



Department  
for Education

# **Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2022**

**Research report**

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## Glossary

Further explanations can be found in the Appendix.

**Additional charges:** charges that providers require parents to pay for specific items (e.g. unarranged late pickups) over and above regular fees.

**Cost decomposition:** division of providers' total cost into staffing costs, rent or mortgage, food costs, materials costs, training costs and a residual "other" category.

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

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

**Hourly 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 years entitlement.

**Hourly effective income:** the average income received by providers per hour of care provided. This is an average of the average hourly fees paid to providers by parents and average hourly free entitlement funding rates, weighted by the *number of hours* paid for by parents and through "entitlement" funding.

**Hourly parent-paid fees:** the average hourly fee charged by providers to parents.

**Staff hourly pay:** gross weekly earnings divided by contracted weekly work hours before tax and National Insurance are deducted.

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

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

**Unit cost:** an approximate measure of a provider's average cost per child per hour for all children in the setting.

## Provider types

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

- **Private group-based providers:** Ofsted-registered providers operating on non-domestic premises that are run by private companies. These include employer-run childcare for employees.
- **Voluntary group-based providers:** Ofsted-registered providers operating on non-domestic premises that are run by a charity or voluntary management committee on a not-for-profit basis;
- **Maintained nursery schools:** Purpose-built maintained schools specifically for children in their early years with a qualified teacher present;
- **Nursery class childcare settings<sup>1</sup>:** These are other maintained schools, and non-maintained schools, offering nursery provision; and
- **Childminders:** Ofsted-registered individuals providing early years care on domestic premises.

“All providers” includes a small group of “other” group-based providers (e.g., “private not-for-profit” providers) that do not fall into either the “private” or “voluntary” categories. The definition of “other group-based providers” changed between 2021 and 2022 (further details can be found in the 2022 Survey of Childcare and Early Years Providers<sup>2</sup>).

## Age groups covered by the Survey of Childcare and Early Years Providers

The sample used in this report only includes providers who look after at least one preschool age child (a child who has not yet entered reception class). Some of these providers will have looked after children who were of school age in addition to preschool children.

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<sup>1</sup> In other reports (such as the [Survey of Childcare and Early Years Providers](#)) the same category of providers are referred to as ‘school-based providers (SBPs) offering nursery’

<sup>2</sup> [2022 Survey of Childcare and Early Years Providers](#)

## Executive summary

The government spent around £3.8bn in the 2022/23 financial year on free early years entitlements<sup>3</sup> and announced in the March 2023 budget that there would be expansions to free childcare starting from April 2024. In light of this planned expansion, it is important to understand the finances of providers, who the government pay to provide free childcare. This report analyses information about providers' cost of delivering childcare and the income that they receive both from parents and the government. The analysis uses information from the 2022 Survey of Childcare and Early Years Providers (SCEYP), and presents the results across different types of providers, geographical region, and age groups.

### Childcare providers' total cost and total income

- Staffing costs continued to make up the majority (70%) of providers' costs. Staffing costs ranged from around two-thirds (66%) of total childminders' costs to around four-fifths (80%) of total school-based providers' costs.
- Between 2018 and 2022 there was a shift in providers' income – away from parent-paid fees (which fell from 62% of providers' total income in 2018 to 51% in 2022), towards income from free entitlement funding (which increased from 26% of providers' total income in 2018 to 34% in 2022).
- The proportion of income from different income sources continued to vary considerably between provider types. For example, parent-paid fees accounted for 71% of childminders' income, while 85% of income for nursery class childcare settings came from free entitlement funding.
- Mean income-to-cost ratios fell from £1.25 of income per £1 of cost in 2021 to £1.15 of income per £1 of cost in 2022. The median income-to-cost ratio was £1 of income per £1 of cost. This suggests that while some providers experienced income-to-cost ratios much greater than one, half of providers had an income-to-cost ratio below one (i.e., reported income that did not fully cover their costs).
- Over one in three nursery class childcare settings (36%) had an income-to-cost ratio of less than 0.8 (i.e., were in deficit).
- Regional differences in total cost and income were largely consistent with differences in the composition of provider types across regions. For example, the median total weekly cost for providers in the West Midlands (£701 per week) was second only to London. This was partly driven by the fact that childminders (who had the lowest average total cost and income) made up a smaller proportion of providers (25%) in the West Midlands than any other region.

