sector at the present time, suggest that reducing staff costs by lowering salaries would be problematic. Therefore, if staffing costs are to be reduced, then changes to the staff:child ratios in settings would seem to be the approach that could potentially have the greatest impact. Staff to child ratios are one of the key drivers of cost and if these were to be relaxed, this may serve to reduce fees, assuming that any savings would actually be passed on to parents. However, there are clearly practical challenges in taking this approach, as adequate staffing is important to support children's development and ensure their safety. The current regulations on minimum staff:child ratios have been in place for several years and there are many providers who choose to have higher staff:child ratios than is legally required. That said, the regulatory regime and the impact of any changes to staff:child ratios on provider costs is worth further exploration.

Government subsidies also affect the affordability of childcare for parents. Currently, low income working families can access financial support towards the cost of childcare through working tax credit and some parents also receive support towards the cost of childcare through tax relief on employer supported childcare vouchers (if their employer offers this benefit). The Government is also in the process of extending the current free entitlement to early education, for all three and four year olds, to around 40% of two year olds. Bearing in mind the issues outlined in this report, further consideration of the impact and effectiveness of these different funding streams on childcare affordability would likely be beneficial.

9. Appendix A – Sample Profile

In this section, we outline the key defining characteristics of the providers that were interviewed

Chart 9.1 – Types of care offered by group-based settings
Base: All group-based settings (1045)

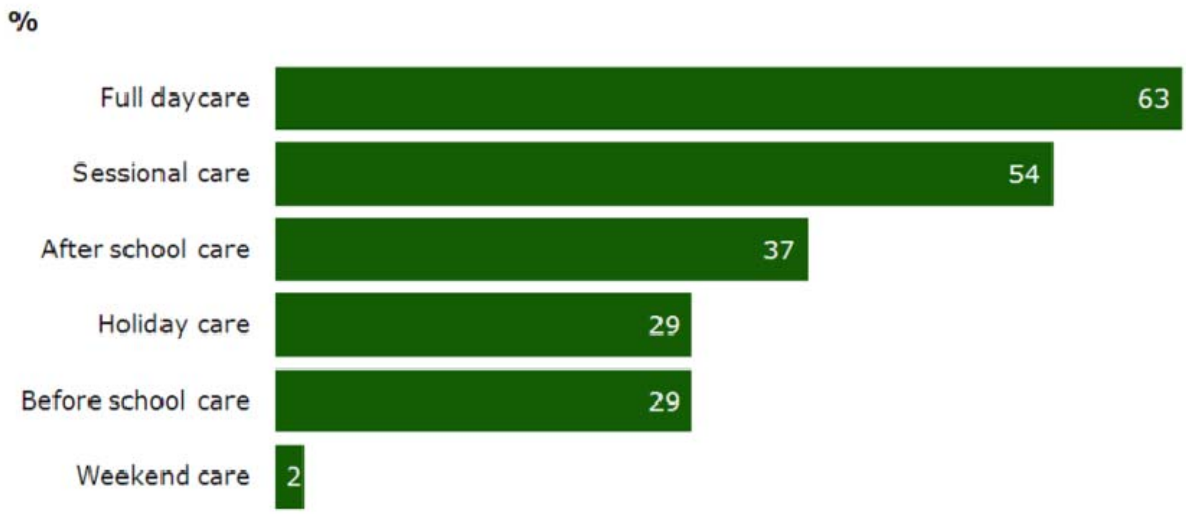


Chart 9.2 – Ownership/management of group-based settings
Base: All group-based settings (1045)

