



Department  
for Education

# **Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2019**

**Research report**

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# Executive Summary

## Introduction

The Survey of Childcare and Early Years Providers (SCEYP) is an annual large-scale survey collecting information on a broad range of provision characteristics from private providers, voluntary providers, maintained schools and childminders in England. The survey is used to monitor and evaluate early years provision, helping to inform the development of government policy in this area. In 2017, the Department for Education commissioned the National Centre for Social Research (NatCen) and Frontier Economics to conduct the SCEYP on an annual basis from 2018 to 2020. This new programme of research included two surveys: a main SCEYP which continued to collect data on a variety of topics and a new short survey to collect data on hourly fees charged to parents from a sufficiently large sample to deliver robust estimates of mean hourly parent-paid fees at the local authority level.

This report presents an analysis of early years providers' finances using combined data from the main and short surveys for 2019. It also analyses data from the previous survey in 2018 to identify changes over the 12-month gap between surveys. This study builds on a report analysing the financial data for 2018 (Cattoretti et al (2019)) and on a report on Local Authority Fees Statistics for 2019 (Department for Education (2019b)).

The objectives of this work were:

- To present the total cost of delivering childcare for all ages of children in the setting and the total income received by settings, together with their constituent parts, for different types of providers and across different regions in England.
- To explore providers' costs by describing the patterns in the unit cost (cost per child per hour) and staff hourly pay across different types of providers and different regions in England.
- To explore providers' income by describing the patterns in the underlying parent-paid hourly fees and additional charges for parents across different types of providers and different regions in England.
- To consider how these financial measures are related to providers' engagement with policy (defined as having at least one child in receipt of a policy).

It should be noted that the data used in this report was collected prior to the COVID pandemic and will not reflect the financial situation of providers during the lockdown period from March 2020 or during the ongoing situation.



## Methodology

The 2019 SCEYP included a mixed-mode (telephone and online) main survey and a mixed-mode (online and paper questionnaire) short survey undertaken between March and July 2019. Three different datasets from the two surveys were used in this report:

- Dataset A contained a subsample of respondents from the main survey who undertook the financial variant and included information on total cost and total income.
- Dataset B was a combined dataset of the subsample of respondents from the main survey who undertook the fees variants and all respondents to the additional short survey and included information on hourly parent-paid fees and additional charges.
- Dataset C contained a subsample of respondents from the main survey who undertook the staffing variant and included information on staff hourly pay.

All statistics and regression analysis were weighted using specific weights designed for each dataset to help ensure that the findings are nationally representative of group-based providers and childminders registered with Ofsted as of July 2018 and school-based providers in the January 2018 Schools Census.<sup>1</sup> More information about the survey and the information contained in each survey variant is available in the technical reports for 2019 (Marshall et al (2019)) and 2018 (Marshall et al (2018)).

Statistics are presented for five types of providers defined in the following ways:

- **Private** providers: Ofsted-registered privately owned providers operating on non-domestic premises. These included independent schools offering early years provision on site.
- **Voluntary** providers: Ofsted-registered providers run by a charity or voluntary management committee on a not-for-profit basis.
- **Nursery classes**: Maintained early years classes within a primary school with a qualified teacher present.
- **MNS** (Maintained Nursery Schools): Purpose-built maintained schools specifically for children in their early years with a qualified teacher present.

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<sup>1</sup> The Ofsted register and Schools Census were used as the sampling frame for the survey and the weights were designed to match the sampling frames. These sources were used as the sampling frame because they were the most up-to-date sources available at the time of sampling.

- **Childminders:** Ofsted-registered individuals providing early years care in domestic premises.

In addition, “all providers” contained a small number of other providers which were not classified into one of these five types, which included group providers whose management status was not reported; local authority-run settings; and children’s centres.

Because childminders constitute such a high proportion of all providers (54 percent in 2019) but deliver a much smaller proportion of all places (14 percent in 2019) (Department for Education (2019a)), statistics are presented for all providers and for all providers excluding childminders.

The sample used in this report only includes providers with at least one preschool age child (that is, a child who has not yet entered reception class). Some of these providers had children who were school age in addition to having preschool children. The main survey and short survey recorded some information for four different ages of children:

- Children aged under two
- Two-year-old children
- Three- and four-year-old preschool children
- School children

The unit cost used the number of hours received by all children (preschool and school) in the setting. The hourly parent-paid fees are presented for children under age two, two-year-old children, and three- and four-year-old children, but not for school-age children because the hourly fees would not be representative for this age group as they exclude school-age children in provision without any preschool children. Free entitlement funding rates are presented for two-year-old children and for three- and four-year-old preschool children, but not for the other two age groups because the children in these age groups are not eligible for free entitlement funding.

## Total cost and income

Table 1 presents the total weekly cost, total weekly income and income-to-cost ratio for all providers (and all providers excluding childminders) in 2018 and 2019.

Total weekly cost is the total financial outgoings (excluding rent and mortgage payments for childminders) typically paid by providers each week. The mean total weekly cost for all providers was £2,141 in 2019 (and £4,499 for all providers excluding childminders). There was no statistically significant difference in the mean weekly cost between 2018 and 2019. The total weekly cost in 2019 was higher for MNS (£12,909) and private providers (£5,584) than all other provider types and lower for childminders (£454) than all

other provider types, but there was no statistically significant difference in the mean between voluntary providers (£3,560) and nursery classes (£2,851).

**Table 1: Total weekly cost, total weekly income and income-to-cost ratio**

Provider type	Mean total weekly cost	Number of providers	Mean total weekly income	Number of providers	Mean income-to-cost ratio	Number of providers
All providers						
2018	£1,759	1,574	£1,881	1,664	1.27	1,377
2019	£2,141	2,235	£2,872 *	2,248	1.42	1,954
All providers except childminders						
2018	£4,048	1,242	£4,673	1,283	1.43	1,074
2019	£4,499	1,779	£6,387	1,778	1.37	1,563

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: The sample consists of all providers with at least one preschool child. Independent (private school) providers are included in the private category. All statistics were weighted to be nationally representative. The total cost figures for 2018 were revised from those in the 2018 report due to the removal of 14 providers who reported zero total cost, and the total income figures for 2018 were revised from those in the 2018 report due to the removal of 22 providers who reported zero total income (see section 2.2). \* indicates where the mean for 2019 was statistically significantly different from 2018 at the 95 percent confidence level.

This variation in total cost may reflect both differences in provider size and in the amount spent per hour of care for each child. For some providers, the total cost will include the cost of delivering additional and specialist services rather than simply childcare. Additional and specialist services can mean any service outside the core delivery of childcare and early education and cover a range of specialist support for children, family support and system leadership. Specific examples include specialist support for children with special educational needs and disabilities (SEND), other specialist child support (such as English as an additional language), meetings with support professionals about children, specialist family support, general family support, family bonding, working groups and networking, and training and career professional development delivery. Other work has estimated that the costs for these services only constitute 3 percent of all costs, although the average proportion is higher for some provider types (6 percent for nursery classes and 8 percent for MNS<sup>2</sup>). Hence, some of the differences in total cost across different types of provider may reflect variation in the scope of services that they deliver.

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<sup>2</sup> Figure 4 in Paull & Xu (2019).

For all providers, just under three-quarters (74 percent) of the total cost in 2019 was for staff, with 3 percent for mortgage or rent payments, 7 percent for food, 4 percent for materials and 2 percent for training.

Total weekly income is the amount from all sources typically received by providers each week. The mean total weekly income for all providers was £2,872 in 2019 (and £6,387 for all providers excluding childminders) and was higher than in 2018.<sup>3</sup> The mean total weekly income in 2019 was highest for MNS (£11,921) and private providers (£9,375) and lowest for childminders (£400), but there was no statistically significant difference in the mean between voluntary providers (£5,245) and nursery classes (£2,515). Analogous to total cost, this variation in total income may reflect both differences in provider size and in the amount received per hour of care for each child.

**Table 2: Breakdown of income in 2019**

Proportion of income in category	Private	Voluntary	Nursery class	MNS	Child-minder	All providers	All providers except child-minders
Parent-paid fees	47%	25%	12%	10%	75%	59%	32%
Free entitlement funding	41%	63%	74%	69%	13%	29%	56%
Other sources	12%	12%	14%	21%	12%	12%	13%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	420	418	201	52	370	1,483	1,113

Source: Survey of Childcare and Early Years Providers, 2019

Notes: All providers included 22 other group-based providers. Columns may not sum to 100 due to rounding. The proportion received from parent-paid fees was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for nursery classes and MNS. The proportion received from free entitlement funding was statistically significantly different for all pairwise comparisons across the five provider types except for voluntary providers and MNS; and for nursery classes and MNS. The proportion received from other sources was statistically significantly different between MNS and all other four provider types.

On average, providers received 59 percent of their income from parent-paid fees in 2019, with 29 percent from free entitlement funding and 12 percent from other sources (table

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<sup>3</sup> Differences in the mean total weekly income between 2018 and 2019 should not be interpreted as meaning that each setting, on average, experienced an increase in income of around 50 percent. Rather, the statistics show that the mean total income among settings in the 2019 survey was around 50 percent higher than the mean among settings in the 2018 survey. This may have been due to the 2019 survey including more larger settings and the weighting not perfectly compensating for this.

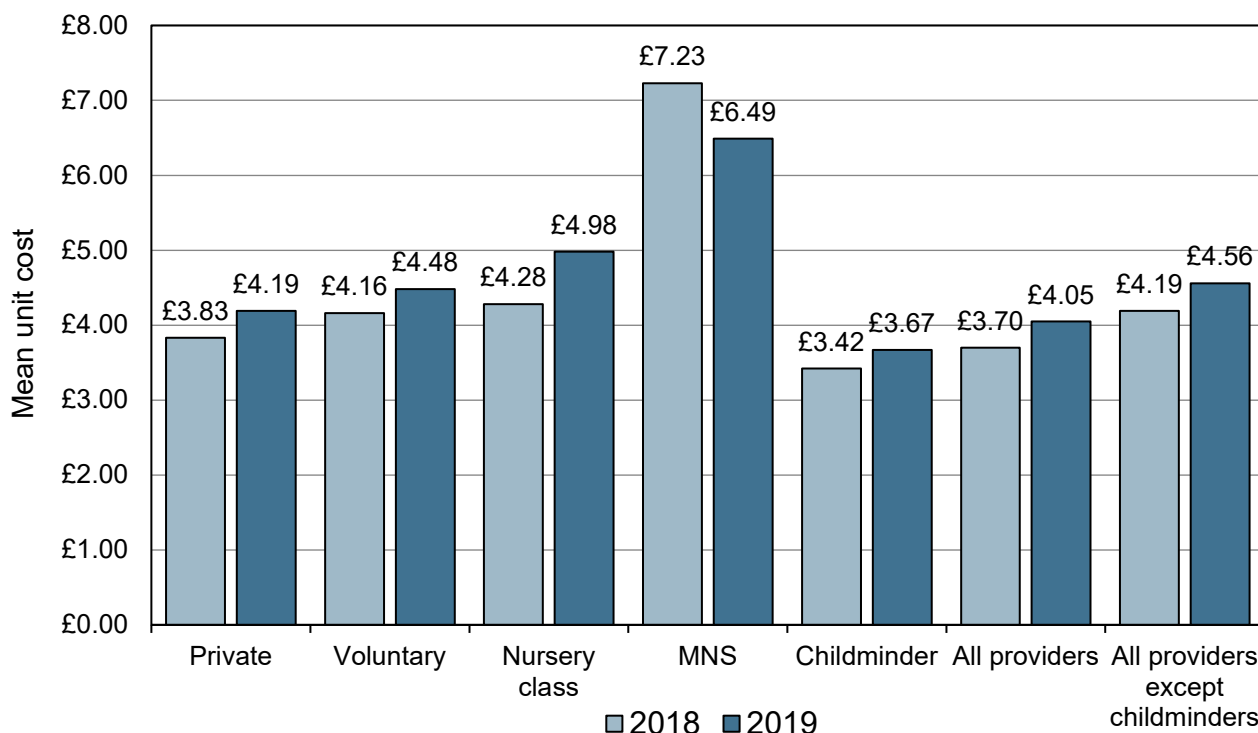
2). However, there were substantial differences in the income breakdown across the five provider types: while private providers received similar proportions of income from parent-paid fees (47 percent) and free entitlement funding (41 percent), most income came from free entitlement funding for voluntary providers (63 percent), nursery classes (74 percent) and MNS (69 percent), while childminders received three-quarters (75 percent) of their income from parent-paid fees.

The income-to-cost ratio is total weekly income divided by total weekly cost. The mean income-to-cost ratio for all providers was 1.42 in 2019 (and 1.37 for all providers excluding childminders) (table 1). This indicates that, on average, total income was higher than total cost and that, on average, providers received £1.42 in income for every £1 they spent on their costs. There were no statistically significant differences in the income-to-cost ratio between 2018 and 2019 for all providers and for all providers excluding childminders. The median income-to-cost ratio (the middle observation when providers are ranked from lowest to highest) was 0.99, indicating that half of providers were around or below the breakeven point where total costs equal total income. The mean ratio in 2019 was highest for private providers (1.58) and lowest for MNS (0.96), but there were no statistically significant differences in the mean ratio between voluntary providers (1.27), nursery classes (1.21) and childminders (1.46).

## **Unit cost and staff hourly pay**

The unit cost is an approximate measure of the average delivery cost per child per hour for all children in the setting. The mean unit cost for all providers was £4.05 per child per hour in 2019 (and £4.56 for all providers excluding childminders) (figure 1). The mean unit cost in 2019 was higher for MNS (£6.49) and lower for childminders (£3.67), but there were no statistically significant differences between the mean unit costs for private providers (£4.19), voluntary providers (£4.48) and nursery classes (£4.98). The mean unit cost for all providers in 2019 was higher than in 2018 and the difference of £0.35 corresponds to an increase of 9.5 percent, but the difference was not statistically significant.

**Figure 1: Unit cost**



Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for private providers, voluntary providers, nursery classes, MNS, childminders, all providers and all providers excluding childminders were 483, 462, 143, 104, 324, 1,544 and 1,220 in 2018 and 619, 528, 413, 86, 416, 2,097 and 1,681 in 2019. All providers included 28 and 35 other group-based providers for 2018 and 2019 respectively. For 2019, the mean unit cost was statistically significantly different at the 95 percent confidence level for private providers and MNS; voluntary providers and MNS; MNS and childminders; voluntary providers and childminders; and nursery classes and childminders. There were no statistically significant differences at the 95 percent confidence level between the mean values for 2018 and for 2019.

Staff hourly pay is gross weekly earnings divided by contracted weekly work hours. The mean staff hourly pay across all providers was £10.90 in 2019 (and £11.18 for all providers excluding childminders). The mean hourly pay for all providers was statistically significantly higher in 2019 than in 2018. The difference of £1.02 between 2018 and 2019 corresponds to an increase of 10.3 percent and is statistically significantly higher than the annual growth in mean gross hourly earnings over the same period of 3.4 percent for all employees and 2.6 percent for female employees.<sup>4</sup>

The statistically significant increase in staff hourly pay of 10.3 percent between 2018 and 2019 was of a similar magnitude to the non-significant increase in the unit cost of 9.5 percent from 2018 to 2019, reflecting that staffing accounts for a substantial proportion

<sup>4</sup> Female employees made up 96 percent of staff in group-based and school-based providers and 98 percent of childminders in 2019 (see table 24 in the accompanying tables to Department for Education (2019a)).

(74 percent) of all costs. There are two reasons for the difference in statistical significance:

- The estimate of mean hourly pay is based on a much larger sample size than the estimate of mean unit cost, in both years.<sup>5</sup>
- The threshold used for statistical significance is 95 percent, which is the level typically used. At this level the difference in hourly pay is significant; the unit cost is not.<sup>6</sup>

Mean hourly pay in 2019 was higher for nursery classes (£18.92) and MNS (£15.52) and lower for childminders (£8.89), but there was no statistically significant difference between the means for private providers (£10.58) and voluntary providers (£10.25). Mean hourly pay was higher in 2019 than in 2018 for private providers, voluntary providers and childminders, but there were no statistically significant differences in hourly pay between 2018 and 2019 for nursery classes and MNS.

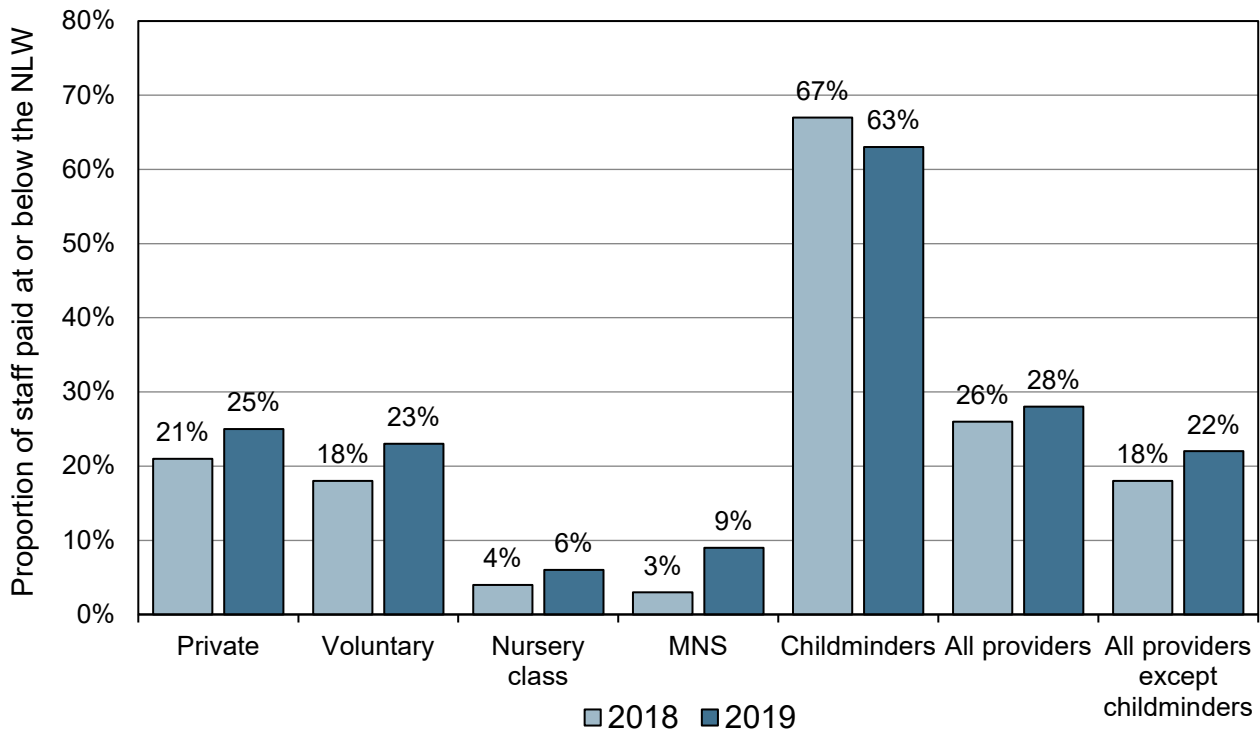
Some 28 percent of all staff aged 25 and over were paid at or below the statutory minimum of the National Living Wage (NLW) in 2019 (and 22 percent of all staff excluding childminders) (figure 2). This proportion varied considerably across provider types, with only 6 percent of staff in nursery classes and 9 percent of staff in MNS paid at or below the NLW, while the proportions were higher for private providers (25 percent) and voluntary providers (23 percent). The proportion for childminders was even higher (63 percent).

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<sup>5</sup> Whether means for 2018 and 2019 are statistically significantly different depends upon how precisely the means are estimated. This precision depends upon the amount of variation in the measure and the sample sizes from which the means are estimated: the lower the amount of variation and the larger the sample size, the more precise the estimates of the means and the more likely that the difference in means will be statistically significant. The unit cost had larger variances and smaller sample sizes than hourly pay in both years, making it less likely that the same magnitude of differences between 2018 and 2019 would be statistically significant for the unit cost than for hourly pay. The sample sizes for the unit cost were 1,544 in 2018 and 2,097 in 2019 compared to 9,324 in 2018 and 11,623 in 2019 for hourly pay. The variation (normalised standard deviation) for the unit cost was 1.5 in 2018 and 1.6 in 2019 compared to 1.0 in 2018 and 1.3 in 2019 for hourly pay.