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<sup>3</sup> [House of Commons Library](#)

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

- The median unit cost for childcare providers in 2022 was £5.21 per hour. Nursery class childcare settings and maintained nursery schools had the highest median unit costs (£7.64 and £5.41 per hour, respectively). At the other end of the spectrum, private providers registered a median unit cost of £4.57 per hour.
- The relatively high unit costs for school-based providers are consistent with higher staff hourly pay. For example, median hourly pay for staff in nursery class childcare settings was £13.00 per hour compared to £10.00 for private and voluntary group-based providers.
- The relatively high staff hourly pay for school-based providers was driven both by their more highly qualified staff as well as a greater hourly pay premium for staff with higher-level qualifications based at school-based providers.
- Regional differences in unit costs and staff costs were largely consistent with regional differences in average household incomes.
- Just over 1 in 5 childcare staff (21%) were paid at or below the National Living Wage (NLW).

## **Parent-paid fees and additional charges**

- Mean hourly fees paid by parents to providers were relatively stable across age groups, ranging from £5.60 to £5.72 per hour. Hourly parent-paid fees tended to be highest among private group-based providers (£6.29 to £6.59 per hour) and lowest among childminders (£5.22 to £5.36 per hour).
- Providers responding to SCEYP in 2022 were more likely to have increased their fees than providers who responded in 2021. 28% of school-based providers (compared with 12% in 2021), 31% of childminders (compared with 14% in 2021), and 59% of group-based providers (compared with 33% in 2021) said that they had increased their fees in the last 12 months.
- Free entitlement funding rates were similar to (but lower than) hourly parent-paid fees for two-year-old children, but distinctly lower for three- and four-year-old children. This reflects the higher hourly free entitlement funding rates for the younger age group, among whom the free entitlement is currently targeted at disadvantaged children.
- Maintained nursery schools reported the highest mean free entitlement funding rates and childminders the lowest.
- The highest hourly parent-paid fees were in London, and in the regions surrounding the capital (the South East and the East of England). For example, the median hourly parent-paid fees for two-year-old children in London and the

South East were £7.00 and £5.75, respectively, compared to £4.50 in the North East.

- Providers' use of additional charges increased slightly from 2021, bringing their use more in line with 2018 and 2019. The most common types of charges were for unarranged late pickups, one-off activities, and meals.

### **Hourly effective income for providers**

- Providers' mean hourly effective income was £5.61 for two-year-old children, falling to £4.92 for three- and four-year-old children. This is largely driven by lower hourly free entitlement funding rates for the older age group - the mean free entitlement funding rate for two-year-olds was £5.38 compared to £4.65 for three- and four-year-olds.
- Hourly effective incomes were closer to hourly free entitlement funding rates than to hourly parent-paid fees for most provider types. Variation across provider types reflected different proportions of income coming from different income sources (such as childminders whose income was mostly generated from parent-paid fees).
- Providers in London and surrounding regions had the highest median hourly effective incomes. Low median hourly effective incomes in East Midlands and the North West were driven by lower hourly free entitlement funding rates. The median hourly effective income for providers in London was £6.43 and £5.76 for two-year-olds and three- and four-year-olds, respectively, compared to £5.14 and £4.38 in the East Midlands.

It is important to note caveats associated with the methodology and the data sources, which are discussed in more detail throughout the report and the appendix. For example, unlike other provider types, childminders' costs do not include rent or mortgage costs, while the calculation of childminders' hourly pay is based on the amount that childminders draw from their business in the form of a salary (unlike other childcare workers such as childminding assistants and staff working for school-based and group-based providers, who are paid actual salaries).

# 1. Introduction

## Survey of Childcare and Early Years Provides (SCEYP)

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 and voluntary group-based childcare providers, school-based providers 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 2021, the Department for Education commissioned IFF Research and London Economics to conduct the survey on its behalf.

This report presents an analysis of early years providers' finances in 2022. Further information about the survey and the methodology can be found in the technical report for the 2022 Survey of Childcare and Early Years Providers<sup>4</sup>.