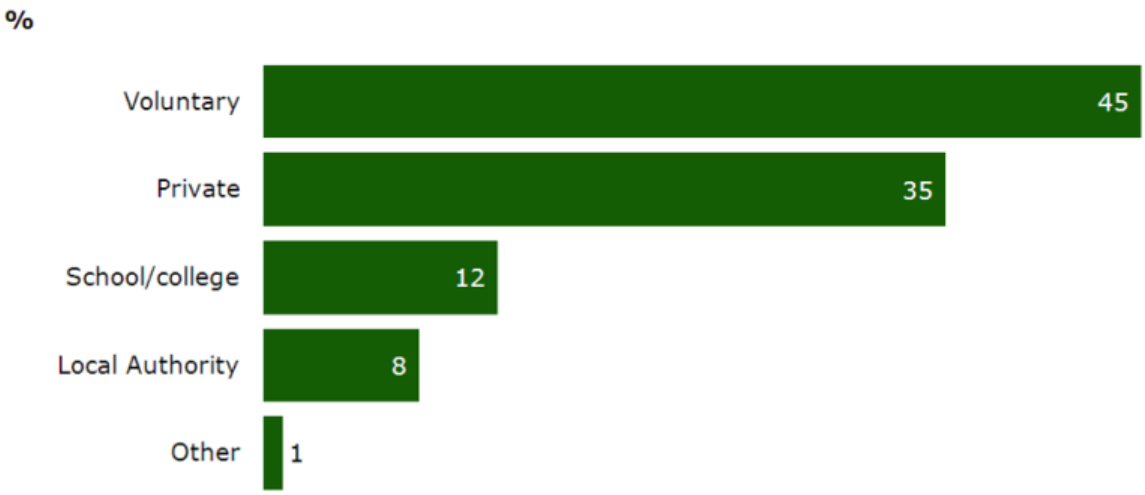


Chart 9.3 – Whether setting was set up as a charity or non-profit making organisation
Base: All group-based settings (1045)

Chart 9.4 – Whether setting was independent or part of a chain
Base: All privately or voluntary owned group-based settings (756)

Chart 9.5 – Average number of children attending setting on a typical day
Base: All group-based settings specifying number of children attending all of their care types (1035)

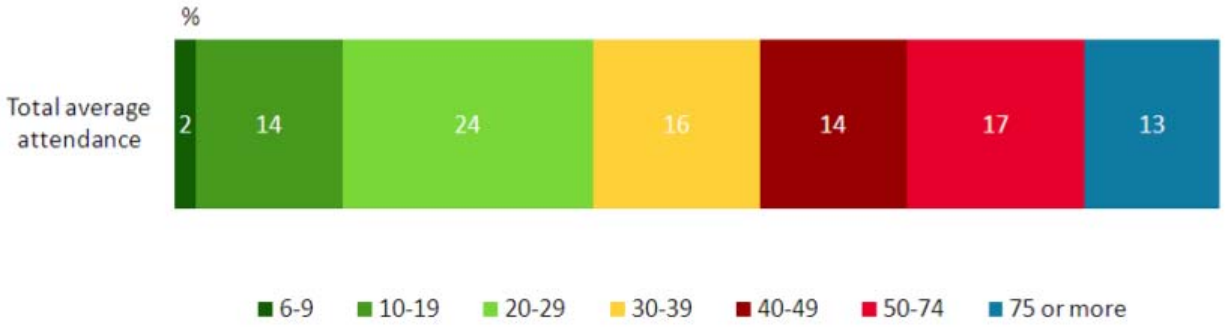


Chart 9.6 – Average number of vacancies across all care types on a typical day

Base: All group-based settings specifying number of vacancies for all of their care types (1006)