<sup>6</sup> The test of differences in the mean value for the unit cost between 2018 and 2019 had a p-value of 0.11, which is short of being statistically significant under the 95 percent ( $p < 0.05$ ) threshold.

**Figure 2: Proportion of staff aged 25+ paid at or below the National Living Wage**



Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for private, voluntary, nursery class, MNS, childminders, all providers and all providers except childminders were 3,247, 2,598, 683, 346, 414, 7,473 and 7,059 in 2018 and 3,588, 3,058, 1,528, 257, 552, 9,135 and 8,583 in 2019. All providers included 185 and 152 other group-based providers for 2018 and 2019 respectively. Childminders included assistants. For 2019, the proportion was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the six staff types except for staff in private and voluntary providers and for staff in nursery classes and MNS. The proportion was statistically significantly different at the 95 percent confidence level between 2018 and for 2019 for voluntary providers and MNS.

The proportion of staff paid at or below the NLW was statistically significantly higher in 2019 than in 2018 for voluntary providers and MNS. This may possibly reflect the impact of the rise in the NLW from £7.83 for most respondents at the time of the 2018 survey to £8.21 for most respondents at the time of the 2019 survey. It suggests that staff working for voluntary providers and MNS may have been more affected by the change in the minimum wage legislation than those working in the other provider types.

## Parent-paid fees and additional charges

Hourly parent-paid fees are the average hourly fee charged to parents. The mean hourly fee was £5.15 for children under the age of two, £5.16 for two-year-old children and £5.04 for three- and four-year-old preschool children in 2019 (table 3). For all providers excluding childminders, the mean hourly fees were £5.81 for children under the age of two, £5.55 for two-year-old children and £5.34 for three- and four-year-old preschool children.



**Table 3: Hourly parent-paid fees**

Provider type	Mean hourly fee for children under age two	Number of providers	Mean hourly fee for two-year-old children	Number of providers	Mean hourly fee for three- and four-year-old preschool children	Number of providers
Private providers						
2018	£5.71	1,651	£5.63	2,359	£5.48	2,550
2019	£5.92 *	2,124	£5.85 *	3,050	£5.72 *	3,376
Voluntary providers						
2018	£5.11	312	£4.86	1,710	£4.80	1,857
2019	£5.39	374	£5.18 *	1,957	£5.03 *	2,141
Nursery classes						
2018	£5.09	24	£5.10	156	£4.82	598
2019	£5.46	41	£4.95	399	£4.67	1,259
MNS						
2018	£4.76	10	£5.43	79	£5.09	97
2019	£5.70 *	22	£5.57	115	£5.30	142
Childminders						
2018	£4.82	6,805	£4.78	6,838	£4.73	7,203
2019	£4.92 *	5,391	£4.88 *	5,333	£4.80 *	5,624
All providers						
2018	£5.02	8,899	£5.01	11,323	£4.92	12,514
2019	£5.15 *	8,090	£5.16 *	11,129	£5.04 *	12,849
All providers except childminders						
2018	£5.61	2,094	£5.34	4,485	£5.17	5,311
2019	£5.81 *	2,699	£5.55 *	5,796	£5.34 *	7,225

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: All providers for children under age two included 97 and 138 other group-based providers for 2018 and 2019 respectively. All providers for two-year-old children included 181 and 275 other group-based providers for 2018 and 2019 respectively. All providers included 209 and 307 other group-based providers for 2018 and 2019 respectively. \* indicates where the mean for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. For 2019, the mean for children under age two was statistically significantly different at the 95 percent confidence level between private providers and voluntary providers; private providers and childminders; voluntary providers and childminders; and MNS and childminders. For 2019, the mean for two-year-old children was statistically significantly different for all pairwise comparisons across the five provider types except for private providers and MNS; and nursery classes and childminders. For 2019, the mean for three- and four-year-old preschool children was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types.

Setting aside nursery classes, the mean hourly fee was highest for private providers, followed by MNS and voluntary providers, and lowest for childminders for all three age groups. Nursery classes had the lowest mean hourly fee for three- and four-year-old preschool children, but the same pattern is not observed for children under age two and two-year-old children. This is probably because few nursery classes offer places and reported an hourly fee for children under age two and two-year-old children.

The mean hourly fee for all providers was £0.13 higher in 2019 than in 2018 (£5.15 compared to £5.02) for children under the age of two, £0.15 higher (£5.16 compared to £5.01) for two-year-old children and £0.12 higher (£5.04 compared to £4.92) for three- and four-year-old preschool children. The differences between 2018 and 2019 were statistically significant and corresponded to increases of 2.6 percent, 3.0 percent and 2.4 percent for the three age groups respectively. However, the differences were not statistically different from the annual inflation rate of 2.0 percent over the same period.

The mean hourly fee was statistically significantly higher in 2019 than in 2018 for all three age groups for private providers and childminders and for the older two age groups for voluntary providers. There were no statistically significant differences between 2018 and 2019 for nursery classes or MNS (with the exception of children under age two for MNS, but this was based on very small sample sizes and should be treated with caution).

Tables 4 and 5 present a comparison for the mean hourly parent-paid fees with funding rates for two-year-old children and three- and four-year-old preschool children. The funding rates are the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the Free Early Education Entitlement. The middle column in the table shows the difference between the two means, with a positive number indicating cases where the mean funding rate was higher than the mean hourly fee and a negative number indicating cases where the mean funding rate was lower than the mean hourly fee. A single star indicates a statistically significant difference at the 95 percent confidence level between the mean funding rate and mean hourly fee within a year. A double star indicates a statistically significant difference at the 95 percent confidence level between 2018 and 2019 in the difference between the mean funding rate and mean hourly fee.

For two-year-old children:

- For all providers, the mean funding rate was higher than the mean hourly parent-paid fee in 2018 (by £0.06), but this had reversed in 2019 with the mean hourly funding rate being lower than the mean hourly parent-paid fees (by £0.10).
- For all providers excluding childminders, the mean hourly funding rate was lower than mean hourly parent-paid fees for both years and the difference was larger in 2019 (£0.23 in 2018 and £0.45 in 2019).

**Table 4: Hourly parent-paid fees and funding rates for two-year-old children**

Provider type	Mean funding rate	Mean hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
All providers					
2018	£5.07	£5.01	£0.06 *	5,424	11,323
2019	£5.06	£5.16	- £0.10 * **	6,254	11,129
All providers except childminders					
2018	£5.11	£5.34	- £0.23 *	3,711	4,485
2019	£5.10	£5.55	- £0.45 * **	4,862	5,796

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: \* indicates a statistically significant difference at the 95 percent confidence level between the funding rate and hourly fee within a year. \*\* indicates a statistically significant difference at the 95 percent confidence level in the difference between funding rate and hourly fee between 2018 and 2019.

**Table 5: Hourly parent-paid fees and funding rates for three- and four-year-old preschool children**

Provider type	Mean funding rate	Mean hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
All providers					
2018	£4.30	£4.92	- £0.62 *	10,167	12,514
2019	£4.34	£5.04	- £0.70 * **	11,471	12,849
All providers except childminders					
2018	£4.34	£5.17	- £0.83 *	5,053	5,311
2019	£4.38	£5.34	- £0.96 * **	7,250	7,225

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: \* indicates a statistically significant difference at the 95 percent confidence level between the funding rate and hourly fee within a year. \*\* indicates a statistically significant difference at the 95 percent confidence level in the difference between funding rate and hourly fee between 2018 and 2019.

For three- and four-year-old preschool children:

- For all providers, the mean hourly funding rate was lower than mean hourly parent-paid fees for both years and the difference was larger in 2019 (£0.62 in 2018 and £0.70 in 2019).

- For all providers excluding childminders, the mean hourly funding rate was lower than mean hourly parent-paid fees for both years and the difference was larger in 2019 (£0.83 in 2018 and £0.96 in 2019).

Additional charges are charges that providers require parents to pay for specific items over and above the regular fees. Three-quarters (75 percent) of all providers had additional charges for parents in 2019 (and 82 percent of all providers excluding childminders had additional charges). This proportion was higher for private providers (86 percent), around the same level for voluntary providers, nursery classes and MNS (78 percent, 79 percent and 80 percent respectively) and lower for childminders (69 percent). These proportions were almost identical to those in 2018 and there were no statistically significant differences between 2018 and 2019.

In 2019, the most common types of charges were for unarranged late pickups (44 percent of providers had such charges), one-off activities (40 percent of providers) and meals (32 percent of providers). Less common were charges for regular activities (15 percent of providers), snacks (14 percent of providers), registration or other administration (12 percent of providers) and consumables (10 percent of providers).

## Policy engagement and financial outcomes

The SCEYP for 2019 was used to consider the relationships between five key financial indicators and four policies:<sup>7</sup>

- **Two-year-old Free Entitlement (2YO free entitlement):** The two-year-old free early education entitlement for children in lower income families. This entitlement offers 15 hours of free early education for 38 weeks each year for two-year-old children living in families in receipt of a range of out-of-work benefits or tax credits with sufficiently low income.<sup>8</sup>
- **Early Years Pupil Premium (EYPP):** The Early Years Pupil Premium for three- and four-year-old preschool children in lower income families. This premium is paid on the funding rate for the universal free early education entitlement for three-

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<sup>7</sup> The universal free early education entitlement for three- and four-year-old preschool children was not considered because a very high proportion of non-childminder provider types are engaged with the policy. According to the main survey in 2019, these proportions were 93 percent for private providers, 94 percent for voluntary providers, 90 percent for nursery classes and 100 percent for MNS. Only childminders had a smaller proportion (53 percent), but this reflected that they are less likely to have children in the eligible age group and that eligible children in their care are more likely to receive the free hours from another provider as part of a shared care arrangement than from the childminder.

<sup>8</sup> For the 2019/20 financial year, the threshold was £15,400 for families in receipt of Universal Credit and £16,190 for families in receipt of tax credits. See <https://www.gov.uk/help-with-childcare-costs/free-childcare-2-year-olds>.

and four-year-olds for children meeting the same eligibility requirements as those for the 2YO free entitlement.<sup>9</sup>

- **30 Hours Free Childcare (30 hours):** 30 hours free childcare for three- and four-year-old preschool children in families where all parents are in work. This offers an additional 15 hours of free early education for 38 weeks each year for three- and four-year-old children in families where all parents work (defined as earning the equivalent to working 16 hours each week at the National Minimum / Living Wage) and earning less than £100,000 per year.<sup>10</sup>
- **Tax Free Childcare (TFC):** Tax Free Childcare for children up to the age of twelve in families where all parents are in work. TFC is a 20 percent government top-up for childcare costs up to £2,000 per year (on costs of £10,000) for each child under age twelve (or under age seventeen if disabled), available to working parents (defined in the same way as for 30 hours free childcare).<sup>11</sup>

Combinations of these policies were considered for four categories which captured the key engagement patterns and combined policies with similar target families:

- **None:** no engagement with any of the four policies.
- **Lower income only:** engagement with the 2YO free entitlement and/or EYPP and no engagement with 30 hours or TFC.
- **Working parents only:** no engagement with the 2YO free entitlement or EYPP and engagement with 30 hours and/or TFC.
- **Mix:** engagement with at least one of the lower income policies (2YO free entitlement or EYPP) and engagement with at least one of the working parents policies (30 hours or TFC).

For all providers in 2019, 40 percent were engaged with the 2YO free entitlement (had at least one child benefiting from it) and 35 percent were engaged with the EYPP, while 76 percent were engaged with the 30 hours and 65 percent with TFC. Engagement across the four policy combinations varied by whether the setting had any children under the age of three:

- Most providers *with* children under age three were engaged with the mix of policies (53 percent) or were engaged only with policies for working parents (39

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<sup>9</sup> See

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/758271/EYNFF\\_Operational\\_Guide\\_-\\_2019-20\\_Final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/758271/EYNFF_Operational_Guide_-_2019-20_Final.pdf).

<sup>10</sup> See <https://www.gov.uk/30-hours-free-childcare>.

<sup>11</sup> See <https://www.gov.uk/tax-free-childcare>.

percent), while small proportions were engaged with none of the four policies (6 percent) or only with policies for lower income families (3 percent).

- In contrast, notably higher proportions of providers *with no* children under age three were engaged with none of the four policies (15 percent) or only with policies for lower income families (12 percent), while the most common combination was engagement only with policies for working families (39 percent). Just over a third (34 percent) were engaged with the mix of policies.

Table 6 presents comparisons of financial outcomes across the policy combinations:

- Although the mean income-to-cost ratio was substantially higher for providers not in engaged with any of the four policies, there were no statistically significant differences across the policy engagement combinations.
- The mean unit cost was higher for providers engaged only with policies for lower income families than all other policy combinations.
- Mean hourly pay was lower for providers engaged with the mix of policies than for providers engaged with none of the policies or only with policies for working families.
- The mean hourly fee was higher for providers engaged with none of the policies and for those engaged only with policies for lower income families than for providers engaged only with policies for working families or with the policy mix.
- The proportion with additional charges was higher for those engaged with the mix of policies than all other categories.

**Table 6: Financial outcomes by policy combinations**

Policy combination	Mean income-to-cost ratio	Mean unit cost	Mean hourly Pay	Mean hourly fee	Proportion with additional charges
None	1.75	£3.71	£12.12	£5.52	69%
Lower income only	1.19	£8.09	£11.35	£5.36	67%
Working parents only	1.28	£3.48	£12.15	£4.95	70%
Mix	1.34	£3.76	£10.48	£5.02	81%
Number of providers	1,843	1,990	11,403	11,834	13,610

Source: Survey of Childcare and Early Years Providers, 2019

Notes: The hourly fee is for three- and four-year-old preschool children.

The statistical significance of the differences between the four policy categories was tested using regression models with and without controls for provider type and the presence of children under age three to consider whether the associations between policy engagement and financial outcomes were due to the mix of providers engaged with each policy combination. The one key finding from this was that the differences in hourly staff pay were explained by the mix of provider types engaged in the policies.

Overall, this analysis showed that:

- Absence of any engagement was associated with higher hourly parent-paid fees.
- Engagement only with policies for lower income families was associated with higher unit costs and higher hourly parent-paid fees.
- Engagement only with policies for working families was associated with lower hourly parent-paid fees.
- Engagement with a mix of policies for lower income families and policies for working parents was associated with lower hourly pay, lower hourly parent-paid fees and a greater likelihood of additional charges for parents.

It should be noted that this analysis only identified associations between policy engagement and the financial outcomes and does not inform on the direction of causation. In other words, the associations do not establish whether providers with particular financial characteristics are more likely to engage with different kinds of policies, or whether engagement with specific policies drives differences in financial outcomes or whether there is a third factor influencing both policy engagement and financial outcomes.

# 1. Introduction

The Survey of Childcare and Early Years Providers (SCEYP) is an annual large-scale survey collecting information on a broad range of provision characteristics from private providers, voluntary providers, maintained schools and childminders in England. The survey is used to monitor and evaluate early years provision, helping to inform the development of government policy in this area. The survey began in 1998 and was repeated in 2001, 2003, annually from 2005 to 2011, 2013 and 2016.

In 2017, the Department for Education commissioned the National Centre for Social Research (NatCen) and Frontier Economics to conduct the SCEYP on an annual basis from 2018 to 2020. This new programme of research included two surveys. The main survey continued to collect data on a variety of topics such as staff-to-child ratios, delivery of government policies, provision for children with special educational needs and disabilities (SEND), staff qualifications and pay and the financial aspects of delivery (such as delivery costs, income sources and fees charged to parents). A new, second short survey was introduced in 2018 collecting information on hourly fees charged to parents and funding rates for government-funded free hours, as well as a small number of core questions. The purpose of this short survey was to provide data for a sufficiently large sample to deliver robust estimates of mean hourly parent-paid fees at the local authority level.

NatCen and Frontier Economics were also commissioned to deliver two official statistics reports each year, one main report covering a broad range of topics (Department for Education (2018a, 2019a)) and one focused on hourly parent-paid fees statistics at the local authority level (Department for Education (2018b, 2019b)). In addition, the research partnership produced two further research reports using the 2018 data, one focusing on the delivery of 30 hours free childcare (Speight et al (2019)) and one analysing providers' finances in 2018 (Cattoretti et al (2019)). The finance report in 2018 was complemented by other work for the Department for Education on delivery costs for early years providers (Paull & Xu (2019)), maintained nursery schools (Paull & Popov (2019)) and the national rollout of 30 hours free childcare (Paull & La Valle (2018)).

This report builds on the finance reports produced for 2018 and presents an analysis of early years providers' finances using data from the SCEYP for 2019. The objectives of this work were:

- To present the total cost of delivering childcare for all ages of children in the setting and the total income received by settings, together with their constituent parts, for different types of providers and across different regions in England (chapter 3).
- To explore providers' costs by describing the patterns in the unit cost (cost per child per hour) and staff hourly pay across different types of providers and different regions in England (chapter 4).



- To explore providers' income by describing the patterns in the underlying parent-paid hourly fees and additional charges for parents across different types of providers and different regions in England (chapter 5).
- To consider how these financial measures are related to providers' engagement with policy (defined as having at least one child in receipt of a policy) (chapter 6).

In addition, this report uses data from the previous survey in 2018 to identify changes over the 12-month gap between surveys.

It should be noted that the data used in this report was collected prior to the COVID pandemic and will not reflect the financial situation of providers during the lockdown period from March 2020 or during the ongoing situation.

## 2. Methodology

The first section in this chapter describes the data sources and weighting, while the second reports a small number of changes made to the 2018 statistics. The third section describes the provider types used throughout the report.

### 2.1 Data sources and weighting

The 2019 Survey of Childcare and Early Years Providers (SCEYP) included a mixed-mode (telephone and online) main survey and a mixed-mode (online and paper questionnaire) short survey undertaken between March and July 2019. The data used in this report included only providers with preschool children in order to provide consistency with other studies.

Three different datasets from the two surveys were used in this report:

- Dataset A contained a subsample of respondents from the main survey who undertook the financial variant and included information on total cost and total income.
- Dataset B was a combined dataset of the subsample of respondents from the main survey who undertook the fees variants and all respondents to the additional, short survey and included information on hourly parent-paid fees and additional charges.
- Dataset C contained a subsample of respondents from the main survey who undertook the staffing variant and included information on staff hourly pay.

All statistics and regression analysis were weighted using specific weights designed for each dataset to help ensure that the findings are nationally representative of group-based providers and childminders registered with Ofsted as of July 2018 and school-based providers in the January 2018 Schools Census.<sup>12</sup>

More information about the survey and the information contained in each survey variant is available in the technical reports for 2019 (Marshall et al (2019)) and 2018 (Marshall et al (2018)).

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<sup>12</sup> The Ofsted register and Schools Census were used as the sampling frame for the survey, and the weights were designed to match the sampling frames.

## 2.2 Comparisons with 2018

Data from the 2018 survey was also used to draw comparisons with the 2019 data. The 2018 survey differed in two substantive respects from the 2019 survey: the main survey was undertaken as a telephone survey rather than a mixed-mode survey and data was also collected on reception provision from schools. However, neither of these factors affected the comparability across the two years for the measures used in this report.