### Data limitations

One important caveat of this report's findings is the quality of the information collected from providers. For example, there is greater confidence in estimates using hourly parent-paid fees and free entitlement rates than for providers' incomes and costs.

The limitations of the data for different variables are outlined below.

### Providers' income and costs:

Only 1,169 providers (7.4% of the 15,838 providers in the sample from the survey) provided information about total income and cost. This is an important caveat for the statistics presented, especially for provider types that make up a smaller proportion of all providers. For example, only 59 maintained nursery schools provided information about total income and cost.

In contrast, 5,915 providers reported information about their hourly parent-paid fees for children under the age of two, 8,495 for two-year-olds, and 9,778 for three- and four-year-olds). Similar numbers of providers reported information about their hourly free entitlement funding rates. As a result, there is greater confidence in estimates using hourly parent-paid fees and free entitlement rates than for provider's incomes and costs.

### Breakdown of incomes and costs:

Even fewer providers gave information about the breakdown of their incomes and costs. 1,619 providers reported their total cost, whereas only 1,241 reported their component costs. 1,619 providers reported their total income, whereas only 924 reported a

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<sup>4</sup> [2022 Survey of Childcare and Early Years Providers](#)

breakdown across different sources of income. Information provided about the breakdown of income and costs were often inconsistent with the information provided by total income and costs (e.g., the sum of the reported components of income and costs were often different to the reported total income and costs).

### **Staff hourly pay:**

Information presented in this report concerning staff hourly pay was derived from information that different types of providers reported in different ways. Staff hourly pay is derived from dividing gross weekly earnings by the number of contracted weekly hours. If the number of contracted weekly hours are greater than the number of hours worked, this may underestimate staff hourly pay. The staff hourly pay of childminders differs from other provider types. Their pay is estimated using childminding income that they pay themselves, limiting their comparability with pay of staff working for other provider types.

### **Improvements in data collection:**

Improvements in data collection have been made for the 2023 Survey of Childcare and Early Years Providers to improve the quality of the information gathered. For example, providers are asked to enter all information about costs (total cost and different component of costs) using the same time period (e.g., per week or per term) to ensure consistency and validation checks have been incorporated into the survey to help providers report accurate breakdowns of their income and costs<sup>5</sup>.

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<sup>5</sup> For the [2022 Survey of Childcare and Early Years Providers](#) and previous surveys, providers were able to report different costs in different time periods.

## 2. Total cost and total income

### 2.1 Total cost

Total weekly cost is defined as the total financial outgoings (excluding rent and mortgage payments for childminders) paid by providers each week. As a total, the measure does not consider the number of children in the childcare setting.

#### **Total cost for all providers and for all providers excluding childminders**

Table 1 presents mean and median total weekly costs across provider types in 2018, 2019, 2021, and 2022. Mean weekly costs take into account the entire sample but are sensitive to extreme values. The "median" weekly cost is the middle observation when providers are ranked from lowest to highest. Medians are less sensitive than means to extreme values.

Providers' mean total weekly costs were over three times the median (£1,994 compared to £617, a 223% difference), while excluding childminders they were approximately 60% higher (£4,356 compared to £2,731). The mean being larger than the median implies that the distribution is positively skewed, i.e., that there are some providers with very large total weekly costs that increase the mean but not the median. This suggests that the median may be a better indicator of total weekly cost for a 'typical' provider.

Mean and median total weekly costs increased by 13% and 8% respectively between 2018 and 2022. This, however, includes a 11% fall in mean total weekly costs between 2021 and 2022. This was driven by a very large reduction in the average weekly costs for voluntary group-based providers, which fell from £4,506 in 2021 to £3,117 in 2022. This sharp year-on-year drop is unlikely to arise from significant cost savings among individual providers, instead most likely reflecting a change in the composition of voluntary providers between the two years (e.g., voluntary group-based providers who submitted cost data on the 2021 survey had more children enrolled, on average, than voluntary group-based providers who submitted cost data on the 2022 survey). Total mean weekly costs either remained essentially unchanged or increased between 2021 and 2022 for all other provider types.

The median total weekly cost for all providers decreased by 11.5% from 2021 to 2022, while there was an increase in total weekly cost of 16.8% when childminders were excluded.