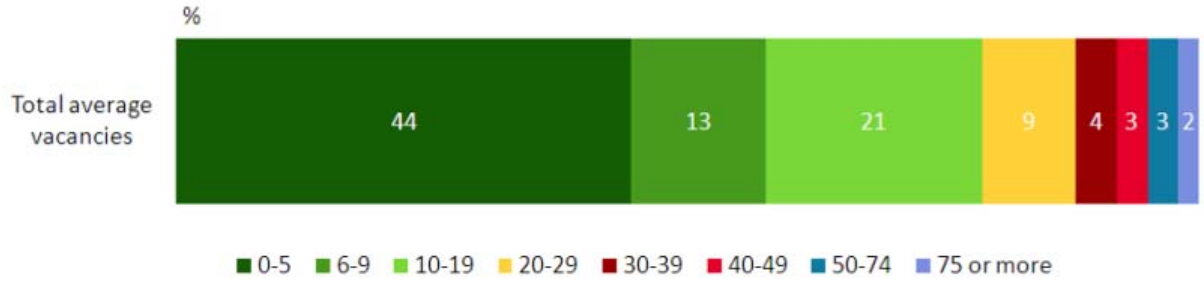
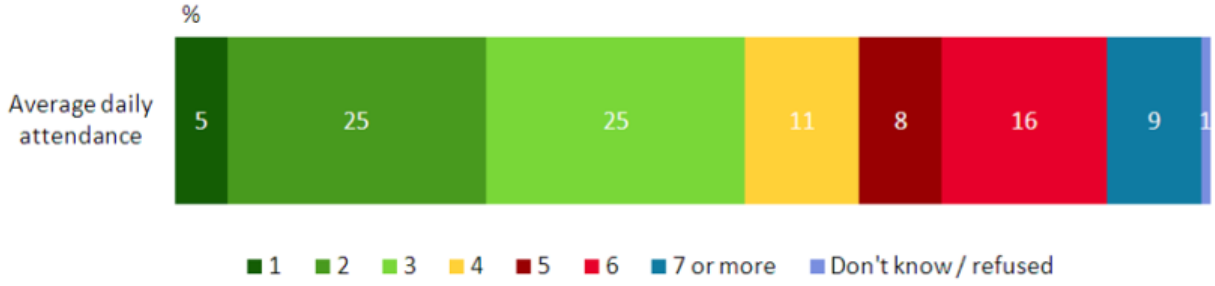


Chart 9.7 – Average number of children that childminders are paid to care for on a typical day

Base: All childminders (177)



10. Appendix B – Technical Report

In this section, we summarise the survey methodology, with a particular focus on sampling, weighting and response rates

10.1 Sample design

The purpose of the Childcare Provider Finances Survey was to measure the costs, income and profitability of settings in the childcare industry as a route to better understanding the factors that impact on the cost of childcare provision in England. As such, the sample design was chosen to ensure sufficient interviews for the required analysis, while allowing for the timely provision of data.

With this in mind, the sample frame for the survey consisted of settings that had previously taken part in the Childcare and Early Years Providers Survey 2010[22]. The aim of the Childcare Provider Finances survey was to be representative of all group-based childcare providers in England and of all Childminders in England, hence the 2010 weighted dataset provided the population of interest.

In the 2010 survey, providers were asked to focus on one type of care pre-selected randomly by the sampling team. This then defined the group that the provider fell into for the purposes of the survey. The Childcare Provider Finances survey then selected a set number of settings from each of these groups, as follows in Table 10.1:

Table 10.1 - Sample selected

Group	Number
Full day care	800
Sessional	400
After school care	500
Holiday care	450
Children's centres offering full day care	314
Childminders	480
Total	**2944**

The number sampled was based on the target number of interviews and estimates of response rates calculated from previous surveys. As there were so few children's centres available all cases that had agreed to being recontacted were issued.

[22] And had agreed to be recontacted

The sample was stratified by the type of provision each settings offered and were asked about in 2010, and then ordered by Region, ownership (private, voluntary, LA and schools), deprivation levels, the number of children and number of staff, before a 1 in n selection was made.

10.2 Fieldwork

The survey was conducted using a Computer Assisted Telephone Interviewing (CATI) method, between Monday 9th January 2012 and Tuesday 6th March 2012. Interviews were carried out by 24 of Kantar Operations' fully trained telephone interviewers.

For the group-based settings, the senior manager of each setting was sent an advance letter informing them that TNS-BMRB would be contacting them and explaining what the research would cover. The letter was addressed to the named senior manager, as taken from the 2010 survey. In addition to the letter, they were sent a datasheet, which they were asked to complete prior to the interview. The datasheet included a number of detailed questions from the questionnaire, covering any topics that the respondent would need to look up in advance. If, when the interviewer spoke to the respondent, they said they had not received the advance documents, further contact details were taken and duplicate documents issued by post, fax or email. The interviewer then agreed a convenient time to call the respondent back. Childminders were also sent a privacy notice alongside the letter and datasheet, while group-based settings were given an online link to the privacy notice in their covering letter.