Some statistics used in the 2018 SCEYP Finance Report (Cattoretti et al (2019)) were revised for this publication for the following reasons:

- For total weekly cost in table 7, providers reporting a zero total cost were removed in 2019 because a more substantial number (89) reported zero cost in 2019 than had done so in 2018. This meant that 14 fewer providers were used in the revised statistics for 2018 in this report than in the 2018 report.
- For the cost decomposition in tables 8 and 9, rent and mortgage costs for childminders were set to zero in 2019 rather than to missing, as had been the case in 2018. This meant that the proportion of costs spent on rent and mortgage for all providers was lower in this report than in the 2018 report. In addition, the sample numbers for 2018 were corrected.
- For total weekly income in table 10, providers reporting a zero total income were removed in 2019 because a more substantial number (106) reported zero income in 2019 than had done so in 2018. This meant that 24 fewer providers were used in the revised statistics for 2018 in this report than in the 2018 report.
- For the income decomposition in tables 11 and 12, providers with no parent-paid fee income for some age groups of children in their care were not excluded from the income decomposition in 2019, as they had been in 2018 in recognition that other sources could provide the income for these children. This meant that 43 additional providers were used in the revised statistics for 2018 in this report than had been used in the 2018 report.
- For the hourly staff pay in sections 4.3 and 4.4, providers were excluded if the sum of the reported numbers of staff at each qualification level differed from the reported total number of staff by more than two. The proportion with this discrepancy was considerably higher in 2019 than in 2018, leading to a substantial impact on the staff-level weights in 2019 and affecting the comparability of the staff-level analysis between 2018 and 2019. The same adjustment was made to the 2018 data for consistency and meant that 383 fewer staff were used for hourly pay and 276 fewer staff for the proportion paid at or below the National Living Wage (NLW) in the revised statistics for 2018 in this report than in the 2018 report.

- For the use of additional charges in figure 10, an issue in the routing in the main survey in 2018 meant that only data from the short survey was used for the analysis of additional charges for 2018.<sup>13</sup> The main survey was amended in 2019 and the analysis included data from both the main and the short surveys. The weights for 2018 were adjusted to ensure comparability with the 2019 data, compensating for the fact that the short survey contains relatively more childminders and relatively fewer other provider types than the main survey. This meant that the statistics for all providers and by region are slightly different between the revised statistics for 2018 in this report than in the 2018 report in a few cases.

## 2.3 Description of provider types

Statistics are presented for five types of providers defined in the following ways:

- **Private** providers: Ofsted-registered privately owned providers operating on non-domestic premises. These included independent schools offering early years provision on site.
- **Voluntary** providers: Ofsted-registered providers run by a charity or voluntary management committee on a not-for-profit basis.
- **Nursery classes**: Maintained early years classes within a primary school with a qualified teacher present.
- **MNS** (Maintained Nursery Schools): Purpose-built maintained schools specifically for children in their early years with a qualified teacher present.
- **Childminders**: Ofsted-registered individuals providing early years care in domestic premises.

In addition, “all providers” contained a small number of other providers which were not classified into one of these five types, which included group providers whose management status was not reported; local authority-run settings; and children’s centres.

Because childminders constitute such a high proportion of all providers (54 percent in 2019) but deliver a much smaller proportion of all places (14 percent in 2019)

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<sup>13</sup> In 2018, the main survey only asked questions on the use of additional charges if the provider had given a positive amount in response to the question on how much income they typically receive from any additional charges to parents and 71 percent responded with a zero amount. In contrast, the additional charges question was asked of all providers in the short survey and only 27 percent reported that they did not make any additional charges.

(Department for Education (2019a)), statistics are presented for all providers and for all providers excluding childminders.

## **2.4 Description of child age groups**

The sample used in this report only includes providers with at least one preschool age child (that is, a child who has not yet entered reception class). Some of these providers had children who were school age in addition to having preschool children.

The main survey and short survey recorded some information for four different ages of children:

- Children aged under two
- Two-year-old children
- Three- and four-year-old preschool children
- School children

The unit cost used the number of hours received by all children (preschool and school) in the setting. The hourly parent-paid fees are presented for children under age two, two-year-old children, and three- and four-year-old children, but not for school-age children because the hourly fees would not be representative for this age group as they exclude school-age children in provision without any preschool children. Free entitlement funding rates are presented for two-year-old children and for three- and four-year-old preschool children, but not for the other two age groups because the children in these age groups are not eligible for free entitlement funding.

### 3. Total cost and total income

This chapter explores the total costs and income reported by providers. The first section describes the financial measures examined in this chapter. The second section presents the total weekly costs, while the third section explores the breakdown across different categories of cost. The fourth and fifth sections similarly present the total weekly income and the breakdown across different sources. The ratio of total income to total cost is examined in the final section.

The key findings for 2019 are:

- The mean total weekly cost for all providers was £2,141 (and £4,499 for all providers excluding childminders). Total weekly cost was highest for Maintained Nursery Schools (MNS) (£12,909) and private providers (£5,584) and lowest for childminders (£454), but there was no statistically significant difference between voluntary providers (£3,560) and nursery classes (£2,851) (section 3.2).
- On average for all providers, just under three-quarters (74 percent) of the total cost was for staff, with 3 percent for mortgage or rent payments, 7 percent for food, 4 percent for materials and 2 percent for training (section 3.3).
- The mean total weekly income for all providers was £2,872 (and £6,387 for all providers excluding childminders). Total income was highest for MNS (£11,921) and private providers (£9,375) and lowest for childminders (£400), but there was no statistically significant difference in the mean between voluntary providers (£5,245) and nursery classes (£2,515) (section 3.4).
- On average for all providers, 59 percent of income came from parent-paid fees, 29 percent from free entitlement funding and 12 percent from other sources. For all providers excluding childminders, an average of 32 percent of income was received from parent-paid fees, while 56 percent came from free entitlement funding and 13 percent from other sources (section 3.5).
- The mean income-to-cost ratio for all providers was 1.42 (and 1.37 for all providers excluding childminders). The ratio was highest for private providers (1.58) and lowest for MNS (0.96), but there were no statistically significant differences in the mean ratio between voluntary providers (1.27), nursery classes (1.21) and childminders (1.46) (section 3.6).

#### 3.1 Descriptions of the financial measures

**Total weekly cost:** The total financial outgoings (excluding rent and mortgage payments for childminders) typically paid by providers each week.

Providers were asked for their “typical total costs including staffing, premises, materials, administration costs and so on, all of your outgoings”. Providers also reported the period covered by the amount reported and weekly cost was derived by dividing the reported amount by the weeks it covered.

The collection of information and calculation of the total cost differed for childminders in two ways. First, the question asking for the total cost for childminders specifically omitted rent and mortgage costs and asked for their “typical costs including staffing, materials, administration costs but excluding rent and mortgage payments”. Second, childminders were asked for “how much childminding income do you typically personally earn including any pay for yourself and any amounts that you regularly draw before any tax is deducted?” and this was added to the total cost as a proxy for pay to themselves.

Five caveats should be noted about this measure of the total cost:

- This total cost measure covered actual amounts paid by the providers themselves and did not include costs paid by others or implicit foregone opportunity costs. Some group-based providers and many school-based providers use local authority venues free of charge, while others may own the venue outright (without any mortgage). In these cases, the cost measure used here does not include the foregone rent to the owner of the venue or the opportunity cost of not being able to use the property for some other purpose.
- It is not clear to what extent providers included the costs of capital for investments (such as the payment of interest on loans or the payment of dividends or profits return for direct investment) in their report of their total cost.
- Because childminders were asked to exclude rent or mortgage payments from their total costs and were not asked to report these amounts separately, the costs for childminders do not include any payments that childminders may have explicitly paid in rent or mortgage for the business or the opportunity cost of using space in their home for childminding.
- The use of the response to the question on childminding income as a proxy for childminders’ pay to themselves will lead to some overstatement of total cost in cases where childminders also included the implicit payment to themselves in their report of total cost. It is also likely that this measure will include any returns to the investments in the business, which may overstate the cost for childminders relative to other types of providers who have not included investment returns.
- For some providers, the total cost will include the cost of delivering additional and specialist services rather than simply childcare. Additional and specialist services can mean any service outside the core delivery of childcare and early education and covers a range of specialist support for children, family support and system leadership. Specific examples include specialist SEND child support, other

specialist child support (such as English as an additional language), meetings with support professionals about children, specialist family support, general family support, family bonding, working groups and networking, and training and career professional development delivery. Other work has estimated that the costs for these services only constitute 3 percent of all costs, although the average proportion is higher for some provider types (6 percent for nursery classes and 8 percent for MNS<sup>14</sup>). Hence, some of the differences in total cost across different types of provider may reflect variation in the scope of services that they deliver.

**Cost decomposition: Division of the total cost into the proportions paid for staff, rent or mortgage, food, materials, training costs and a residual “other”.**

In addition to reporting a total cost, providers were asked for the typical amounts they pay for staff, rent or mortgage, food, materials and training costs. A residual “other” category was calculated as the difference between the total cost reported and the sum of the amounts reported for each of the five cost categories.<sup>15</sup> The breakdown of total cost into the proportions was calculated as the amount for each category divided by the total income. To note:

- Staff costs include the amounts typically spent on staff salaries, covering all frontline carers and staff in supporting roles. Childminders were asked about staff costs as (a) the amount they typically spend on all staff that they directly pay and (b) the childminding income they typically personally earn (including any pay for themselves and any amounts that they regularly draw before any tax is deducted), and the sum of these two elements was used to measure staff costs for childminders.
- In line with the information collected for total cost, childminders were not asked about the amounts they paid for rent or mortgage.
- Food costs include meals, snacks and refreshments.
- Materials costs include items such as books, toys or equipment or art materials.
- Training costs include items such as paying for classes, courses or materials.

It should be noted that the cost breakdowns for childminders are not directly comparable because rent or mortgage payments were not reported. In addition, a high proportion of nursery classes (91 percent) and MNS (79 percent) reported that they did not pay

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<sup>14</sup> Figure 4 in Paull & Xu (2019).

<sup>15</sup> In 2018, providers were not specifically asked for the amount they spent on other items and the residual calculation was used for both 2018 and 2019 for consistency. Other costs may include other venue costs (such as for utilities, business rates and cleaning) and other administrative costs (such as for telephone and internet services, IT support, marketing, insurance, professional fees and licences).



anything for rent or mortgage, while smaller proportions of private providers (10 percent) and voluntary providers (16 percent) reported that they made no such payments.<sup>16</sup> This means that the proportions spent on rent or mortgage will be lower (and the proportions spent on other items correspondingly lower) for nursery classes, MNS and childminders than for private and voluntary providers due to the higher prevalence of not having to make rent or mortgage payments.

In the 2019 survey, 2,235 providers reported a total cost and 1,946 provided sufficient information to decompose costs into the subcategories by reporting amounts for all subcategories (excluding rent for childminders) and including a positive amount for staff costs.<sup>17</sup>

**Total weekly income: The total income from all sources typically received by providers each week.**

Providers were asked for their typical total income including income from parent fees, funding from the free entitlement, any additional charges paid by parents, fundraising and any other sources. Providers also reported the period covered by the amount reported and weekly income was derived by dividing the reported amount by the weeks it covered.

**Income decomposition: Division of the total income into the proportions received from parent-paid fees, free entitlement funding and other sources.**

Providers were asked to report the amount of income they received from parent-paid fees and free entitlement funding (both by age group of child), additional charges for parents and charitable donations. A residual “other” category was calculated as the sum of the amounts reported for additional charges and for charitable donations added to the difference between the total income reported and the sum of the amounts reported for each of the income sources<sup>18</sup>. The breakdown of total income into the proportions was calculated as the amount for each source divided by the total income. To note:

- Additional charges for parents included charges for meals, snacks, nappies, music lessons, outings, as well as registration and other administrative charges.

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<sup>16</sup> For private providers reporting that they paid no rent, 70 percent did so because they owned the venue outright without a mortgage and 30 percent did so because the owner of the venue let them use it for free. For voluntary providers reporting that they paid no rent, 33 percent did so because they owned the venue outright without a mortgage and 67 percent did so because the owner of the venue let them use it for free. School nurseries and MNS were not asked for the reason that they paid no rent.

<sup>17</sup> Most providers not reporting amounts for all subcategories did not report costs for only one or two of the subcategories with an even distribution of omitted information across the categories. Only 47 providers (2 private providers, 2 voluntary providers, 1 nursery class and 42 childminders) reported a zero amount for the staff cost.

<sup>18</sup> In 2018, providers were not specifically asked for the amount they received from other sources and the residual calculation was used for both 2018 and 2019 for consistency. Other income may include Government grants or Local Authority support for specific items.

- Charitable donations included income typically received from fundraising activities or charitable donations.

### **Income-to-cost ratio: Total weekly income divided by total weekly cost.**

The income-to-cost ratio was calculated as the total weekly income divided by the total weekly cost. The ratio is greater than one if total income exceeds cost, is equal to one if total income equals cost and is less than one if total income is less than total cost. For example, total weekly income of £5,000 and total weekly cost of £4,000 had an income-to-cost ratio of 1.2, while total weekly income of £3,000 and total weekly cost of £4,000 had an income-to-cost ratio of 0.75.

The ratio of total income to total cost captures a measure akin to the rate of profit and loss for for-profit providers (including private and independent providers and childminders) or the rate of surplus or deficit for non-profit providers (including voluntary providers, nursery classes and MNS). However, it should be noted that for-profit providers may not have included repayments for investments in the business (including repayment of bank loans or payment of dividends) or funds used for future investment as part of their costs, even if such payments or funds need to be covered by income for the business to be sustainable.<sup>19</sup> Hence, an excess of total income over total cost may be required for financial sustainability.

## **3.2 Total cost**

**Total weekly cost is the total financial outgoings (excluding rent and mortgage payments for childminders) typically paid by providers each week.**

The mean total weekly cost for all providers was £2,141 in 2019 (and £4,499 for all providers excluding childminders) (table 7). This was highest for MNS (£12,909) and private providers (£5,584) and lowest for childminders (£454), but there was no statistically significant difference in the mean between voluntary providers (£3,560) and nursery classes (£2,851). There were no statistically significant differences in the mean weekly cost between 2018 and 2019.

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<sup>19</sup> The case can be made that such expenses for for-profit providers should *not* be included as part of cost because these investments are contributing to an increase in the value of the assets of the business which the provider continues to own.

**Table 7: Total weekly cost**

Provider type	Mean total weekly cost	Median total weekly cost	Number of providers
Private providers			
2018	£4,686	£2,791	495
2019	£5,584	£2,885	650
Voluntary providers			
2018	£3,017	£1,759	468
2019	£3,560	£1,739	567
Nursery classes			
2018	£3,329	£1,923	144
2019	£2,851	£2,007	436
MNS			
2018	£12,224	£9,733	106
2019	£12,909	£11,692	89
Childminders			
2018	£447	£387	332
2019	£454	£356	456
All providers			
2018	£1,759	£573	1,574
2019	£2,141	£647	2,235
All providers except childminders			
2018	£4,048	£2,071	1,242
2019	£4,499	£2,209	1,779

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: The sample consists of all providers with at least one preschool child. Independent (private school) providers are included in the private category. All statistics were weighted to be nationally representative. All providers included 29 and 37 other group-based providers for 2018 and 2019 respectively. The figures for 2018 were revised from those in the 2018 report due to the removal of 14 providers who reported zero total cost (see section 2.2). For 2019, the mean total weekly cost was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for voluntary providers and nursery classes. There were no statistically significant differences at the 95 percent confidence level between the mean values for 2018 and for 2019.

This variation in total cost may reflect both differences in provider size and in the amount spent per hour of care for each child. For some providers, the total cost will include the cost of delivering additional and specialist services rather than simply childcare.

Additional and specialist services can mean any service outside the core delivery of childcare and early education and covers a range of specialist support for children, family support and system leadership. Specific examples include specialist SEND child support, other specialist child support (such as English as an additional language), meetings with

support professionals about children, specialist family support, general family support, family bonding, working groups and networking, and training and career professional development delivery. Other work has estimated that the costs for these services only constitute 3 percent of all costs, although the average proportion is higher for some provider types (6 percent for nursery classes and 8 percent for MNS<sup>20</sup>). Hence, some of the differences in total cost across different types of provider may reflect variation in the scope of services that they deliver.

The median total weekly cost (the middle observation when providers are ranked from lowest to highest) was considerably lower than the mean for all providers and for each provider type, indicating a number of providers with unusually high weekly total costs within each type. The difference between the mean and median was most marked for private and voluntary providers, possibly reflecting greater variation in size for these providers than for nursery classes, MNS and childminders.

### 3.3 Cost decomposition

**The cost decomposition is the division of total cost into the proportions paid for staff, rent or mortgage, food, materials, training costs and a residual “other”.**

For all providers, just under three-quarters (74 percent) of the total cost in 2019 was for staff, with 3 percent for mortgage or rent payments, 7 percent for food, 4 percent for materials and 2 percent for training (tables 8 and 9). For providers excluding childminders, the proportion spent on staff was also 74 percent, but the proportion spent on rent and mortgage was higher (7 percent), reflecting that rent and mortgage costs were not collected for childminders and the proportions spent on food (3 percent), materials (3 percent) and training (1 percent) correspondingly lower.

There were several differences in the breakdown of costs across the five provider types:

- The higher proportions spent on staff for nursery classes and MNS largely reflect the absence of explicit payments for rent or mortgage for a high proportion of these types of providers. The higher proportion spent on rent or mortgage for private providers (11 percent) than voluntary providers (8 percent) partly reflects that a higher proportion of voluntary providers made no explicit payment.
- Childminders spent a higher proportion on food than other provider types, potentially reflecting a higher cost per child due to the smaller number of children. Nursery classes and MNS spent the lowest proportions on food, possibly reflecting an absence of lunch provision or a lower cost per child due to larger numbers of children.

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<sup>20</sup> Figure 4 in Paull & Xu (2019).

- The proportion spent on training was lower for MNS than all other provider types.<sup>21</sup>
- The proportion spent on other costs was highest for MNS potentially because the other services they offer require additional administrative resources.

**Table 8: Breakdown of costs in 2018**

Proportion of costs in category	Private	Voluntary	Nursery class	MNS	Child-minder	All providers	All providers except child-minders
Staff	69%	76%	87%	79%	70%	72%	75%
Rent/mortgage	12%	7%	2%	1%	0%	3%	8%
Food	4%	2%	1%	1%	11%	8%	3%
Materials	4%	3%	4%	3%	5%	5%	4%
Training	2%	1%	2%	1%	2%	2%	1%
Other	10%	10%	5%	15%	12%	11%	9%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	420	418	91	86	275	1,312	1,037

Source: Survey of Childcare and Early Years Providers, 2018

Notes: Rent or mortgage costs were not collected for childminders. Columns may not sum to 100 due to rounding. All providers included 22 other group-based providers. The figures were revised from those in the 2018 report due to the inclusion of zero values for the proportion of costs spent on rent or mortgage for childminders and a correction to the sample numbers (see section 2.2).

For all providers, the proportion spent on staff was higher in 2019 than in 2018 (74 percent compared to 72 percent) and the proportion spent on materials was lower (4 percent compared to 5 percent). There were no statistically significant differences in the proportions between 2019 and 2018 for all providers excluding childminders. Within provider type, the proportions in 2019 were statistically significantly different to those for 2018 in two ways:

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<sup>21</sup> The proportions of private providers and MNS in table 9 are both 1%, but the unrounded proportions are 1.3% for private providers and 0.62% for MNS.

- For nursery classes, the proportion spent on staff was lower in 2019 than in 2018 (81 percent compared to 87 percent) and the proportion spent on other items correspondingly higher (11 percent compared to 5 percent).
- For childminders, the proportion spent on staff was higher in 2019 than in 2018 (74 percent compared to 70 percent) and the proportions spent on materials and other items correspondingly lower.

**Table 9: Breakdown of costs in 2019**

Proportion of costs in category	Private	Voluntary	Nursery class	MNS	Child-minder	All providers	All providers except child-minders
Staff	70%	75%	81% *	79%	74% *	74% *	74%
Rent/mortgage	11%	8%	1%	<1% *	0%	3%	7%
Food	5%	3%	1%	1%	11%	7%	3%
Materials	3%	3%	4%	3%	4% *	4% *	3%
Training	1%	2%	2%	1%	2%	2%	1%
Other	10%	10%	11% *	16%	10% *	10%	10%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	577	514	358	81	383	1,946	1,563

Source: Survey of Childcare and Early Years Providers, 2019

Notes: Rent or mortgage costs were not collected for childminders. <1% indicates percentages between 0 percent and 0.5 percent. Columns may not sum to 100 due to rounding. All providers included 33 other group-based providers.