This difference between changes when including or excluding childminders illustrates two important limitations when focusing on average total weekly cost (and changes) across all provider types.

- Focusing on average total weekly cost may mask important differences in costs and trends between provider types that may be driven by other factors, such as the average number of children that different types of provider care for.
- Further, if there are significant differences between total weekly costs across types of providers, then changes in the average total weekly cost across all types of providers may be partly driven by changes in the composition of providers across provider types.

As a result, it is important to explore differences in total weekly cost (and changes) for different provider types, and carefully contextualise these differences.

**Table 1: Total weekly cost by provider type (2018, 2019, 2021, and 2022)**

<b>Provider type</b>	<b>Mean total weekly cost</b>	<b>Median total weekly cost</b>	<b>Number of providers</b>	<b>Average booked places</b>
<b>Private providers</b>				
2018	£4,686	£2,791	495	
2019	£5,584	£2,885	650	34
2021	£5,129	£3,023	739	34
2022	£5,370	£3,846	450	36
<b>Voluntary providers</b>				
2018	£3,017	£1,759	468	
2019	£3,560	£1,739	567	24
2021	£4,506	£2,096	576	24
2022	£3,117	£2,136	401	24
<b>Nursery class childcare settings</b>				
2018	£3,329	£1,923	144	
2019	£2,851	£2,007	436	21
2021	£2,841	£1,926	426	20
2022	£2,834	£2,115	271	20
<b>Maintained nursery schools</b>				
2018	£12,224	£9,733	106	
2019	£12,909	£11,692	89	45
2021	£11,644	£10,015	93	48
2022	£12,101	£11,250	59	52
<b>Childminders</b>				
2018	£447	£387	332	3
2019	£454	£356	456	3
2021	£466	£381	511	3
2022	£488	£385	385	3
<b>All providers</b>				
2018	£1,759	£573	1,574	
2019	£2,141	£647	2,235	
2021	£2,239	£698	2,377	
2022	£1,994	£617	1,619	
<b>All providers except childminders</b>				
2018	£4,048	£2,071	1,242	
2019	£4,499	£2,209	1,779	
2021	£4,609	£2,337	1,866	
2022	£4,356	£2,731	1,234	

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022

Note: The sample consists of all providers with at least one preschool child. All statistics were weighted to be nationally representative. All providers includes 29, 37, 32, and 53 'other' group-based providers for 2018, 2019, 2021, and 2022 respectively.

## **Total cost across provider types**

In 2022, mean and median total weekly costs were highest for maintained nursery schools (£12,101 and £11,250, respectively) and lowest for childminders (£488 and £385, respectively). Private group-based providers had the second highest mean and median total weekly cost (£5,370 and £3,846, respectively) followed by voluntary group-based providers (£3,117 and £2,136, respectively), and then by nursery class childcare settings (£2,834 and £2,115, respectively).

This pattern of average weekly costs across providers is consistent with previous years and reflects differences in the average number of children cared for by each provider type. In 2022, maintained nursery schools, which had the highest total weekly cost, had an average of 52 booked places per provider (corresponding to a median weekly cost of £216 per booked place per week). This was followed by private group-based providers (36 booked places and £107 per booked place per week), voluntary group-based providers (24 booked places and £89 per booked place per week), and nursery class childcare settings (20 booked places and £106 per booked place per week). Childminders had an average of just 3 booked places (£128 per booked place per week), which explains their much lower average total weekly cost compared to other provider types.

Note that a 'booked place' (for full day provision) will not be directly comparable across provider types, as a booked childminder place might involve a different number of hours to a booked nursery place. This difference is accounted for when discussing unit costs in Chapter 3. Booked places are instead included here to contextualise the variation more broadly in total weekly costs seen between different provider types.