In total 1,222 interviews were carried out among group-based settings and childminders, of which 1,045 were conducted among group-based settings and 177 among childminders. Certain parts of the questionnaire required group-based providers to focus on only one of the types of care they provided (rather than talking about their setting as a whole). For these sections, of the 1,045 group-based settings; 353 were asked to focus on full day care; 232 were asked to focus on sessional care; 201 on afterschool care; and 152 on holiday care.

The 1045 interviews also included 107 children's centres that offered full day care.

10.2.1 Response rates

Interviewers made a large number of attempts to secure an interview with each sampled setting. Follow-up calls to non-contacts were made at different times of the day and on different days of the week. Whenever it was inconvenient for a respondent to take part immediately, interviewers took appointments as necessary. Table 9.2 displays the final sample outcomes at the end of fieldwork:

Table 9.2 - Response rate

	All sample
Issued sample	2944
Ineligible	147
Eligible sample	2797
Bad number	109
Contactable sample	2688
Refusals	683
Non contacts/ unresolved	779
Achieved	1222
Response rate (on eligible sample)	44%
Response rate (on contactable sample)	45%

10.3 Weighting

The survey data have been weighted so that they can be analysed in two separate ways. For sections of the questionnaire focusing on a single type of care, it is possible to look at each group individually (as per the Childcare and Early Years Providers Survey series) giving the following six groups:

- Full day care
- Sessional care
- After school care
- Holiday care
- Children's centres providing full day care
- Childminders

It is also possible to analyse the results at a combined level, that is representative of all group-based settings regardless of the type of care they provide (this combined group does not, therefore, include childminders).

It should be noted that weighting has been carried out to make the profile of settings representative of settings in 2010. That is not to say that the weighted survey profile will match 2010 exactly, but rather that the settings in our survey were representative of the 2010 profile at the time of their original interview in 2010 – they may, however, have changed profile since then.

10.3.1 Individual tables

Design weights were applied to take account of the probability of selection for the selected sample within each type of care group. As the sample was selected from the final 2010 dataset of those that agreed to be recontacted, there was some difference between the weighted dataset of all respondents that provides the basis for our true population, and the unweighted dataset of only those that agreed to be recontacted.

As providers who disagreed to recontacting were not selected, it is important to take account of characteristics that differ between those agreeing and not agreeing and which have an influence on survey measures. In this case, a key characteristic when looking at financial data is the type of ownership of the provider. Therefore the design weights take into account the skew in terms of ownership to make sure that the profile of providers selected as sample match the population profile.

Non-response weights were then calculated to correct for any further differences in ownership due to survey non-response and to correct for any difference in response by region.

10.3.2 Combined group-based provider tables

As mentioned in Section 10.1 the survey also aims to be representative of the population of all group-based childcare providers in England, as well as each type of provision.

Design weights were applied to take account of the probability of selection of the selected sample. The amount of full day care, sessional, after school, holiday and children's centre sample that was selected was disproportionately sampled and hence created unequal sample probabilities. As settings can run more than a single type of provision the sample (and population) was split into various groups based on the combination of care types they provide:

1. Full day care only
2. Sessional care only
3. Out of school only (School Census sample)
4. Out of school only (Ofsted sample)
5. Full day care & sessional care
6. Full day care & out of school care
7. Sessional care & out of school care
8. Full day care & sessional care & out of school care
9. Children centres

Out of school care contained both afterschool clubs and holiday clubs. These more specific care types were not treated separately for the weighting process, as doing so would have generated 26 different groups, and the base size of each cell would have been too small. The design weights calculated during the sampling process corrected for these unequal selection probabilities and brought the sample profile back in line with the population.

Non-response weights were then applied to correct for any difference in response between providers in each of these groups, as well as ensuring that regional distribution matched the population.

For childminders, design weights were only applied to region (a very small adjustment due to slight differences in those who were willing to be recontacted). A non-response weight was then applied to correct for any difference in levels of response among regions.

10.3.3 Note on conducting analysis

When analysing questions which focus on one of the particular care types offered by a given setting, the individual tables / weight should be used.

When looking at questions asked about the setting as a whole, the combined group-based providers tables / weight should be used.

Childminders are not part of the group-based providers tables / weight. They should always be analysed using the individual tables / weight.

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