\* indicates where the proportion for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. The proportion spent on staff was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for voluntary providers and childminders; and for nursery classes and MNS. The proportion spent on rent/mortgage was statistically significantly different for all pairwise comparisons across the five provider types. The proportion spent on food was statistically significantly different for all pairwise comparisons across the five provider types except for nursery classes and MNS. The proportion spent on materials was statistically significantly different between private providers and nursery classes; private providers and childminders; voluntary providers and childminders; nursery classes and MNS; and MNS and childminders. The proportion spent on training was statistically significantly different between MNS and each of the four other types. The proportion spent on other items was statistically significantly different between MNS and each of the four other types.

### 3.4 Total income

**Total weekly income is the amount from all sources typically received by providers each week.**

The mean total weekly income for all providers was £2,872 in 2019 (and £6,387 for all providers excluding childminders) (table 10). This was highest for MNS (£11,921) and

private providers (£9,375) and lowest for childminders (£400), but there was no statistically significant difference in the mean between voluntary providers (£5,245) and nursery classes (£2,515). Analogous to total cost, this variation in total income may reflect both differences in provider size and in the amount received per hour of care for each child.

**Table 10: Total weekly income**

Provider type	Mean total weekly income	Median total weekly income	Number of providers
Private providers			
2018	£6,129	£3,865	524
2019	£9,375	£3,846	643
Voluntary providers			
2018	£3,194	£1,846	460
2019	£5,245	£1,923	574
Nursery classes			
2018	£3,181	£1,923	162
2019	£2,515	£2,014	438
MNS			
2018	£10,473	£9,258	104
2019	£11,921	£11,414	86
Childminders			
2018	£429	£349	381
2019	£400	£346	470
All providers			
2018	£1,881	£481	1,664
2019	£2,872 *	£519	2,248
All providers except childminders			
2018	£4,673	£2,327	1,283
2019	£6,387	£2,326	1,778

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: All providers included 33 and 37 other group-based providers for 2018 and 2019 respectively. The figures for 2018 were revised from those in the 2018 report due to the removal of 22 providers who reported zero total income (see section 2.2). \* indicates where the mean for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. For 2019, the mean total weekly income was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for private providers and voluntary providers; private providers and MNS; and voluntary providers and nursery classes.

The median total weekly income (the middle observation when providers are ranked from lowest to highest) was considerably lower than the mean for all providers and for each

provider type, indicating a number of providers with unusually high weekly total income within each type. The difference between the mean and median was most marked for private and voluntary providers, possibly reflecting greater variation in size for these providers than for nursery classes, MNS and childminders.

The mean total income was higher in 2019 than in 2018 for all providers,<sup>22</sup> but there were no statistically significant differences between 2018 and 2019 for all providers excluding childminders or for any individual provider type.

### 3.5 Income decomposition

**The income decomposition is the division of total income into the proportions received from parent-paid fees, free entitlement funding and other sources.**

On average, providers received 59 percent of their income from parent-paid fees in 2019, with 29 percent from free entitlement funding and 12 percent from other sources<sup>23</sup> (tables 11 and 12). However, for all providers excluding childminders, an average of 32 percent of income was received from parent-paid fees, while 56 percent came from free entitlement funding and 13 percent from other sources. This reflected substantial differences in the income breakdown across the five provider types:

- Voluntary providers, nursery classes and MNS received higher proportions of their income from free entitlement funding and lower proportions from parent-paid fees than private providers and childminders.
- Private providers received a higher proportion of their income from free entitlement funding and a lower proportion from parent-paid fees than childminders.
- MNS received a higher proportion of their income from other sources than the other four provider types.

Overall, while private providers received similar proportions of income from parent-paid fees (47 percent) and free entitlement funding (41 percent), most income came from free entitlement funding for voluntary providers (63 percent), nursery classes (74 percent) and MNS (69 percent), while childminders received three-quarters (75 percent) of their income from parent-paid fees.

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<sup>22</sup> Differences in the mean total weekly income between 2018 and 2019 should not be interpreted as meaning that each setting, on average, experienced an increase in income of around 50 percent. Rather, the statistics show that the mean total income among settings in the 2019 survey was around 50 percent higher than the mean among settings in the 2018 survey. This may have been due to the 2019 survey including more larger settings and the weighting not perfectly compensating for this.

<sup>23</sup> Other sources included less than 2 percent of all income from additional charges and charitable donations for all providers, and no more than 3 percent from these two sources for any single provider type.



**Table 11: Breakdown of income in 2018**

Proportion of income in category	Private	Voluntary	Nursery class	MNS	Child-minder	All providers	All providers except child-minders
Parent-paid fees	44%	26%	7%	8%	77%	62%	27%
Free entitlement funding	45%	63%	72%	71%	12%	26%	59%
Other sources	11%	11%	21%	20%	11%	12%	15%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	298	288	128	83	288	1,105	817

Source: Survey of Childcare and Early Years Providers, 2018

Notes: All providers included 20 other group-based providers. Columns may not sum to 100 due to rounding. The figures for 2018 were revised from those in the 2018 report due to the inclusion of 43 providers who reported zero income from parent-paid fees for some age groups which had children in attendance (see section 2.2).

**Table 12: Breakdown of income in 2019**

Proportion of income in category	Private	Voluntary	Nursery class	MNS	Child-minder	All providers	All providers except child-minders
Parent-paid fees	47%	25%	12% *	10%	75%	59%	32% *
Free entitlement funding	41%	63%	74%	69%	13%	29%	56%
Other sources	12%	12%	14%	21%	12%	12%	13%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	420	418	201	52	370	1,483	1,113

Source: Survey of Childcare and Early Years Providers, 2019

Notes: All providers included 22 other group-based providers. Columns may not sum to 100 due to rounding. \* indicates where the proportion for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. For 2019, the proportion received from parent-paid fees was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for nursery classes and MNS. The proportion received from free entitlement funding was statistically significantly different for all pairwise comparisons across the five provider types except for voluntary providers and MNS; and for nursery classes and MNS. The proportion received from other sources was statistically significantly different between MNS and all other four provider types.

There were no statistically significant differences in the proportions between 2019 and 2018 for all providers. But for all providers excluding childminders, the proportion of income received from parent-paid fees was higher in 2019 than in 2018 (32 percent compared to 27 percent), driven in part by an increase in the proportion for nursery classes from 7 percent to 12 percent.

### **3.6 Income-to-cost ratio**

**The income-to-cost ratio is total weekly income divided by total weekly cost.**

The mean income-to-cost ratio for all providers was 1.42 in 2019 (and 1.37 for all providers excluding childminders) (table 13). This indicates that, on average, total income was higher than total cost and that, on average, providers received £1.42 in income for every £1 they spent on their costs. The ratio was highest for private providers (1.58) and lowest for MNS (0.96), but there were no statistically significant differences in the mean ratio between voluntary providers (1.27), nursery classes (1.21) and childminders (1.46). There were no statistically significant differences in the mean income-to-cost ratio between 2018 and 2019.

The median income-to-cost ratio (the middle observation when providers are ranked from lowest to highest) was considerably lower than the mean for all providers and for most individual provider types (the exception being MNS), indicating a number of providers with unusually high ratios within each type. The median of 0.99 for all providers indicates that half of providers were around or below the breakeven point where total costs equal total income.

**Table 13: Income-to-cost ratio**

Provider type	Mean income-to-cost ratio	Median income-to-cost ratio	Number of providers
Private providers			
2018	1.70	1.17	423
2019	1.58	1.15	548
Voluntary providers			
2018	1.34	1.04	411
2019	1.27	1.03	527
Nursery classes			
2018	1.15	0.99	115
2019	1.21	0.97	373
MNS			
2018	1.02	1.00	101
2019	0.96	0.97	85
Childminders			
2018	1.19	0.93	303
2019	1.46	0.92	391
All providers			
2018	1.27	0.99	1,377
2019	1.42	0.99	1,954
All providers except childminders			
2018	1.43	1.07	1,074
2019	1.37	1.04	1,563

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: All providers included 24 and 30 other group-based providers for 2018 and 2019 respectively. For 2019, the mean income-to-cost ratio was statistically significantly different at the 95 percent confidence level for private providers and voluntary providers; private providers and nursery classes; and for MNS and each of the other four provider types. There were no statistically significant differences at the 95 percent confidence level between the mean values for 2018 and for 2019.

A broader measure capturing the “breakeven” range, defined as ratios of 0.8 to 1.2, indicates that half (50 percent) of all providers had roughly equal total income and total cost, while 26 percent had a “deficit” (income less than costs) and 24 percent had a “surplus” (income greater than costs) (tables 14 and 15). The proportion in the breakeven range was higher for voluntary providers and MNS than other provider types, but slightly higher proportions of private and voluntary providers were in surplus than in deficit and slightly higher proportions of nursery classes, MNS and childminders were in deficit than in surplus. The patterns in 2019 were broadly similar to those in 2018.

**Table 14: Proportions of providers in deficit and in surplus in 2018**

<b>Proportion of providers with</b>	<b>Private</b>	<b>Voluntary</b>	<b>Nursery class</b>	<b>MNS</b>	<b>Child-minder</b>	<b>All providers</b>	<b>All providers except child-minders</b>
Ratio less than 0.8 ("deficit")	12%	9%	24%	12%	34%	27%	14%
Ratio 0.8 to 1.2 ("breakeven")	42%	65%	48%	84%	47%	49%	53%
Ratio more than 1.2 ("surplus")	46%	26%	27%	5%	19%	24%	33%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	423	411	115	101	303	1,377	1,074

Source: Survey of Childcare and Early Years Providers, 2018

Note: All providers included 24 other group-based providers. Columns may not sum to 100 due to rounding.

**Table 15: Proportions of providers in deficit and in surplus in 2019**

<b>Proportion of providers with</b>	<b>Private</b>	<b>Voluntary</b>	<b>Nursery class</b>	<b>MNS</b>	<b>Child-minder</b>	<b>All providers</b>	<b>All providers except child-minders</b>
Ratio less than 0.8 ("deficit")	13%	9%	30%	19%	34%	26%	16%
Ratio 0.8 to 1.2 ("breakeven")	43%	71%	50%	75%	46%	50%	55%
Ratio more than 1.2 ("surplus")	44%	19%	21%	6%	20%	24%	29%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	548	527	373	85	391	1,954	1,563

Source: Survey of Childcare and Early Years Providers, 2019

Note: All providers included 30 other group-based providers. Columns may not sum to 100 due to rounding.

## 4. Unit cost and staff hourly pay

This chapter focuses on providers' costs. The first section describes the financial measures examined in this chapter. The second section considers the unit cost (delivery cost per child per hour), while the third examines staff hourly pay and the third presents the proportions of staff paid at or below the National Living Wage (NLW).

The key findings for 2019 are:

- The mean unit cost was £4.05 per child per hour for all children of all ages in settings with at least one preschool child and was higher than the mean for 2018, which was £3.70. The difference of £0.35 corresponds to an increase of 9.5 percent, but the difference was not statistically significant (section 4.2).
- The mean unit cost was lower for childminders than voluntary providers, nursery schools and Maintained Nursery Schools (MNS) and was higher for London and the East of England than other regions (section 4.2).
- Mean hourly pay was £10.90, which was statistically significantly higher than in 2018 when the mean was £9.88. This corresponds to an increase of 10.3 percent and was statistically significantly higher than the annual growth in mean gross hourly earnings over the same period of 3.4 percent for all employees and 2.6 percent for female employees<sup>24</sup> (section 4.3).
- Mean hourly pay was higher for staff in nursery classes and MNS than for all other provider types and was higher in London and the North East than in some other regions (section 4.3).
- Some 28 percent of staff aged 25 and over were paid at or below the statutory minimum of the NLW, but this proportion was not statistically significantly different from the proportion for 2018 (26 percent) (section 4.4).
- Reflecting the differences in the mean hourly pay, the proportions of staff paid at or below the National Living / Minimum Wage was lower for staff in nursery classes and MNS than other provider types. In addition, the proportion of childminders paid at or below the national minimums was higher than for staff in private or voluntary providers (section 4.4).

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<sup>24</sup> Female employees made up 96 percent of staff in group-based and school-based providers and 98 percent of childminders in 2019 (see table 24 in the accompanying tables to Department for Education (2019a)).

## 4.1 Descriptions of the financial measures

**Unit cost:** The unit cost is an approximate measure of the average cost per child per hour for all children in the setting.

The unit cost was derived as the total weekly cost (as defined in section 3.1) divided by an estimate of the total number of hours of childcare delivered each week. The estimate of the number of weekly hours of childcare delivered by each setting was based on the provider's daily opening hours and the number of children in attendance at each session (full-day, morning session, afternoon session and any before-school or after-school sessions) in the setting on a specific reference day as specified in the survey for each respondent. This daily number of hours was multiplied by the number of days that the setting was open each week to obtain an estimate of the number of weekly hours of childcare delivered.

The unit cost measure was trimmed to remove unit costs of zero or in excess of £100. For the 2019 data, this removed hourly pay observations for 4.1 percent (89 settings) and 0.9 percent (9 settings) of settings respectively.

The term unit cost is used rather than hourly cost to reflect that the measure is derived from several pieces of information (total costs, opening times and days, and attendance numbers), all of which may contain measurement or response error. This means that the estimate is not a precise measure of cost per hour. In addition, the caveats around the total cost listed in section 3.1 also apply to the unit cost. Specifically, the measure used here may understate the unit cost for all providers (because it may not include the costs of capital), and particularly for childminders (because no rent or mortgage costs were recorded), and may have overstated the cost (because the costs covered additional or specialist services as well as childcare delivered by the setting). Nevertheless, findings from 2018 using this measure (Cattoretti et al (2019)) were consistent with other studies (such as Paull & Xu (2019)) in terms of the statistical parameters of the unit cost and the relationships with provider characteristics indicating that the measure provides a reasonable measure of hourly cost per child per hour.

**Staff hourly pay:** Staff hourly pay is gross weekly earnings divided by contracted weekly work hours.

Information on pay was collected for up to five members of staff for providers other than childminders, while it was collected for up to two assistants for childminders. For private and voluntary providers, the five staff included a senior manager, one with a highest level of early years or teaching qualification at level 4 or higher, two with the highest such qualification at level 3 and one with a highest such qualification at level 2 or lower. For nursery classes and MNS, the five staff included the early years co-ordinator or head teacher, and four further staff with highest levels of early years or teaching qualifications at level 6 or higher, level 4 or 5, level 3 and level 2 or lower. For each individual, information was collected on their precise highest qualification level, age band, average

weekly contracted hours (or typical hours in the absence of a contract) and hourly gross pay (that is, before the removal of tax and employee's national insurance).<sup>25</sup>

For childminders, an analogous measure of hourly earnings was derived from the amount of income that they typically personally earned (including any pay for themselves and any amounts that they regularly draw before any tax is deducted) and the hours that they typically spent on work as a childminder (including contact hours and other hours spent on administration, preparation or other tasks required to run the business). However, it should be noted that this measure is not directly comparable to hourly pay as it may include broader returns to investments in the business and is not subject to minimum wage legislation.

The derived hourly pay measure was trimmed to remove hourly pay of zero or in excess of £300. For the 2019 data, this removed hourly pay observations for 2.0 percent and 0.4 percent of staff respectively.<sup>26</sup>

**Proportion paid at or below the National Living Wage: This is the proportion of staff aged 25 or over with hourly pay less than or equal to the National Living Wage of £7.83 until April 2019 and £8.21 from April 2018.**

This proportion was calculated as the proportion of staff aged 25 or over with hourly pay equal to or less than the NLW at the time of the interview. The NLW was £7.83 for the first part of fieldwork for the study until April 2019 (covering 22 percent of the sample) and £8.21 from April 2018 (covering the remaining 78 percent of the sample). In the 2018 survey, only 3 percent of the sample responded in the first part of the fieldwork prior to April 2018 when the NLW was £7.50.

For staff other than childminders, pay was not reported as an hourly amount for 58 percent of staff aged 25 and over in 2019 and for 42 per cent in 2018, which created some imprecision in this measure due to rounding in calculating the implicit hourly rate. For those with an hourly amount reported in 2019, 14 percent had an amount exactly at the NLW and 5 percent had an amount below the NLW (with 1 percent at the NLW for the previous year). Some of those paid below the NLW may have been apprentices (for whom the rate was £3.70 until April 2019 and £3.90 from April 2019).

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<sup>25</sup> In some cases where the respondent could not report the pay amount, a banded hourly pay was reported instead. Banded hourly pay was reported in 10 percent of cases in 2019. For these cases, the midpoint of the band was used in the analysis of the hourly pay. Banded responses recorded in the financial year 2019/2020 (88 percent of the banded responses) were also used in the analysis of the proportion with hourly pay at or below the National Living or Minimum Wage because the hourly pay bands in the survey were designed to match the national minimums for the financial year 2019/2020.

<sup>26</sup> In additional cleaning, 78 observations (0.5 percent) with hourly pay less than £2 and a reported pay amount in excess of £40 were set to missing and 15 observations (0.1 percent) with hourly pay less than £2 and a reported pay less than £40 were set equal to the pay amount.



## 4.2 Unit cost

The unit cost is an approximate measure of the average cost per child per hour for all children in the setting.

**Table 16: Unit cost**

Provider type	Mean unit cost	Median unit cost	Number of providers
Private providers			
2018	£3.83	£2.78	483
2019	£4.19	£2.78	619
Voluntary providers			
2018	£4.16	£2.75	462
2019	£4.48	£2.83	528
Nursery classes			
2018	£4.28	£2.57	143
2019	£4.98	£2.80	413
MNS			
2018	£7.23	£4.84	104
2019	£6.49	£4.48	86
Childminders			
2018	£3.42	£2.43	324
2019	£3.67	£2.67	416
All providers			
2018	£3.70	£2.58	1,544
2019	£4.05	£2.77	2,097
All providers except childminders			
2018	£4.19	£2.78	1,220
2019	£4.56	£2.85	1,681

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

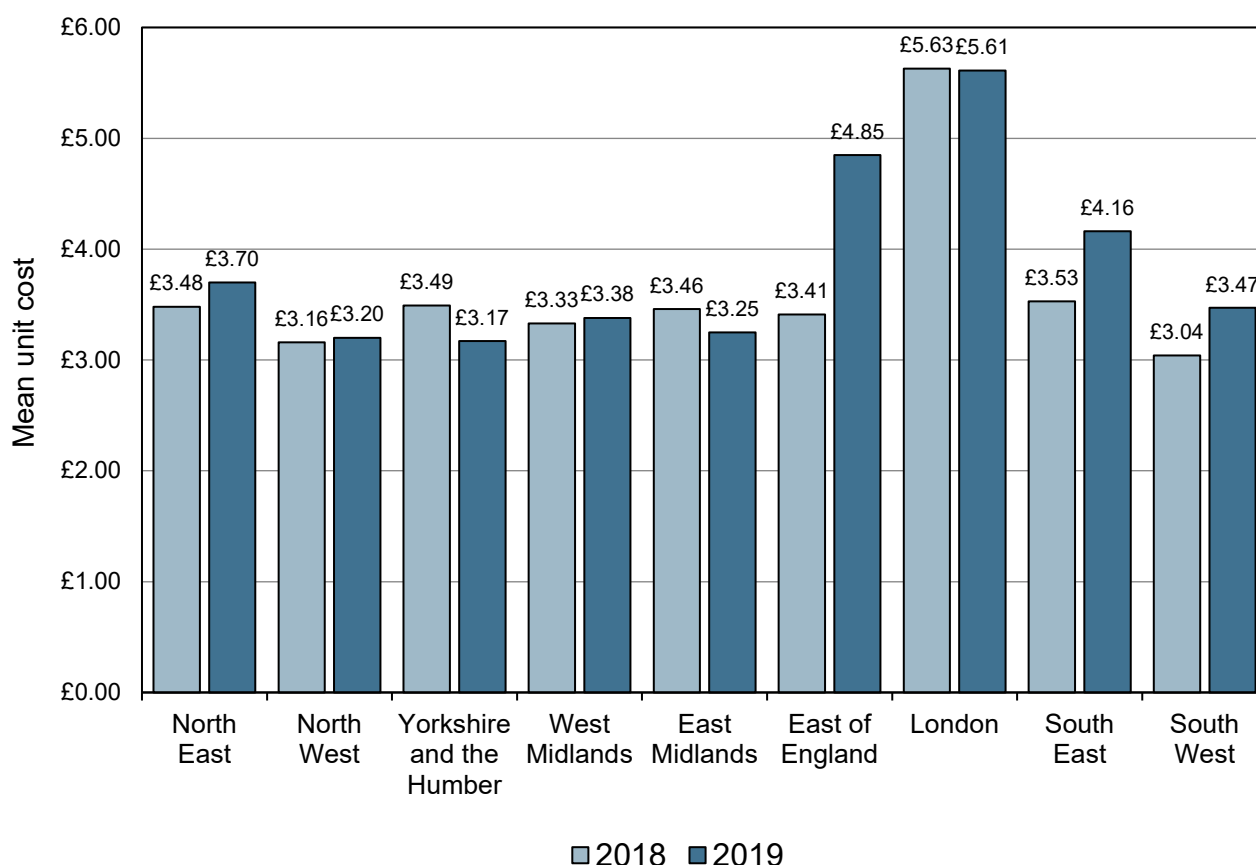
Note: The unit cost is the average cost per child per hour for all children of all ages in the setting, derived as the total weekly cost divided by an estimate of the total number of child hours per week. All providers included 28 and 35 other group-based providers for 2018 and 2019 respectively. For 2019, the mean unit cost was statistically significantly different at the 95 percent confidence level for private providers and MNS; voluntary providers and MNS; MNS and childminders; voluntary providers and childminders; and nursery classes and childminders. There were no statistically significant differences at the 95 percent confidence level between the mean values for 2018 and for 2019.