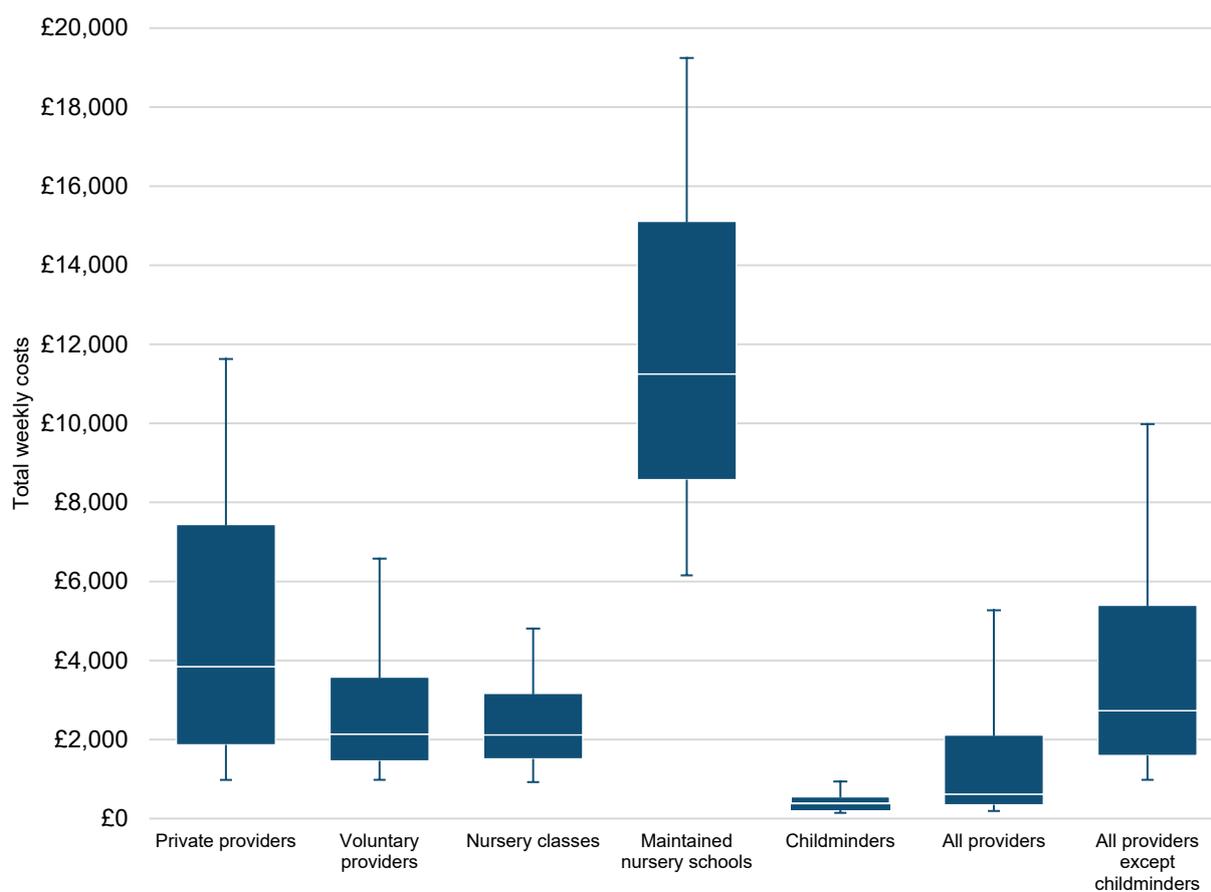
## **Changes over time**

Private group-based providers experienced the largest increase in median weekly total cost from 2018 to 2022 (38%), followed by voluntary group-based providers (21%), maintained nursery schools (16%), and nursery class childcare settings (10%). Childminders, however, saw almost no change in median weekly total costs between 2018 and 2022.

## **Distribution of total weekly costs within provider types**

As well as variation between provider types, there was considerable variation in total weekly cost across providers within provider types. Figure 1 presents the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (median), 75<sup>th</sup>, and 90<sup>th</sup> percentile total weekly cost for each provider type, for all providers, and for all providers excluding childminders.

**Figure 1: Distribution of total weekly costs by provider type (2022)**



Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022

Notes: The bottom whisker reports the 10<sup>th</sup> percentile for the provider type, where the providers have been ranked by total weekly cost, while the top whisker reports the 90<sup>th</sup> percentile. The bottom boundary of the box presents the 25<sup>th</sup> percentile, the middle line within the box the 50<sup>th</sup> percentile (the median), and the top boundary of the box the 75<sup>th</sup> percentile. The interquartile range (i.e., the range between the 25<sup>th</sup> percentile and the 75<sup>th</sup> percentile) is the distance between the top and bottom of the box.