The mean unit cost for all providers was £4.05 per child per hour in 2019 (and £4.56 for all providers excluding childminders) (table 16). The mean unit cost was higher for MNS (£6.49) and lower for childminders (£3.67), but there were no statistically significant differences between the mean unit costs for private providers (£4.19), voluntary providers

(£4.48) and nursery classes (£4.98). The median unit cost (the middle observation when providers are ranked from lowest to highest) was considerably lower than the mean for all providers and for each provider type, indicating a number of providers with unusually high weekly total costs within each type.

The mean unit cost in 2019 was higher than in 2018 and the difference of £0.35 corresponds to an increase of 9.5 percent. However, the difference was not statistically significant and there were no statistically significant differences in the unit cost between 2018 and 2019 for any individual provider type.

**Figure 3: Unit cost by region**



Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for the nine regions were 90, 184, 137, 171, 145, 192, 180, 270 and 175 in 2018 and 139, 243, 171, 201, 205, 269, 293, 341 and 235 in 2019. For 2019, the mean unit cost was statistically significantly different at the 95 percent confidence level for London and all other regions except the East of England; for the East of England and all other regions than London, the South East and the North East; and for the South East on the one hand and the North West, Yorkshire and the Humber and the East Midlands on the other. The mean was statistically significantly different at the 95 percent confidence level between 2018 and for 2019 only for the East of England.

Figure 3 shows that the mean unit cost varied considerably across the regions in 2019, ranging from £3.17 for Yorkshire and the Humber to £5.61 in London. Three regions stood out as having *statistically significantly* higher mean unit costs in 2019:

- The mean unit cost was higher for London than all other regions except the East of England.

- The mean unit cost was higher for the East of England than for all other regions except the North East, London and the South East.
- The mean unit cost was higher in the South East than in the North West, Yorkshire and the Humber and the East Midlands (but was not statistically significantly different from the mean for the remaining regions).

The differences between 2018 and 2019 also varied substantially across the regions, but the difference was statistically significant only for the East of England.

### 4.3 Staff hourly pay

**Staff hourly pay is gross weekly earnings divided by contracted weekly work hours.**

The mean staff hourly pay across all providers was £10.90 in 2019 (and £11.18 for all providers excluding childminders) (table 17). The mean was higher for nursery classes (£18.92) and MNS (£15.52) and lower for childminders (£8.89), but there was no statistically significant difference between the means for private providers (£10.58) and voluntary providers (£10.25).

The mean hourly pay for all providers was statistically significantly higher in 2019 than in 2018. The difference of £1.02 between 2018 and 2019 corresponds to an increase of 10.3 percent and is statistically significantly higher than the annual growth in mean gross hourly earnings over the same period of 3.4 percent for all employees and 2.6 percent for female employees.<sup>27,28</sup> Mean hourly pay was higher in 2019 than in 2018 for private providers, voluntary providers and childminders, but there were no statistically significant differences in mean hourly pay between 2018 and 2019 for nursery classes and MNS.

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<sup>27</sup> The difference with the annual growth in gross hourly earnings was tested at the 95 percent confidence level for a change of £0.357, which correspond to the 3.4 percent increase for all employees and for a change of £0.273, which corresponds to the 2.6 percent increase for women. The annual growth measures are for Quarter 2 of 2018 to Quarter 2 of 2019.

<sup>28</sup> Female employees made up 96 percent of staff in all provider types except childminders and 98 percent of childminders in 2019 (see table 24 in the accompanying tables to Department for Education (2019a)).

**Table 17: Staff hourly pay**

Provider type	Mean hourly pay	Median hourly pay	Number of staff
Private providers			
2018	£9.25	£8.40	4,468
2019	£10.58 *	£8.60	5,088
Voluntary providers			
2018	£9.42	£8.64	3,040
2019	£10.25 *	£8.76	3,650
Nursery classes			
2018	£18.64	£14.57	779
2019	£18.92	£14.96	1,781
MNS			
2018	£16.40	£12.22	371
2019	£15.52	£12.80	286
Childminders			
2018	£7.46	£6.92	434
2019	£8.89 *	£6.99	605
All providers			
2018	£9.88	£8.50	9,324
2019	£10.90 *	£8.71	11,623
All providers except childminders			
2018	£10.24	£8.64	8,890
2019	£11.18 *	£8.85	11,018

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: All providers included 232 and 213 staff in other group-based providers for 2018 and 2019 respectively. Childminders included assistants. The figures for 2018 were revised from those in the 2018 report due to the removal of 383 staff in providers who reported inconsistent staff numbers (see section 2.2). \* indicates where the mean for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. For 2019, the mean was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for private providers and voluntary providers.

The statistically significant increase in staff hourly pay of 10.3 percent between 2018 and 2019 was of a similar magnitude to the non-significant increase in the unit cost of 9.5 percent from 2018 to 2019, reflecting that staffing accounts for a substantial proportion (74 percent) of all costs. There are two reasons for the difference in statistical significance:

- The estimate of mean hourly pay is based on a much larger sample size than the estimate of mean unit cost, in both years.<sup>29</sup>
- The threshold used for statistical significance is 95 percent, which is the level typically used. At this level, the difference in hourly pay is significant; the unit cost is not.<sup>30</sup>

Table 18 presents the mean hourly pay in 2019 across highest relevant qualification and provider type. Mean hourly pay was higher for each higher qualification level (£9.15 for level 1 (and none), £9.24 for level 2, £10.30 for level 3, £11.44 for level 4, £11.63 for level 5 and £15.20 for level 6 and higher), but there were no statistically significant differences between levels 1 and 2 and between levels 4 and 5. Within each qualification level, mean hourly pay was highest for nursery classes and second highest for MNS (with the exception of level 4) and lowest for childminders for levels 3 and above. This indicates that the differences in hourly pay across provider types are not entirely explained by differences in staff qualification levels.

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<sup>29</sup> Whether means for 2018 and 2019 are statistically significantly different depends upon how precisely the means are estimated. This precision depends upon the amount of variation in the measure and the sample sizes from which the means are estimated: the lower the amount of variation and the larger the sample size, the more precise the estimates of the means and the more likely that the difference in means will be statistically significant. The unit cost had larger variances and smaller sample sizes than hourly pay in both years, making it less likely that the same magnitude of differences between 2018 and 2019 would be statistically significant for the unit cost than for hourly pay. The sample sizes for the unit cost were 1,544 in 2018 and 2,097 in 2019 compared to 9,324 in 2018 and 11,623 in 2019 for hourly pay. The variation (normalised standard deviation) for the unit cost was 1.5 in 2018 and 1.6 in 2019 compared to 1.0 in 2018 and 1.3 in 2019 for hourly pay.

<sup>30</sup> The test of differences in the mean value for the unit cost between 2018 and 2019 had a p-value of 0.11, which is short of being statistically significant under the 95 percent ( $p < 0.05$ ) threshold.

**Table 18: Staff hourly pay by highest qualification**

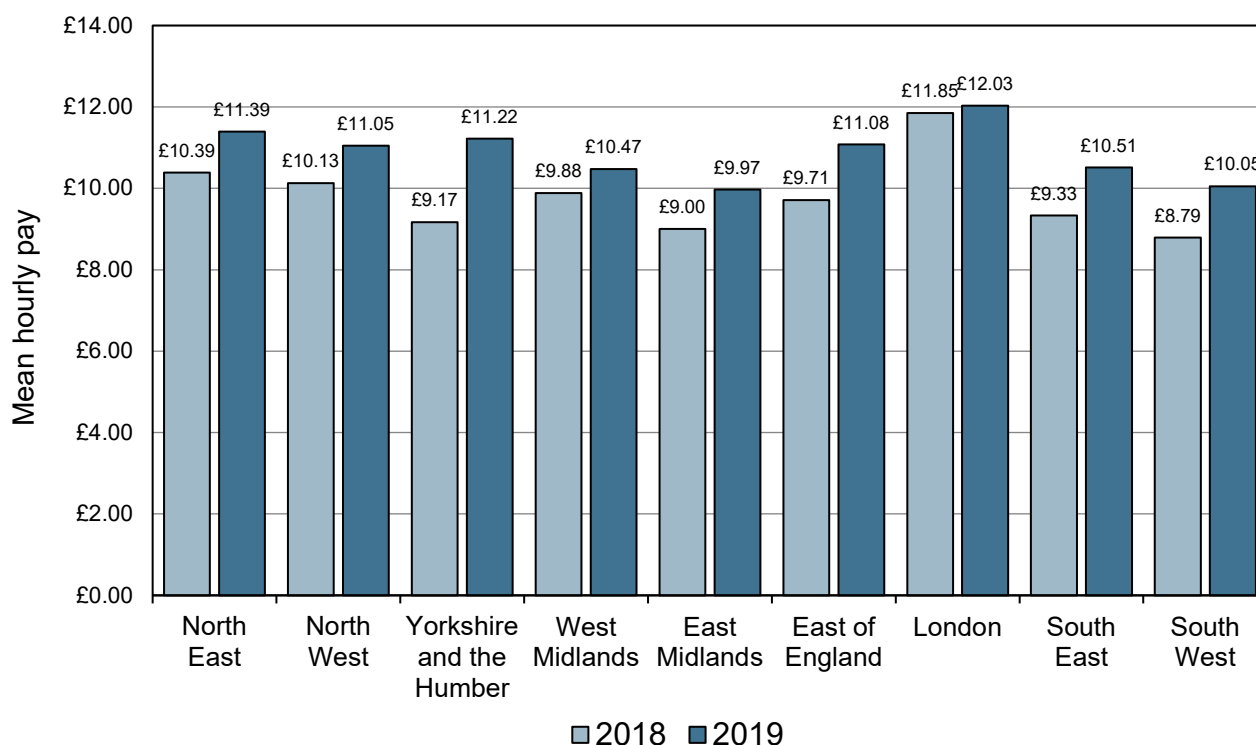
Mean hourly pay (number of staff)	Level of highest relevant qualification					
	None or NVQ 1	NVQ 2	NVQ 3	NVQ 4	NVQ 5	NVQ 6 or higher
Private	£8.73 (158)	£9.26 (654)	£10.45 (2,537)	£12.30 (405)	£11.88 (327)	£12.30 (933)
Voluntary	£9.34 (131)	£8.40 (402)	£9.96 (1,956)	£10.88 (281)	£11.56 (257)	£12.88 (566)
Nursery class	£12.38 (65)	£13.30 (171)	£13.62 (434)	£12.66 (92)	£17.38 (62)	£24.52 (928)
MNS	£9.47 (12)	£11.19 (37)	£12.26 (68)	£11.72 (21)	£13.35 (21)	£23.38 (126)
Childminders	£9.04 (164)	£9.05 (66)	£9.25 (269)	£7.32 (21)	£6.32 (21)	£8.11 (55)
All providers	£9.15 (533)	£9.24 (1,350)	£10.30 (5,373)	£11.44 (838)	£11.63 (700)	£15.20 (2,653)
All providers except childminders	£9.19 (369)	£9.27 (1,284)	£10.42 (5,104)	£11.86 (817)	£12.04 (679)	£15.71 (2,598)

Source: Survey of Childcare and Early Years Providers, 2019

Notes: All providers included 207 staff in other group-based providers. Childminders included assistants. Mean hourly pay for all providers was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the six qualification levels except between levels 1 and 2 and between levels 4 and 5.

Mean hourly pay was higher in London than in the West Midlands, East Midlands, South East and South West and higher in the North East than in the East Midlands in 2019 (figure 4). Mean hourly pay was statistically significantly higher in 2019 than in 2018 in the Yorkshire and the Humber, East Midlands, South East and South West.

**Figure 4: Staff hourly pay by region**



Source: Survey of Childcare and Early Years Providers, 2018 and 2019

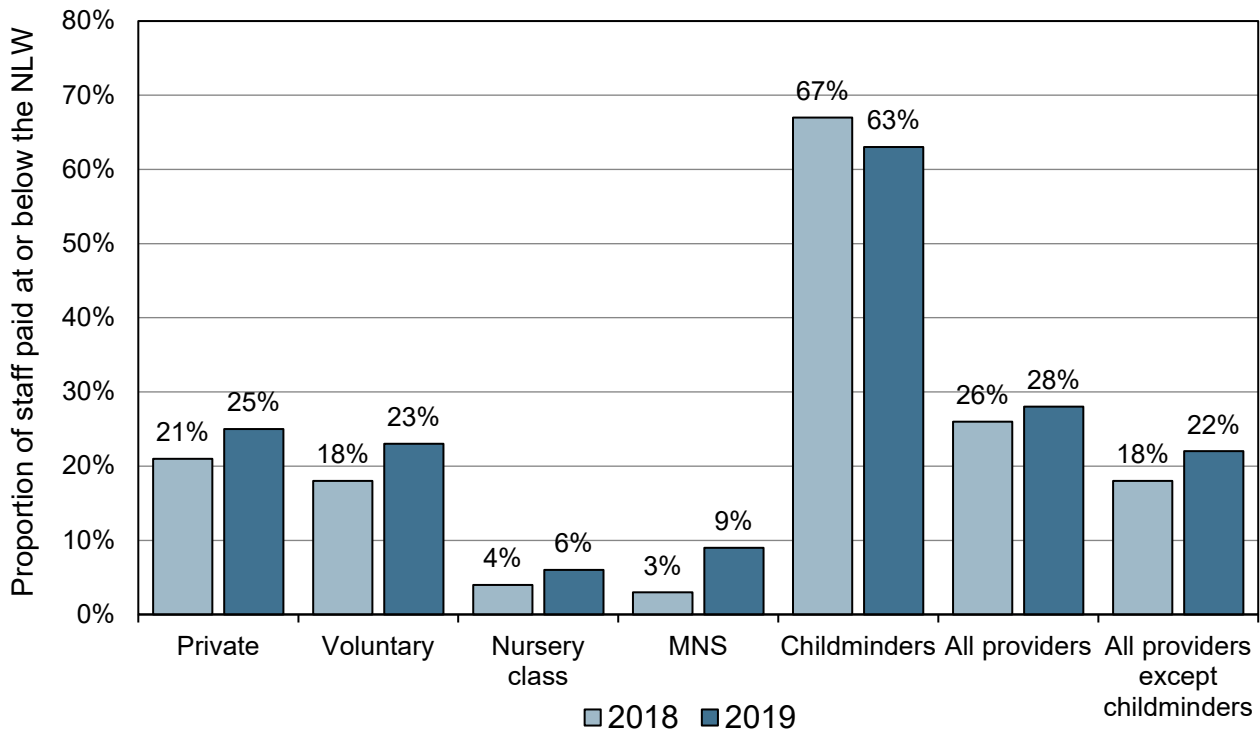
Note: Sample sizes for the nine regions were 612, 1,168, 884, 837, 835, 1,155, 1,132, 1,621 and 1,080 in 2018 and 679, 1,508, 1,087, 1,157, 1,021, 1,393, 1,592, 1,987 and 1,199 in 2019. The figures for 2018 were revised from those in the 2018 report due to the removal of 383 staff in providers who reported inconsistent staff numbers (see section 2.2). For 2019, the mean hourly pay was statistically significantly different at the 95 percent confidence level for London on the one hand and West Midlands, East Midlands, South East and South West on the other; and between North East on the one hand and East Midlands on the other. The mean was statistically significantly different at the 95 percent confidence level between 2018 and for 2019 for the Yorkshire and the Humber, East Midlands, South East and South West.

## 4.4 Proportion of staff paid at or below the National Living Wage

**This is the proportion of staff aged 25 or over with hourly pay less than or equal to the National Living Wage of £7.83 until April 2019 and £8.21 from April 2018.**

Some 28 percent of all staff aged 25 and over were paid at or below the statutory minimum of the NLW in 2019 (and 22 percent of all staff excluding childminders) (figure 5). This proportion varied considerably across provider types, with only 6 percent of staff in nursery classes and 9 percent of staff in MNS paid at or below the NLW, while the proportions were higher for private providers (25 percent) and voluntary providers (23 percent). The proportion for childminders was even higher (63 percent).

**Figure 5: Proportion of staff aged 25+ paid at or below the National Living Wage**



Source: Survey of Childcare and Early Years Providers, 2018 and 2019

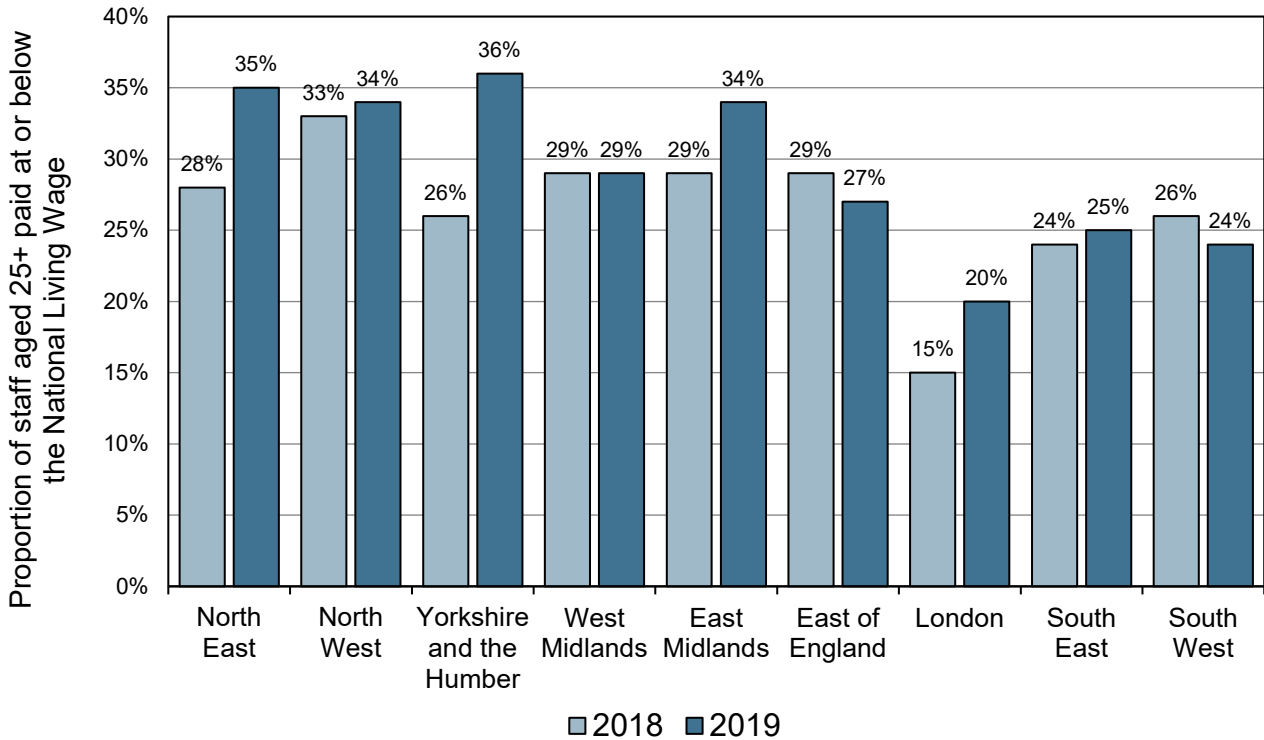
Note: Sample sizes for private, voluntary, nursery class, MNS, childminders, all providers and all providers except childminders were 3,247, 2,598, 683, 346, 414, 7,473 and 7,059 in 2018 and 3,588, 3,058, 1,528, 257, 552, 9,135 and 8,583 in 2019. All providers included 185 and 152 other group-based providers for 2018 and 2019 respectively. Childminders include assistants. The figures for 2018 were revised from those in the 2018 report due to the removal of 276 staff in providers who reported inconsistent staff numbers (see section 2.2). For 2019, the proportion was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the six staff types except for staff in private and voluntary providers; and for staff in nursery classes and MNS. The proportion was statistically significantly different at the 95 percent confidence level between 2018 and for 2019 for voluntary providers and MNS.