The interquartile range (the difference between the 75<sup>th</sup> and 25<sup>th</sup> percentiles) illustrates the spread of the middle 50% of providers when ranked by total weekly cost. The interquartile range was greatest for maintained nursery schools (£6,534). However, despite having the largest interquartile range in financial terms, maintained nursery schools had the smallest ratio between the 75<sup>th</sup> and 25<sup>th</sup> percentile of all provider types. Total weekly costs for the 75<sup>th</sup> percentile-maintained nursery school were 1.8 times greater than those of the 25<sup>th</sup> percentile school. The ratio between the 75<sup>th</sup> and 25<sup>th</sup> percentiles was greatest for private group-based providers (4.0) – this in part reflects large variation in private group-based providers’ size – followed by voluntary group-based providers (2.5 times), childminders (2.4 times), and nursery class childcare settings (2.1 times).

## 2.2 Cost decomposition

The division of providers' total costs into staff costs, rent or mortgage, food costs, materials costs, training costs and a residual "other" category.

Details of the cost decomposition methodology are provided in the Appendix. Before presenting results, it is worth noting that there were two key differences between childminders and other provider types in the breakdown of their costs that suggest they are not directly comparable:

- Rent/mortgages were not included in childminders costs; and
- Childminders spent a greater proportion of their weekly outgoings on food, which reflects the all-day care childminders provide compared to morning or afternoon session provision that group-based and school-based providers often offer.

With this in mind, Table 2 reports the breakdown of costs across provider types in 2022, while Table 3 presents the percentage point changes from 2021. The large majority of providers costs were staff costs, which accounted for an average of 70% of total costs across all providers and 75% across all providers excluding childminders. This was similar to previous years.

Staff costs as a proportion of total costs were highest for school-based providers (81% for nursery class childcare settings and 79% for maintained nursery schools), followed by group-based providers (78% for voluntary group-based providers and 69% for private group-based providers). Childminders' staff costs, which include their own childminding income and the cost of hiring childminding assistants, made up the smallest proportion of total costs of all providers (66%). Staff costs as a proportion of total costs were similar to 2021 for all types of providers except childminders, where they fell by 8 percentage points between 2021 and 2022 (although this was a smaller fall when compared to 70% in 2018).

The next most significant cost for all providers was 'other' costs, which include other associated costs of childcare such as energy and other utilities costs, and administrative costs such as IT support and marketing. This accounted for between 11% (for voluntary group-based providers and nursery class childcare settings) and 16% (for maintained nursery schools) of providers' total costs. 'Other' costs increased in importance for private group-based providers and childminders between 2021 and 2022, with four and five percentage point increases respectively. This increase may reflect large increases seen in utility costs over this period (a cost that school-based providers, seeing no change in 'other' costs, may have been more sheltered from). Over a longer period, other costs as a proportion of total costs increased from 11% in 2018 to 14% in 2022, although there is variation between provider types. Specifically, other costs as a proportion of total

costs more than doubled for nursery class childcare settings between 2018 and 2022 (from 5% to 11%)<sup>6</sup>.

Rent/mortgage payments made up 9% and 6% of private and voluntary group-based providers' costs (falling from 12% and 7%, respectively, in 2021). They were only 1% of school-based providers' costs. The low premises-related costs for school-based providers help to explain the high percentage of costs accounted for by staff wages.

**Table 2: Breakdown of costs by provider type (2022)**

Proportion of costs in category	Private group-based providers	Voluntary group-based providers	Nursery class childcare settings	Maintained nursery schools	Childminders	All providers	All providers except childminders
Staff	69%	78%	81%	79%	66%	70%	75%
Rent/mortgage	9%	6%	1%	1%	-	3%	6%
Food	4%	2%	1%	1%	12%	8%	3%
Materials	3%	3%	4%	2%	6%	4%	3%
Training	1%	1%	1%	1%	2%	1%	1%
Other	15%	11%	11%	16%	15%	14%	13%
Number of providers	377	321	202	50	246	1,241	995

Source: Survey of Childcare and Early Years Providers 2022. Note: Rent or mortgage costs were not collected for childminders. All providers includes 45 'other' group-based providers.