The proportion of staff paid at or below the NLW was statistically significantly higher in 2019 than in 2018 for voluntary providers and MNS. This may reflect the impact of the rise in the NLW from £7.83 for most respondents at the time of the 2018 survey to £8.21 for most respondents at the time of the 2019 survey. It suggests that staff working for voluntary providers and MNS may have been more affected by the change in the minimum wage legislation than those working in the other provider types.

The proportion of staff paid at or below the NLW was statistically significantly lower in London than all other regions except the South West in 2019 (figure 6). The proportions were also lower for the South West, South East, East of England and West Midlands than for some other regions. The proportion was statistically significantly higher in 2019 than in 2018 only in Yorkshire and the Humber.



**Figure 6: Proportion of staff paid at or below the NLW by region**



Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for the nine regions were 490, 930, 708, 654, 643, 909, 942, 1,324 and 873 in 2018 and 536, 1,158, 879, 881, 796, 1,136, 1,244, 1,555 and 950 in 2019. The figures for 2018 were revised from those in the 2018 report due to the removal of 276 staff in providers who reported inconsistent staff numbers (see section 2.2). For 2019, the proportion was statistically significantly different at the 95 percent confidence level between London on the one hand and all other regions except South West on the other; between South East and South West on one hand and North East, North West, Yorkshire and the Humber and East Midlands on the other; between East of England on the one hand and North East and Yorkshire and the Humber on the other; and between West Midlands on the one hand and Yorkshire and the Humber on the other. The proportion was statistically significantly different at the 95 percent confidence level between 2018 and for 2019 for Yorkshire and the Humber.

## 5. Parent-paid fees and additional charges

This chapter focuses on providers' income. The first section describes the financial measures examined in this chapter. The second section explores the variation in parent-paid hourly fees for different ages of children and the third compares hourly fees to free entitlement funding rates.<sup>31</sup> The final section describes the use of additional charges.

The key findings for 2019 are:

- The mean hourly fee was £5.15 for children under the age of two, £5.16 for two-year-old children and £5.04 for three- and four-year-old preschool children in 2019. These were higher than the mean hourly fees in 2018 and corresponded to increases of 2.6 percent, 3.0 percent and 2.4 percent for the three age groups respectively. However, the differences were not statistically different from the annual inflation rate of 2.0 percent over the same period (section 5.2).
- The mean hourly fee was highest for private providers followed by Maintained Nursery Schools (MNS) and voluntary providers and lowest for childminders for all three age groups. Nursery classes had the lowest mean hourly fee for three- and four-year-old preschool children (section 5.2).
- Mean hourly fees were higher in London, the South East and the East of England than in other regions (section 5.2).
- For two-year-old children, the mean funding rate for the free entitlement was £0.10 lower than the mean hourly fee. For three- and four-year-old preschool children, the mean funding rate was £0.70 lower than the mean hourly fee. These differences were larger than in 2018 (section 5.3).
- Three-quarters (75 percent) of providers had additional charges for parents. This proportion was higher for private providers (86 percent), around the same level for voluntary providers, nursery classes and MNS (78 percent, 79 percent and 80 percent) and lower for childminders (69 percent) (section 5.4).
- The most common types of charges were for unarranged late pickups (44 percent), one-off activities (40 percent) and meals (32 percent), with charges for regular activities (15 percent), snacks (14 percent), registration or other administration (12 percent) and consumables (10 percent) being less common (section 5.5).

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<sup>31</sup> Further analysis of hourly parent-paid fees in 2019 at the local authority level can be found in Department for Education (2019a).

## 5.1 Descriptions of the financial measures

### **Hourly parent-paid fees: The average hourly fee charged to parents.**

The main survey and short survey asked providers for the average hourly fee they charged to parents for four age groups of children: children aged under two, two-year-old children, three- and four-year-old preschool children and school children. Providers were asked to report the average hourly fee for each age group even though hourly fees may vary across children of the same age, including across those using different sessions.

The reported average hourly fees were trimmed to remove average hourly fees of zero or in excess of £40. For the 2019 data, this removed average fee observations for 1.2 percent of providers reporting an average fee for children under the age of two, for 0.8 percent of providers for fees for children aged two and 0.6 percent of providers for fees for three- and four-year-old preschool children.

### **Free Entitlement funding rate: The average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the Free Early Education Entitlement.**

The main survey and short survey asked providers two questions about the free entitlement funding rate:

- “On average, what hourly rate do you receive from your local authority for the free entitlement for 2-year-olds?”
- “On average, what hourly rate do you receive from your local authority for the free entitlement for 3- and 4-year olds, including any supplements such as those for deprivation, flexibility or rurality?”

It should be noted that these rates are different from the rates paid from the Department for Education to local authorities in the Early Years National Funding Formula (EYNFF). They may not correspond directly to the average rate paid by local authorities to providers as the reported rate may differ across providers within the same local authority and the question asks providers to average over any supplements.

### **Additional charges: Charges that providers require parents to pay for specific items over and above the regular fees.**

Directly after asking about hourly parent-paid fees, the main survey and short survey asked providers which items, if any, providers made additional charges for from a list of eight items containing meals; snacks; other consumables such as nappies or sun cream; extra regular activities such as music classes; extra one-off activities such as special outings; unarranged late pickups; registration or other administration charges such as charges for accessing children’s records on the online tracking system or fees for providing paper copies of invoices; and something else not mentioned above.

## 5.2 Hourly parent-paid fees

**Hourly parent-paid fees are the average hourly fee charged to parents.**

Tables 19 to 21 present the mean and median hourly fees paid by parents in 2019 for children under the age of two, for two-year-old children and for three- and four-year-old preschool children.

The mean hourly fee was £5.15 for children under the age of two, £5.16 for two-year-old children and £5.04 for three- and four-year-old preschool children in 2019. For all providers excluding childminders, the mean hourly fee was £5.81 for children under the age of two, £5.55 for two-year-old children and £5.34 for three- and four-year-old preschool children.

Setting aside nursery classes, the mean hourly fee was highest for private providers, followed by MNS and voluntary providers and lowest for childminders for all three age groups.<sup>32</sup> Evidence in the 2018 report showed how most providers charge the same hourly fees for all ages of children, which partly explains the consistency in this pattern across the three age groups.<sup>33</sup> Nursery classes had the lowest mean hourly fee for three- and four-year-old preschool children, but the same pattern is not observed for children under age two and two-year-old children. This is probably because few nursery classes offer places and reported an hourly fee for children under age two and two-year-old children.

The median hourly fees (the middle observation when providers are ranked from lowest to highest) were only slightly lower than the mean for all three age groups with a tendency to be whole or half pounds (or at a precise 5 or 10 pence), reflecting the clustering of hourly fees around easily computable figures.

The mean hourly fee for all providers was £0.13 higher in 2019 than in 2018 (£5.15 compared to £5.02) for children under the age of two, £0.15 higher (£5.16 compared to £5.01) for two-year-old children and £0.12 higher (£5.04 compared to £4.92) for three- and four-year-old preschool children. The differences between 2018 and 2019 were statistically significant and corresponded to increases of 2.6 percent, 3.0 percent and 2.4

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<sup>32</sup> These differences are all statistically significant except for private providers and MNS for the two youngest age groups and for voluntary providers and MNS for the youngest age group, which may reflect the small number of MNS with children in these age groups.

<sup>33</sup> Analysis in the 2018 SCEYP Finance Report (Cattoretti et al (2019)) showed that 11 percent of providers had no fees, 8 percent had fees for only one age group and 72 percent had the same average fee for all age groups, while only 9 percent of settings had any variation in the average fee across age groups. The proportion with some variation was slightly higher for childminders (12 percent), potentially reflecting the ability to charge bespoke fees for each child. No nursery classes reported any variation in fees across age groups, reflecting both that only a minority (39 percent) charged any fees and the limited age range of children attending nursery classes.

percent for the three age groups respectively. However, the differences were not statistically different from the annual inflation rate of 2.0 percent over the same period.<sup>34</sup>

**Table 19: Hourly parent-paid fees for children under age two**

Provider type	Mean hourly fee	Median hourly fee	Number of providers
Private providers			
2018	£5.71	£5.20	1,651
2019	£5.92 *	£5.50	2,124
Voluntary providers			
2018	£5.11	£4.85	312
2019	£5.39	£5.00	374
Nursery classes			
2018	£5.09	£4.85	24
2019	£5.46	£4.80	41
MNS			
2018	£4.76	£4.50	10
2019	£5.70 *	£5.53	22
Childminders			
2018	£4.82	£4.50	6,805
2019	£4.92 *	£4.50	5,391
All providers			
2018	£5.02	£4.50	8,899
2019	£5.15 *	£5.00	8,090
All providers except childminders			
2018	£5.61	£5.10	2,094
2019	£5.81 *	£5.35	2,699

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: All providers included 97 and 138 other group-based providers for 2018 and 2019 respectively. \* indicates where the mean for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. For 2019, the mean for children under age two was statistically significantly different at the 95 percent confidence level between private providers and voluntary providers; private providers and childminders; voluntary providers and childminders; and MNS and childminders.

<sup>34</sup> The differences with the Consumer Price Index (CPI) were tested at the 95 percent confidence level using changes of £0.10 for children under age two and two-year-olds and of £0.098 for three- and four-year-old preschool children, which correspond to the 2 percent annual increase in the CPI measure between Quarter 2 2018 and Quarter 2 2019.

**Table 20: Hourly parent-paid fees for two-year-old children**

Provider type	Mean hourly fee	Median hourly fee	Number of providers
Private providers			
2018	£5.63	£5.04	2,359
2019	£5.85 *	£5.30	3,050
Voluntary providers			
2018	£4.86	£4.50	1,710
2019	£5.18 *	£4.75	1,957
Nursery classes			
2018	£5.10	£4.75	156
2019	£4.95	£4.66	399
MNS			
2018	£5.43	£5.00	79
2019	£5.57	£5.15	115
Childminders			
2018	£4.78	£4.50	6,838
2019	£4.88 *	£4.50	5,333
All providers			
2018	£5.01	£4.50	11,323
2019	£5.16 *	£4.95	11,129
All providers except childminders			
2018	£5.34	£5.00	4,485
2019	£5.55 *	£5.00	5,796

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: All providers included 181 and 275 other group-based providers for 2018 and 2019 respectively. \* indicates where the mean for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. For 2019, the mean for two-year-old children was statistically significantly different for all pairwise comparisons across the five provider types except for private providers and MNS; and nursery classes and childminders.

**Table 21: Hourly parent-paid fees for three- and four-year-old preschool children**

Provider type	Mean hourly fee	Median hourly fee	Number of providers
Private providers			
2018	£5.48	£5.00	2,550
2019	£5.72 *	£5.10	3,376
Voluntary providers			
2018	£4.80	£4.40	1,857
2019	£5.03 *	£4.50	2,141
Nursery classes			
2018	£4.82	£4.20	598
2019	£4.67	£4.20	1,259
MNS			
2018	£5.09	£5.00	97
2019	£5.30	£5.00	142
Childminders			
2018	£4.73	£4.50	7,203
2019	£4.80 *	£4.50	5,624
All providers			
2018	£4.92	£4.50	12,514
2019	£5.04 *	£4.67	12,849
All providers except childminders			
2018	£5.17	£4.68	5,311
2019	£5.34 *	£5.00	7,225

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: All providers included 209 and 307 other group-based providers for 2018 and 2019 respectively. \* indicates where the mean for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. For 2019, the mean was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types.

The hourly fee was higher in 2019 than in 2018 for all three age groups for private providers and childminders and for the older two age groups for voluntary providers. There were no statistically significant differences between 2018 and 2019 for nursery classes or MNS (with the exception of children under age two for MNS but this was based on very small sample sizes and should be treated with caution).

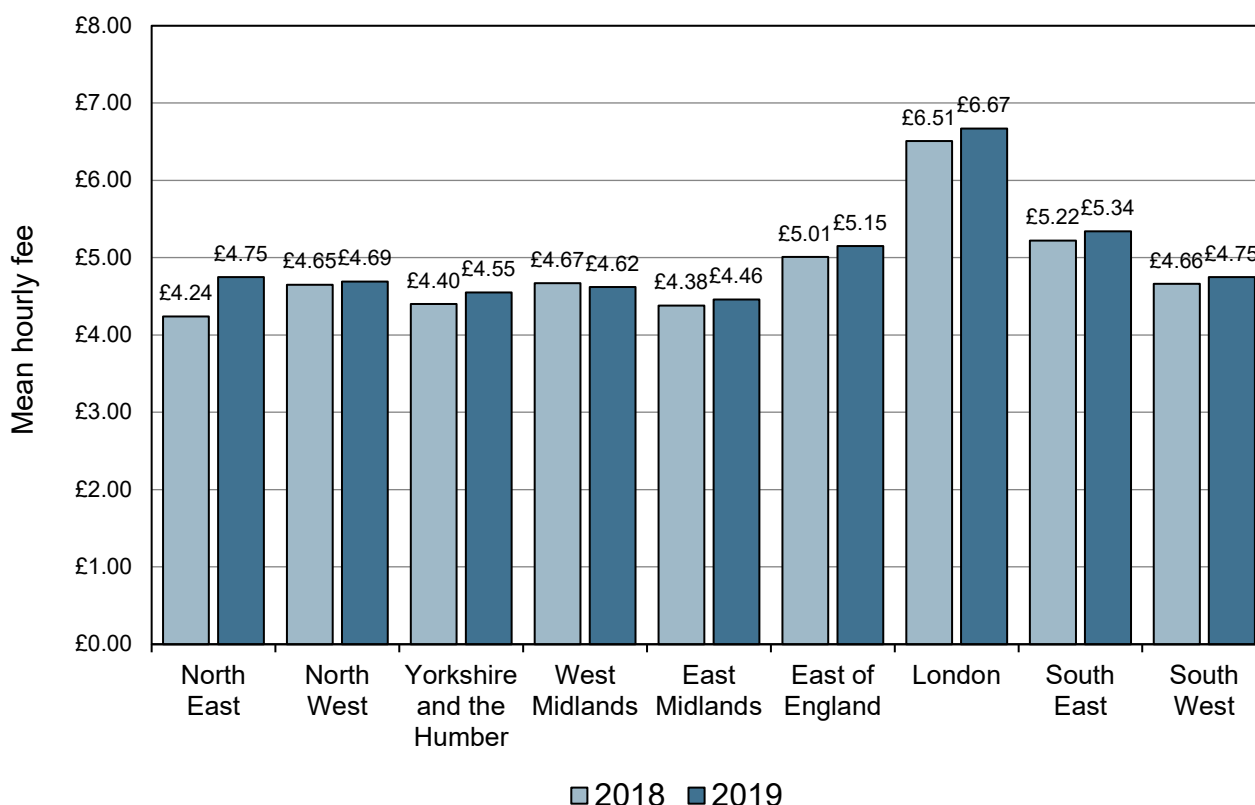
Figures 7 to 9 present the mean hourly parent-paid fees for the three age groups across the regions.

For all three age groups:

- The mean hourly parent-paid fee was higher for London than for all other regions.
- The mean hourly parent-paid fee was higher for the South East than all other regions (except London).
- The mean hourly parent-paid fee was higher for the East of England than all other regions (except London and the South East).

The mean hourly parent-paid fees were of a similar level across the remaining six regions for all three age groups, with few statistically significant differences between these six regions.

**Figure 7: Hourly parent-paid fees by region for children under age two**

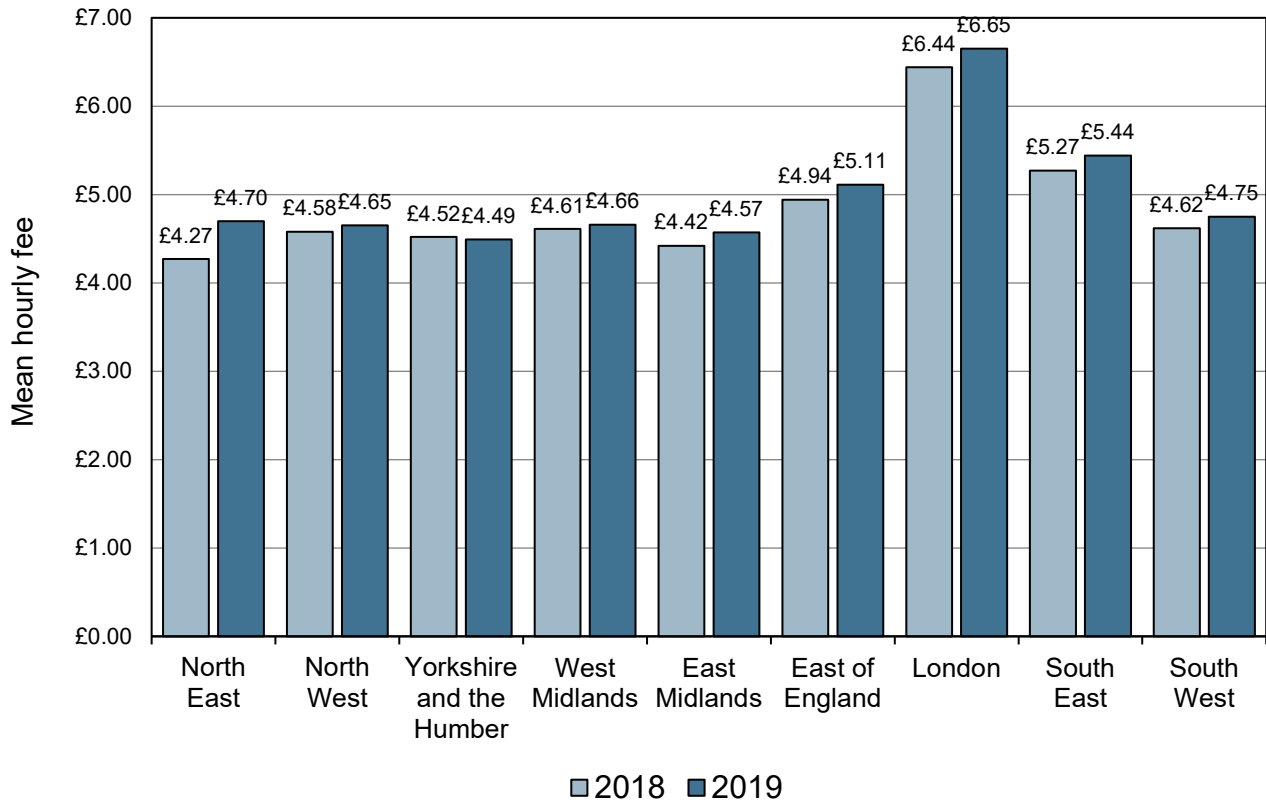


Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for the nine regions were 339, 1,081, 977, 898, 801, 961, 1,274, 1,360 and 1,208 in 2018 and 361, 1,053, 913, 804, 560, 835, 1,288, 1,267 and 1,009 in 2019. For 2019, the mean hourly pay was statistically significantly different at the 95 percent confidence level between all pairwise comparisons across the nine regions except for the North East on the one hand and the North West, Yorkshire and the Humber, West Midlands, East Midlands and the South West on the other; between the North West on the one hand and Yorkshire and the Humber, West Midlands and the South West on the other; and between Yorkshire and the Humber on the one hand and the West Midlands, East Midlands and South West on the other. The mean was statistically significantly different at the 95 percent confidence level between 2018 and for 2019 for the North East, East of England and South East.



**Figure 8: Hourly parent-paid fees by region for two-year-old children**

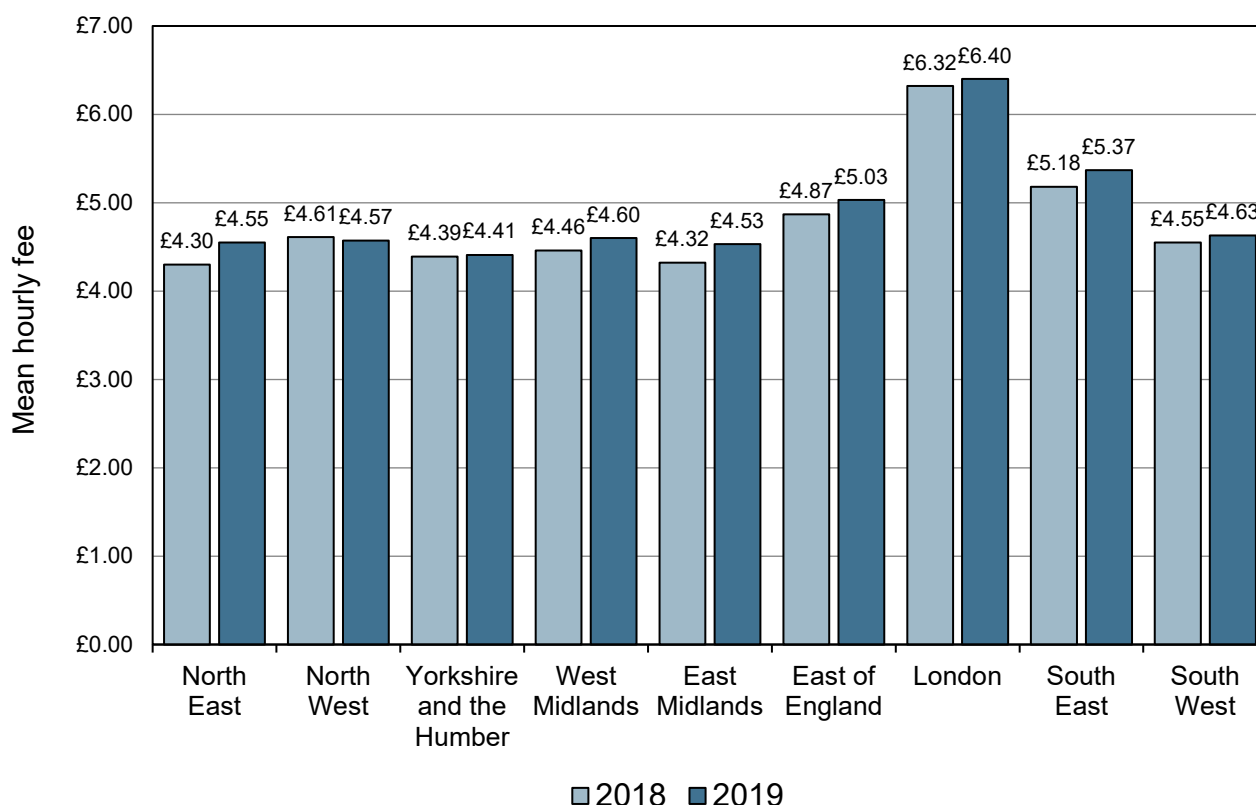


Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for the nine regions were 384, 1,322, 1,166, 1,103, 997, 1,332, 1,493, 1,950 and 1,576 in 2018 and 456, 1,307, 1,146, 1,034, 835, 1,297, 1,589, 1,984 and 1,481 in 2019. For 2019, the mean hourly pay was statistically significantly different at the 95 percent confidence level between all pairwise comparisons across the nine regions except for the North East on the one hand and the North West, Yorkshire and the Humber, West Midlands, East Midlands and the South West on the other; between the North West on the one hand and Yorkshire and the Humber, West Midlands, East Midlands and the South West on the other; between Yorkshire and the Humber and East Midlands; and between West Midlands on the one hand and East Midlands and South West on the other. The mean was statistically significantly different at the 95 percent confidence level between 2018 and for 2019 for the North East, East of England, London, South East and South West.

The mean hourly parent-paid fee was higher in 2019 than in 2018 for the North East, East of England and South East for all three age groups. It was also higher in 2019 than in 2018 for two-year-old children in London and the South West and for three- and four-year-old preschool children in the West Midlands and East Midlands, but the differences were not statistically significant different for the remaining regions.

**Figure 9: Hourly parent-paid fees for three- and four-year-old preschool children by region**



Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for the nine regions were 448, 1,503, 1,328, 1,218, 1,155, 1,463, 1,666, 2,081 and 1,652 in 2018 and 554, 1,609, 1,363, 1,223, 1,000, 1,473, 1,824, 2,164 and 1,639 in 2019. For 2019, the mean hourly pay was statistically significantly different at the 95 percent confidence level between all pairwise comparisons across the nine regions except for the North East on the one hand and the North West, Yorkshire and the Humber, West Midlands, East Midlands and the South West on the other; between the North West on the one hand and the West Midlands, East Midlands and the South West on the other; between Yorkshire and the Humber and East Midlands; and between West Midlands on the one hand and East Midlands and South West on the other. The mean was statistically significantly different at the 95 percent confidence level between 2018 and for 2019 for the North East, West Midlands, East Midlands, East of England and South East.

### 5.3 Hourly parent-paid fees and Free Entitlement funding rates

**Free Entitlement funding rates are the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the Free Early Education Entitlement.**

Tables 22 and 23 compare mean hourly parent-paid fees with mean hourly free entitlement funding rates for two-year-old children and for three- and four-year-old preschool children. The middle column shows the difference between the two means, with a positive number indicating cases where the mean funding rate was higher than the mean hourly fee and a negative number indicating cases where the mean funding rate was lower than the mean hourly fee. A single star indicates a statistically significant

difference at the 95 percent confidence level between the mean funding rate and mean hourly fee within a year. A double star indicates a statistically significant difference at the 95 percent confidence level between 2018 and 2019 in the difference between the mean funding rate and mean hourly fee.<sup>35</sup>

For two-year-old children (table 22):

- For all providers, the mean funding rate was higher than mean hourly parent-paid fee in 2018 (by £0.06), but this had reversed in 2019, with the mean hourly funding rate being lower than the mean hourly parent-paid fees (by £0.10).
- For all providers excluding childminders, the mean hourly funding rate was lower than mean hourly parent-paid fees for both years and the difference was larger in 2019 (£0.23 in 2018 and £0.45 in 2019).

Comparing across different types of providers:

- For private providers, the mean funding rate was lower than mean hourly parent-paid fees in both years, but the difference was larger in 2019 (£0.52 in 2018 and £0.76 in 2019).
- For voluntary providers, the mean funding rate was higher than mean hourly parent-paid fees in 2018 (by £0.23), but there was no statistically significant difference between them in 2019.
- For childminders, the mean funding rate was higher than mean hourly parent-paid fees in both years, but the difference was smaller in 2019 (£0.21 in 2018 and £0.10 in 2019).
- There were no statistically significant differences between the mean funding rate and mean hourly parent-paid fees for nursery classes and MNS in either 2018 or 2019.
- For 2019, the negative difference between the mean funding rate and mean hourly parent-paid fees was greater for private providers than all other provider types.

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<sup>35</sup> The difference-in-differences across years were tested using a stacked dataset with a single variable for funding rates and hourly fees and regression models with an indicator for values which were funding rates (rather than hourly fees), a year dummy for 2019 and an interaction term (testing the difference-in-difference) for 2019 and the funding rate indicator. The difference-in-differences across provider types were tested in an analogous manner.

**Table 22: Hourly parent-paid fees and funding rates for two-year-old children**

Provider type	Mean funding rate	Mean hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
Private providers					
2018	£5.11	£5.63	- £0.52 *	1,892	2,359
2019	£5.09	£5.85	- £0.76 * **	2,453	3,050
Voluntary providers					
2018	£5.09	£4.86	£0.23 *	1,410	1,710
2019	£5.11	£5.18	- £0.07 **	1,638	1,957
Nursery classes					
2018	£5.04	£5.10	-£0.06	170	156
2019	£4.99	£4.95	£0.04	381	399
MNS					
2018	£5.41	£5.43	- £0.02	85	79
2019	£5.35	£5.57	- £0.22	158	115
Childminders					
2018	£4.99	£4.78	£0.21 *	1,713	6,838
2019	£4.98	£4.88	£0.10 * **	1,392	5,333
All providers					
2018	£5.07	£5.01	£0.06 *	5,424	11,323
2019	£5.06	£5.16	- £0.10 * **	6,254	11,129
All providers except childminders					
2018	£5.11	£5.34	- £0.23 *	3,711	4,485
2019	£5.10	£5.55	- £0.45 * **	4,862	5,796

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: All providers included 154 and 232 other group-based providers for the funding rate in 2018 and 2019 respectively. All providers included 181 and 275 other group-based providers for the hourly fee in 2018 and 2019 respectively. \* indicates a statistically significant difference at the 95 percent confidence level between the funding rate and hourly fee within a year. \*\* indicates a statistically significant difference at the 95 percent confidence level in the difference between funding rate and hourly fee between 2018 and 2019. For 2019, the differences between the mean funding rate and mean hourly fees were statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for nursery classes and childminders.

**Table 23: Hourly parent-paid fees and funding rates for three- and four-year-old preschool children**

Provider type	Mean funding rate	Mean hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
Private providers					
2018	£4.33	£5.48	- £1.15 *	2,273	2,550
2019	£4.36	£5.72	- £1.36 * **	3,014	3,376
Voluntary providers					
2018	£4.25	£4.80	- £0.55 *	1,670	1,857
2019	£4.31	£5.03	- £0.72 * **	1,999	2,141
Nursery classes					
2018	£4.43	£4.82	- £0.39 *	815	598
2019	£4.48	£4.67	- £0.19 *	1,763	1,259
MNS					
2018	£5.19	£5.09	£0.10	113	97
2019	£5.22	£5.30	- £0.08	196	142
Childminders					
2018	£4.26	£4.73	- £0.47 *	5,114	7,203
2019	£4.30	£4.80	- £0.50 *	4,221	5,624
All providers					
2018	£4.30	£4.92	- £0.62 *	10,167	12,514
2019	£4.34	£5.04	- £0.70 * **	11,471	12,849
All providers except childminders					
2018	£4.34	£5.17	- £0.83 *	5,053	5,311
2019	£4.38	£5.34	- £0.96 * **	7,250	7,225

Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Notes: All providers included 182 and 278 other group-based providers for the funding rate in 2018 and 2019 respectively. All providers included 209 and 307 other group-based providers for the hourly fee in 2018 and 2019 respectively. \* indicates a statistically significant difference at the 95 percent confidence level between the funding rate and hourly fee within a year. \*\* indicates a statistically significant difference at the 95 percent confidence level in the difference between funding rate and hourly fee between 2018 and 2019. For 2019, the differences between the mean funding rate and mean hourly fees were statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types.

For three- and four-year-old preschool children (table 23):

- For all providers, the mean hourly funding rate was lower than mean hourly parent-paid fees for both years and the difference was larger in 2019 (£0.62 in 2018 and £0.70 in 2019).
- For all providers excluding childminders, the mean hourly funding rate was lower than mean hourly parent-paid fees for both years and the difference was larger in 2019 (£0.83 in 2018 and £0.96 in 2019).

Comparing across different types of providers:

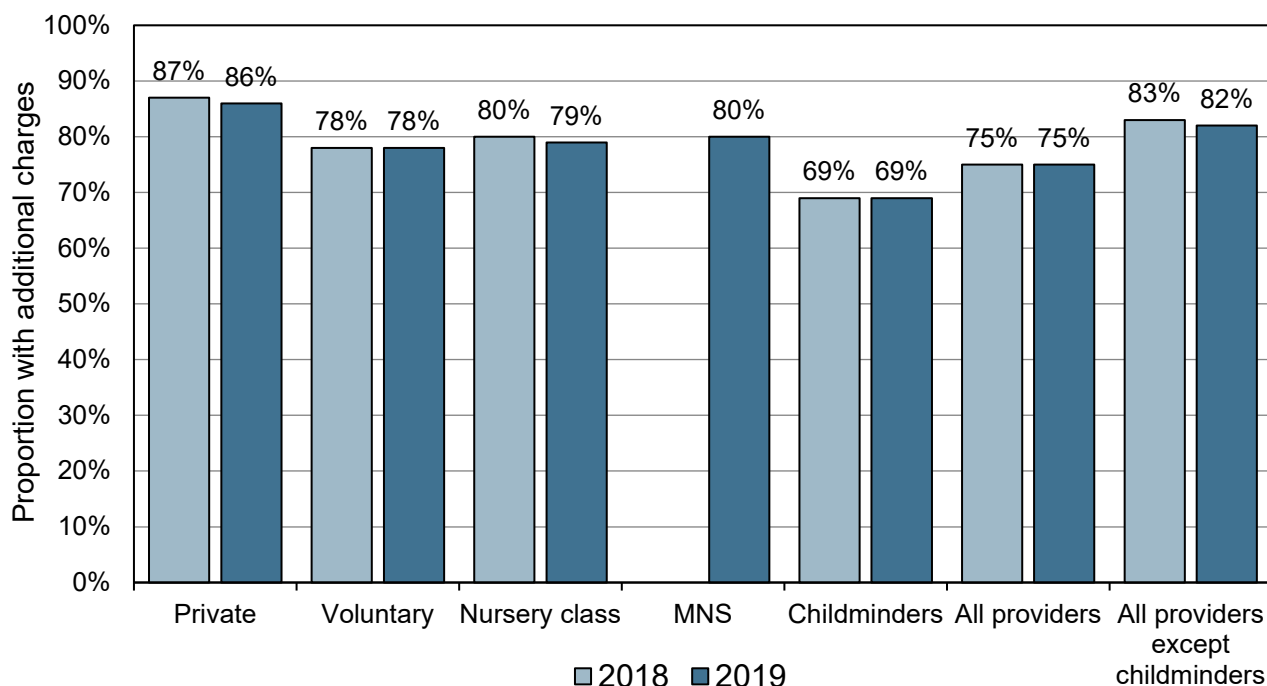
- For private providers and voluntary providers, the mean funding rate was lower than mean hourly parent-paid fees in both years, but the difference was larger in 2019 (£1.15 in 2018 and £1.36 in 2019 for private providers and £0.55 in 2018 and £0.72 in 2019 for voluntary providers).
- For nursery classes and childminders, the mean funding rate was also lower than mean hourly parent-paid fees in both years, but there were no statistically significant differences in the size of the differences between 2018 and 2019 (£0.39 in 2018 and £0.19 for nursery classes in 2019 and £0.47 in 2018 and £0.50 in 2019 for childminders).
- There were no statistically significant differences between the mean funding rate and mean hourly parent-paid fees for MNS in either 2018 or 2019.
- For 2019, the difference between the mean funding rate and mean hourly parent-paid fees was greatest for private providers, followed by voluntary providers and childminders, with the smallest difference being for nursery classes.

## 5.4 Use of additional charges

**Additional charges are charges that providers require parents to pay for specific items over and above the regular fees.**

Three-quarters (75 percent) of all providers had additional charges for parents in 2019 (and 82 percent of all providers excluding childminders had additional charges). This proportion was higher for private providers (86 percent), around the same level for voluntary providers, nursery classes and MNS (78 percent, 79 percent and 80 percent respectively) and lower for childminders (69 percent) (figure 10). These proportions were almost identical to those in 2018 and there were no statistically significant differences between 2018 and 2019.

**Figure 10: Proportion of providers with additional charges**

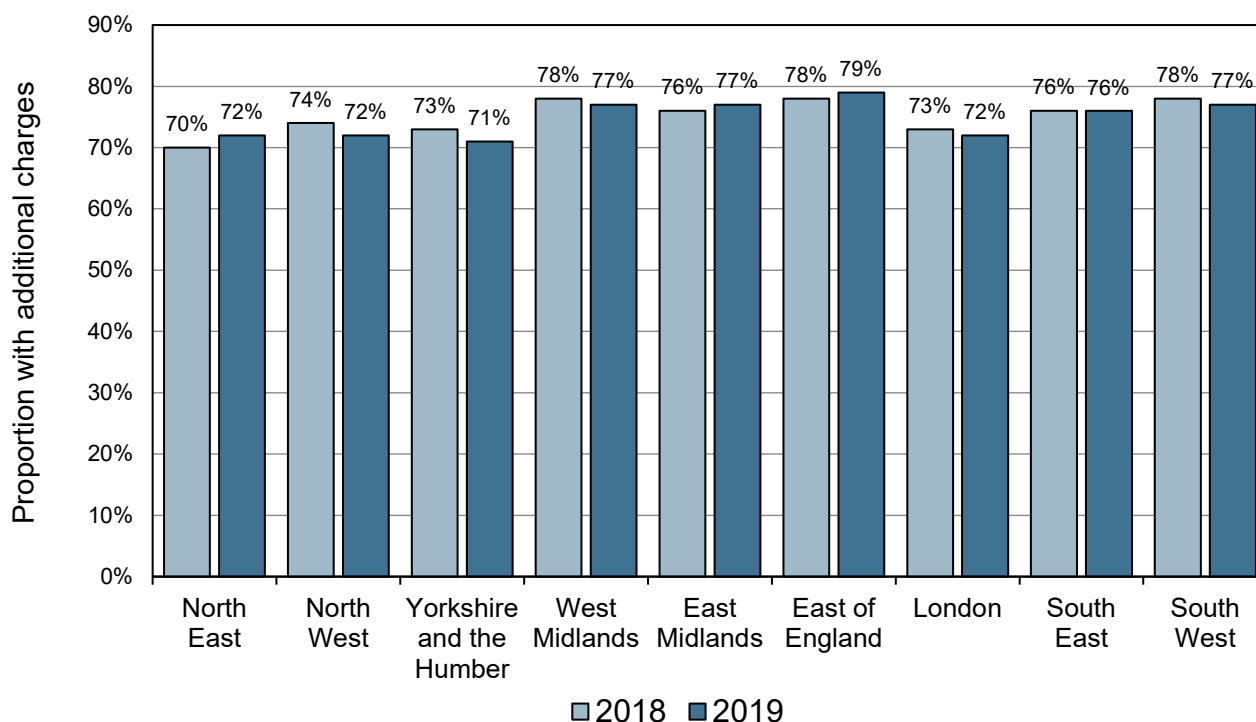


Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for private, voluntary, nursery class, MNS, childminders, all providers and all providers except childminders were 1,685, 1,161, 1,111, 0, 8,258, 12,383 and 4,125 in 2018 and 3,747, 2,236, 2,930, 208, 6,872, 16,332 and 9,460 in 2019. The all providers column also included 168 and 339 other group-based providers for 2018 and 2019 respectively. Data is only used from the short survey for 2018 which contained no MNS. The figures for 2018 were revised from those in the 2018 report due to corrected weighting (see section 2.2). For 2019, the proportion was statistically significantly different at the 95 percent confidence level between private providers and the other four types; and between childminders and the other four types. There were no statistically significant differences at the 95 percent confidence level between 2018 and for 2019.

The proportions of providers with additional charges were higher in the West Midlands, East Midlands, East of England, South East and South West than in the North East, North West, Yorkshire and the Humber, and London (figure 11). The proportions were very similar to those in 2018 and there were no statistically significant differences between 2018 and 2019 for any region.