<sup>6</sup> Cost decomposition information for 2018 obtained from Table 5 of Providers' finances: evidence from the [Survey of Childcare and Early Years Providers 2018](#)

**Table 3: Breakdown of costs by provider type (percentage point change from 2021)**

Proportion of costs in category	Private group-based provider	Voluntary group-based providers	Nursery class childcare settings	Maintained nursery schools	Childminders	All providers	All providers except childminders
Staff	0%	1%	0%	0%	-8%	-4%	1%
Rent/mortgage	-3%	-1%	0%	0%	-	0%	-2%
Food	0%	0%	-1%	0%	2%	1%	0%
Materials	0%	0%	0%	0%	1%	0%	0%
Training	0%	0%	0%	0%	0%	0%	0%
Other	4%	0%	0%	0%	5%	4%	2%

Source: Survey of Childcare and Early Years Providers 2021 and 2022. Note: Rent or mortgage costs were not collected for childminders. All providers includes 45 'other' group-based providers.

## 2.3 Total income

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

### Total income for all providers and for all providers excluding childminders

Table 4 presents total weekly income across provider types in 2018, 2019, 2021, and 2022. In 2022, the mean total weekly income across all providers was £2,088 (or £4,669 excluding childminders). Median weekly incomes were significantly lower, standing at £575 and £2,721 per week, respectively. As with total weekly cost, the mean total weekly income was significantly higher than the median both when including and excluding childminders. In 2022, the mean was 263% greater than the median when including childminders and 72% greater when excluding childminders (compared to differences of 223% and 60%, respectively, for total weekly costs). This considerable positive skew suggests (again) that there were some providers with much higher total weekly income that influence the mean but not the median and that the median may be a better indicator of total weekly income for the average provider.

The same limitations relating to the interpretation of averages across multiple provider types that were discussed above in relation to total weekly costs are relevant: that averages mask important differences in incomes (and changes in incomes) across provider types, and that changes to the average may be driven by changes in the composition of providers across provider types.

## **Total income across provider types**

Similar to costs, mean and median total weekly incomes were highest for maintained nursery schools (£10,948 and £10,351, respectively) and lowest for childminders (£442 and £393, respectively). Private group-based providers had the second highest mean and median total weekly income (£6,392 and £4,423, respectively) followed by voluntary group-based providers (£3,200 and £2,231, respectively), and then by nursery class childcare settings (£2,455 and £1,962, respectively).

The trend across provider types again reflects differences in the size of the average provider in each provider type. In 2022, maintained nursery schools had an average of 52 booked places and a median weekly income of £199 per booked place, followed by private group-based providers (36 booked places and a median weekly income of £123 per booked place), voluntary group-based providers (24 booked places and a median weekly income of £93 per booked place) and nursery class childcare settings (20 booked places and a median weekly income of £98 per booked place) . Childminders had a median weekly income per booked place of £131 but an average of only 3 booked places, which explains why childminders had a much lower median weekly income than other types of providers.

**Table 4: Total weekly income by provider type (2018, 2019, 2021, and 2022)**

Provider type	Mean weekly income	Median weekly income	Number of providers	Average booked places
<b>Private providers</b>				
2018	£6,129	£3,865	524	
2019	£9,375	£3,846	643	34
2021	£7,005	£3,538	737	34
2022	£6,392	£4,423	450	36
<b>Voluntary providers</b>				
2018	£3,194	£1,846	460	
2019	£5,245	£1,923	574	24
2021	£3,598	£2,093	577	24
2022	£3,200	£2,231	401	24
<b>Nursery class childcare settings</b>				
2018	£3,181	£1,923	162	
2019	£2,515	£2,014	438	21
2021	£2,902	£1,965	441	20
2022	£2,455	£1,962	271	20
<b>Maintained nursery schools</b>				
2018	£10,473	£9,258	104	
2019	£11,921	£11,414	86	45
2021	£10,838	£9,231	92	48
2022	£10,948	£10,351	59	52
<b>Childminders</b>				
2018	£429	£349	381	3
2019	£400	£346	470	3
2021	£448	£351	495	3
2022	£442	£393	385	3
<b>All providers</b>				
2018	£1,881	£481	1,664	
2019	£2,872	£519	2,248	
2021	£2,504	£629	2,380	
2022	£2,088	£575	1,619	
<b>All providers except childminders</b>				
2018	£4,673	£2,327	1,283	
2019	£6,387	£2,326	1,778	
2021	£5,125	£2,538	1,885	
2022	£4,669	£2,721	1,234	

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers includes 33 (2018), 37 (2019), 38 (2021), and 53 (2022) 'other' group-based providers.