**Figure 11: Proportion of providers with additional charges by region**



Source: Survey of Childcare and Early Years Providers, 2018 and 2019

Note: Sample sizes for the nine regions were 433, 1,531, 1,345, 1,192, 1,087, 1,378, 1,908, 1,971 and 1,538 in 2018 and 823, 2,135, 1,723, 1,602, 1,218, 1,793, 2,639, 2,566 and 1,833 in 2019. The figures for 2018 were revised from those in the 2018 report due to corrected weighting (see section 2.2). For 2019, the proportion was statistically significantly different at the 95 percent confidence level between the North East, North West, Yorkshire and the Humber and London on the one hand and West Midlands, East Midlands, East of England, South East and South West on the other; and between the East of England and the South East. There were no statistically significant differences at the 95 percent confidence level between 2018 and for 2019.

## 5.5 Use of different kinds of additional charges

In 2019, the most common types of charges were for unarranged late pickups (44 percent of providers had such charges), one-off activities (40 percent of providers) and meals (32 percent of providers) (tables 24 and 25). Less common were charges for regular activities (15 percent of providers), snacks (14 percent of providers), consumables (10 percent of providers) and registration or other administration (12 percent of providers).



**Table 24: Use of different kinds of additional charges in 2018**

<b>Proportion with additional charges for</b>	<b>Private</b>	<b>Voluntary</b>	<b>Nursery class</b>	<b>MNS</b>	<b>Child-minder</b>	<b>All providers</b>	<b>All providers except child-minders</b>
Meals	45%	18%	43%	n/a	26%	31%	37%
Snacks	22%	19%	16%	n/a	8%	13%	19%
Consumables	14%	7%	2%	n/a	11%	10%	9%
Regular activities	24%	7%	3%	n/a	14%	14%	14%
One-off activities	41%	42%	56%	n/a	39%	42%	45%
Unarranged late pickups	61%	41%	10%	n/a	45%	44%	42%
Registration or other administration	32%	21%	1%	n/a	2%	10%	21%
Other items	7%	8%	10%	n/a	4%	6%	8%
Number of providers	1,685	1,161	1,111	0	8,258	12,383	4,125

Source: Short survey, Survey of Childcare and Early Years Providers, 2018

Notes: The all providers column also included 168 other group-based providers. Data is only used from the short survey which contained no MNS. Exclusion of MNS from the “all providers” column in 2018 did not have substantial impact because of the low number of MNS. The figures for 2018 were revised from those in the 2018 report due to corrected weighting (see section 2.2).

**Table 25: Use of different kinds of additional charges in 2019**

Proportion with additional charges for	Private	Voluntary	Nursery class	MNS	Child-minder	All providers	All providers except child-minders
Meals	43%	22% *	49% *	53%	26%	32%	39% *
Snacks	22%	22% *	14%	24%	9% *	14%	20%
Consumables	13%	9%	2%	6%	10%	10%	9%
Regular activities	23%	10% *	8% *	6%	15%	15% *	15% *
One-off activities	38% *	39%	59%	44%	38%	40% *	43%
Unarranged late pickups	61%	44%	15% *	37%	44%	44%	45% *
Registration or other administration	36% *	20%	2%	5%	3% *	12% *	22%
Other items	3% *	3% *	3% *	0%	4%	4% *	3% *
Number of providers	3,747	2,236	2,930	208	6,872	16,332	9,460

Source: Short survey, Survey of Childcare and Early Years Providers, 2019

Notes: The all providers column also included 339 other group-based providers. \* indicates where the mean for 2019 was statistically significantly different from 2018 at the 95 percent confidence level. The mean was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for nursery classes and MNS for meals; private providers, voluntary providers and MNS for snacks; voluntary providers and MNS for consumables; nursery classes and MNS for regular activities; voluntary providers and childminders for unarranged late pickups; and MNS and childminders for registration or other administration. For one-off activities, the only statistically significant differences were for nursery classes on the one hand and all other provider types on the other. For other items, the only statistically significant differences were for private providers and childminders; and nursery classes and childminders.

Almost all of the differences in the proportions across provider types in 2019 were statistically significant but the greatest differences of note are:

- Voluntary providers and childminders were less likely to have charges for meals than other provider types, possibly because voluntary providers were less likely to provide meals and possibly because childminders prefer to use an all-inclusive fee.
- Nursery classes were less likely to charge for unarranged late pickups than other provider types, possibly because school closing hours may make these pickups infeasible.
- Private and voluntary providers were more likely to have charges for registration or other administration than other provider types.

Although many of the proportions using the additional charges were very similar between 2018 and 2019, there were some statistically significant differences:

- For all providers, the proportions with additional charges for regular activities and for registration or other administration were higher in 2019, while the proportions with additional charges for one-off activities and for other items were lower.<sup>36</sup>
- The proportion of private providers with additional charges for registration and other administration was higher in 2019, while the proportions with additional charges for one-off activities and other items were lower.
- The proportions of voluntary providers with additional charges for meals, for snacks and for regular activities were higher in 2019, while the proportion with additional charges for other items was lower.
- The proportions of nursery classes with additional charges for meals, for regular activities and for unarranged pickups were higher in 2019, while the proportion with additional charges for other items was lower.
- The proportions of childminders with additional charges for snacks and for registration or other administration were higher in 2019.

Hence, although the proportions of providers using any additional charges in 2019 had not changed since 2018, the use of some kinds of additional charges had changed.

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<sup>36</sup> The lower proportion with additional charges for “other items” may reflect pressure for greater clarity in the reasons for additional charges in the guidance for 30 hours free childcare.

## 6. Policy engagement

This chapter uses data from the survey in 2019 to explore how the financial measures vary across providers with different combinations of policy engagement (defined here as whether a setting has at least one child benefiting from a policy). The first section describes the policies considered and the combinations of policy engagement used in the analysis. The second section presents the patterns of engagement across provider types. The final section analyses whether key financial indicators (income-to-cost ratio, unit cost, hourly pay, hourly parent-paid fees and the use of additional charges) are related to policy engagement.

The key findings are:

- Engagement was highest for policies for working parents: 76 percent of providers had at least one child in receipt of 30 hours free childcare (30 hours) and 65 percent had at least one child in receipt of Tax Free Childcare (TFC). Engagement was lower for policies for lower income families: 40 percent of providers had at least one child in receipt of the free early education entitlement for two-year-olds (2YO free entitlement) and 35 percent had at least one child in receipt of the Early Years Pupil Premium (EYPP) (section 6.2).
- In terms of combinations of policies, only 7 percent were not engaged with any of the four policies and 5 percent were only engaged with policies for lower income families, while 39 percent were only engaged with policies for working families and half (50 percent) were engaged with a mix of policies for lower income and working families (section 6.2).
- Absence of any engagement was associated with higher hourly parent-paid fees. Engagement only with policies for lower income families was associated with higher unit costs and higher hourly parent-paid fees. Engagement only with policies for working families was associated with lower hourly parent-paid fees. Engagement with a mix of policies for lower income families and policies for working parents was associated with lower hourly pay, lower hourly parent-paid fees and a greater likelihood of additional charges for parents (section 6.3).

It should be noted that this analysis only identified associations between policy engagement and the financial outcomes and does not inform on the direction of causation. In other words, the associations do not establish whether providers with particular financial characteristics are more likely to engage with different kinds of policies, or whether engagement with specific policies drives differences in financial outcomes or whether there is a third factor influencing both policy engagement and financial outcomes.

## 6.1 Description of policy engagement measures

Data from the survey in 2019 was used to consider the relationships between five key financial indicators (described in section 6.3) and four policies:<sup>37</sup>

### Two-year-old Free Entitlement (2YO free entitlement)

The two-year-old free early education entitlement for children in lower income families. This entitlement offers 15 hours of free early education for 38 weeks each year for two-year-old children living in families in receipt of a range of out-of-work benefits or tax credits with sufficiently low income.<sup>38</sup>

### Early Years Pupil Premium (EYPP)

The Early Years Pupil Premium for three- and four-year-old preschool children in lower income families. This premium is paid on the funding rate for the universal free early education entitlement for three- and four-year-olds for children meeting the same eligibility requirements as those for the 2YO free entitlement.<sup>39</sup>

### 30 Hours Free Childcare (30 hours)

30 hours free childcare for three- and four-year-old preschool children in families where all parents are in work. This offers an additional 15 hours of free early education for 38 weeks each year for three- and four-year-old children in families where all parents work (defined as earning the equivalent to working 16 hours each week at the National Minimum / Living Wage) and earning less than £100,000 per year.<sup>40</sup>

### Tax Free Childcare (TFC)

Tax Free Childcare for children up to the age of twelve in families where all parents are in work. TFC is a 20 percent government top-up for childcare costs up to £2,000 per year (on costs of £10,000) for each child under age twelve (or under age seventeen if

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<sup>37</sup> The universal free early education entitlement for three- and four-year-old preschool children was not considered because a very high proportion of non-childminder provider types are engaged with the policy. According to the main survey in 2019, these proportions were 93 percent for private providers, 94 percent for voluntary providers, 90 percent for nursery classes and 100 percent for MNS. Only childminders had a smaller proportion (53 percent), but this reflected that they are less likely to have children in the eligible age group and that eligible children in their care are more likely to receive the free hours from another provider as part of a shared care arrangement than from the childminder.

<sup>38</sup> For the 2019/20 financial year, the threshold was £15,400 for families in receipt of Universal Credit and £16,190 for families in receipt of tax credits. See <https://www.gov.uk/help-with-childcare-costs/free-childcare-2-year-olds>.

<sup>39</sup> See [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/758271/EYNFF\\_Operational\\_Guide\\_-\\_2019-20\\_Final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/758271/EYNFF_Operational_Guide_-_2019-20_Final.pdf).

<sup>40</sup> See <https://www.gov.uk/30-hours-free-childcare>.

disabled), available to working parents (defined in the same way as for 30 hours free childcare).<sup>41</sup>

## Policy combinations

Combinations of these policies were considered for four categories which captured the key engagement patterns and combined policies with similar target families:<sup>42</sup>

- **None:** no engagement with any of the four policies.
- **Lower income only:** engagement with the 2YO free entitlement and/or EYPP and no engagement with 30 hours or TFC.
- **Working parents only:** no engagement with the 2YO free entitlement or EYPP and engagement with 30 hours and/or TFC.
- **Mix:** engagement with at least one of the lower income policies (2YO free entitlement or EYPP) and engagement with at least one of the working parents policies (30 hours or TFC).

## 6.2 Patterns of policy engagement

Engagement was highest for policies for working parents: 76 percent of providers had at least one child in receipt of 30 hours and 65 percent had at least one child in receipt of TFC. Engagement was lower for policies for lower income families: 40 percent of providers had at least one child in receipt of the 2YO free entitlement and 35 percent had at least one child in receipt of the EYPP.

Tables 26 and 27 present the patterns of policy engagement for different types of providers and whether the provider has any children under age three. Just two ages of youngest child are considered because engagement differed substantially by the presence of children under age three but there were no distinct patterns by the presence of children under age two.

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<sup>41</sup> See <https://www.gov.uk/tax-free-childcare>.

<sup>42</sup> To note again, the universal free early education entitlement for three- and four-year-old preschool children was not considered because a very high proportion of non-childminder provider types are engaged with the policy.

**Table 26: Engagement with individual policies for providers with children under age three**

Proportions engaged with policy	Private	Voluntary	Nursery classes	MNS	Child-minder	All providers	All providers except child-minders
2YO free entitlement	85%	87%	86%	98%	22%	48%	86%
EYPP	56%	70%	82%	99%	7%	32%	63%
30 hours	92%	88%	86%	97%	71%	79%	90%
TFC	82%	58%	47%	58%	68%	69%	71%
Number of providers	3,403	2,032	608	174	6,421	12,940	6,519

Source: Survey of Childcare and Early Years Providers, 2019

Notes: All providers also included 302 other group-based providers. Engagement means having at least one child benefiting from the policy.

**Table 27: Engagement with individual policies for providers with no children under age three**

Proportions engaged with policy	Private	Voluntary	Nursery classes	MNS	Child-minder	All providers	All providers except child-minders
EYPP	12%	45%	77%	100%	4%	48%	63%
30 hours	32%	59%	69%	90%	55%	60%	62%
TFC	57%	50%	27%	50%	51%	40%	35%
Number of providers	426	226	2,466	40	539	3,738	3,199

Source: Survey of Childcare and Early Years Providers, 2019

Notes: All providers also included 41 other group-based providers. Engagement means having at least one child benefiting from the policy.

Tables 26 and 27 show that:

- For all provider types with children under age three, engagement was highest for 30 hours (79 percent) and TFC (69 percent) and lower for the 2YO free entitlement (48 percent) and EYPP (32 percent).

- Providers without children under the age of three were less likely than those with children under age three to be engaged with 30 hours (60 percent) and TFC (40 percent), but were more likely to be engaged with EYPP (48 percent), with smaller differences in engagement across the three policies than for providers with children under age three.
- For providers with and without children under the age of three, engagement with the 2YO free entitlement and EYPP was higher and engagement with TFC was lower for voluntary providers, nursery classes and MNS than for private providers and childminders.
- Childminder engagement was generally lower than for other provider types and very low for the 2YO free entitlement and EYPP.

In terms of combinations of policies, only 7 percent of all providers were not engaged with any of the four policies and 5 percent were only engaged with policies for lower income families, while 39 percent were only engaged with policies for working families and half (50 percent) were engaged with a mix of policies for lower income and working families. Tables 28 and 29 present the patterns of combinations of policy engagement for different types of providers and whether the provider has any children under age three.

Tables 28 and 29 show:

- Most providers *with* children under age three were engaged with the mix of policies (53 percent) or were engaged only with policies for working parents (39 percent), while small proportions were engaged with none of the four policies (6 percent) or only with policies for lower income families (3 percent).
- In contrast, notably higher proportions of providers *with no* children under age three were engaged with none of the four policies (15 percent) or only with policies for lower income families (12 percent), while the most common combination was engagement only with policies for working families (39 percent). Just over a third (34 percent) were engaged with the mix of policies.



**Table 28: Engagement with combinations of policies for providers with children under age three**

Proportions engaged with policy combinations	Private	Voluntary	Nursery classes	MNS	Child-minder	All providers	All providers except child-minders
None	2%	1%	1%	0%	9%	6%	1%
Lower income only	2%	7%	10%	2%	2%	3%	4%
Working parents only	10%	6%	5%	0%	63%	39%	8%
Mix	86%	87%	84%	98%	26%	53%	86%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	3,057	1,900	485	168	4,780	10,653	5,873

Source: Survey of Childcare and Early Years Providers, 2019

Notes: Column percentages may not sum to 100 due to rounding. All providers also included 263 other group-based providers. See text for a description of the policy combinations.

**Table 29: Engagement with combinations of policies for providers with no children under age three**

Proportions engaged with policy combinations	Private	Voluntary	Nursery classes	MNS	Child-minder	All providers	All providers except child-minders
None	32%	14%	6%	0%	23%	15%	12%
Lower income only	1%	5%	22%	8%	1%	12%	17%
Working parents only	56%	40%	17%	0%	74%	39%	26%
Mix	12%	40%	54%	92%	3%	34%	46%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	334	206	1,949	36	478	3,033	2,555

Source: Survey of Childcare and Early Years Providers, 2019

Notes: Column percentages may not sum to 100 due to rounding. All providers also included 30 other group-based providers. See text for a description of the policy combinations.

Looking across provider types, there were three distinctive patterns:

- For each provider type with children under the age of three (except for childminders) and the small group of MNS with no children under age three, most providers were engaged with the mix of policies and very few were engaged with none.
- For private providers with no children under age three and for childminders with and without children under age three, most were engaged only with the policies for working parents.
- For voluntary providers and nursery classes with no children under age three, there was a more even spread across the different combinations.

### 6.3 Policy engagement and financial outcomes

Five key financial measures were considered in relation to the combinations of policy engagement:

- **Income-to-cost ratio:** The income-to-cost ratio is total weekly income divided by total weekly cost.
- **Unit cost:** The unit cost is an approximate measure of the average cost per child per hour for all children in the setting.
- **Staff hourly pay:** Staff hourly pay is gross weekly earnings divided by contracted weekly work hours.<sup>43</sup>
- **Hourly parent-paid fees:** Hourly parent-paid fees are the average hourly fees charged to parents for three- and four-year-old preschool children.
- **Use of additional charges:** Additional charges are charges that providers require parents to pay for specific items over and above the regular fees.

Table 30 presents comparisons of the financial outcomes across the policy combinations:

- Although the mean income-to-cost ratio was substantially higher for providers not engaged with any of the four policies, there were no statistically significant differences across the policy engagement combinations.

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<sup>43</sup> Differences in mean hourly pay could not be examined for EYPP and TFC engagement because data on these policies were not included in the survey variants collecting data on staff pay. The four policy combinations categories for hourly pay therefore capture no engagement with 2YO and 30 hours (none), engagement with the 2YO free entitlement (low income only), engagement only with 30 hours (working parents only) (30 hours only) and all policies (both 2YO entitlement and 30 hours).

- The mean unit cost was higher for providers engaged only with policies for lower income families than all other policy combinations.
- Mean hourly pay was lower for providers engaged with the mix of policies than for providers engaged with none of the policies or only with policies for working families.
- The mean hourly fee was higher for providers engaged with none of the policies and for those engaged only with policies for lower income families than for providers engaged only with policies for working families or with the policy mix.
- The proportion with additional charges was higher for those engaged with the mix of policies than all other categories.

**Table 30: Financial outcomes by policy combinations**

Policy combination	Mean income-to-cost ratio	Mean unit cost	Mean hourly pay	Mean hourly fee	Proportion with additional charges
None	1.75	£3.71	£12.12	£5.52	69%
Lower income only	1.19	£8.09	£11.35	£5.36	67%
Working parents only	1.28	£3.48	£12.15	£4.95	70%
Mix	1.34	£3.76	£10.48	£5.02	81%
Number of providers	1,843	1,990	11,403	11,834	13,610

Source: Survey of Childcare and Early Years Providers, 2019

Notes: See text in section 6.1 for a description of the policy combinations. The hourly fee is for three- and four-year-old preschool children.

The statistical significance of the differences between the four policy categories were tested using regression models with and without controls for provider type and the presence of children under age three<sup>44</sup> to consider whether the associations between policy engagement and financial outcomes were due to the mix of providers engaged with each policy combination. The one key finding from this was that the differences in hourly staff pay were explained by the mix of provider types engaged in the policies.<sup>45</sup>

<sup>44</sup> The controls were an 11-category variable combining provider type and presence of children under age three for the six provider types, with MNS combined into a single category for MNS because of the small number of MNS without children under age three.

<sup>45</sup> Controlling for differences in provider type showed that being engaged with none of the policies was associated with a higher unit cost than being engaged with the mix of policies. Controlling for differences in provider type showed that the mix in provider types explained the difference in the mean hourly fee between low income only and working families only, while also indicating that engaging only with policies

Overall, this analysis showed that:

- Absence of any engagement was associated with higher hourly parent-paid fees.
- Engagement only with policies for lower income families was associated with higher unit costs and higher hourly parent-paid fees.
- Engagement only with policies for working families was associated with lower hourly parent-paid fees.
- Engagement with a mix of policies for lower income families and policies for working parents was associated with lower hourly pay, lower hourly parent-paid fees and a greater likelihood of additional charges for parents.

It should be noted that this analysis only identified associations between policy engagement and the financial outcomes and does not inform on the direction of causation. In other words, the associations do not establish whether providers with particular financial characteristics are more likely to engage with different kinds of policies, or whether engagement with specific policies drives differences in financial outcomes or whether there is a third factor influencing both policy engagement and financial outcomes.

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for working families was associated with a *higher* hourly fee than being engaged with the mix of policies (in contrast to the raw difference). Controlling for differences in provider type showed that being engaged only with policies for lower income families was associated with a lower likelihood of having additional charges than being engaged with none of the policies or only with policies for working families.

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