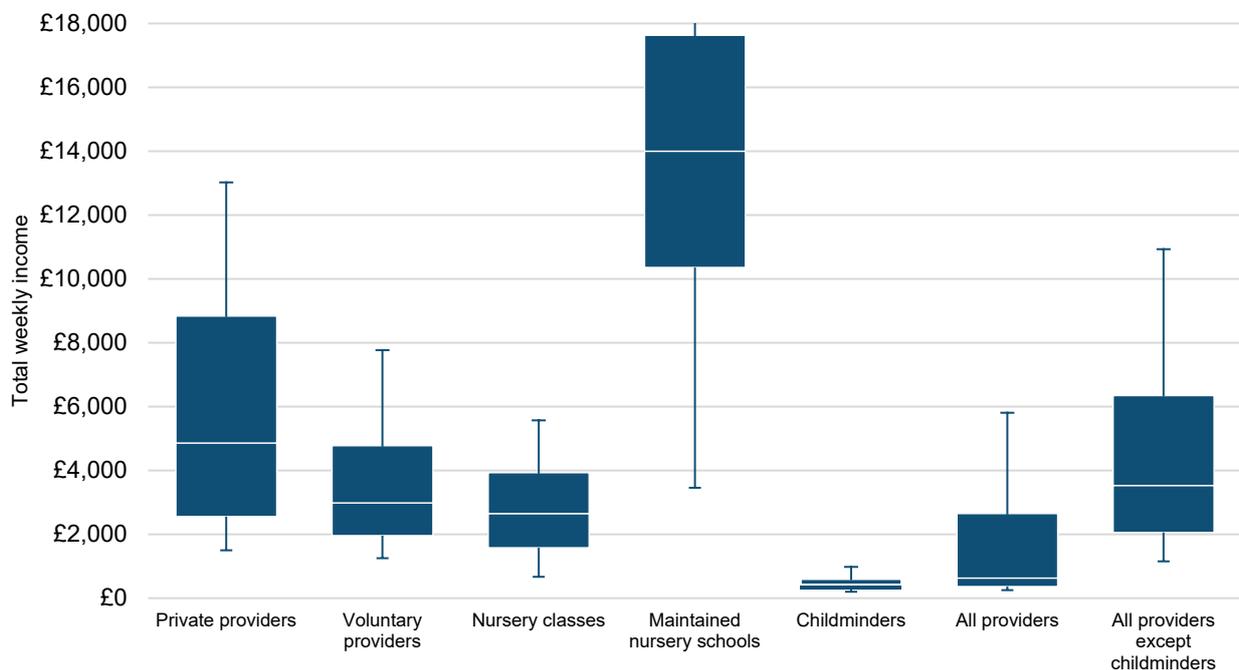
Voluntary group-based providers saw the greatest increase in total weekly income between 2018 and 2022, with an increase in median income of 21%. This was followed by a 14% increase for private group-based providers, 13% increase for childminders, and a 12% increase for maintained nursery schools. In comparison, nursery class childcare settings only saw a 2% increase in median total weekly income. The limitation of information provided about incomes is shown by the volatility of the estimates, such as for private group-based providers.

### Distribution of total weekly income within provider types

The decrease in the mean total weekly income for private group-based providers in the face of a large increase in the median suggests that there were decreases at the top of the distribution. This trend was similar for each provider type, where the mean either fell or did not grow as fast as the median, which suggests that there was a compression in the income distribution.

Figure 2 presents the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (median), 75<sup>th</sup>, and 90<sup>th</sup> percentile total weekly income for each provider type, for all providers, and for all providers excluding childminders.

**Figure 2: Distribution of total weekly income by provider type (2022)**



Source: Survey of Childcare and Early Years Providers 2022. Note: The bottom whisker reports the 10<sup>th</sup> percentile for the provider type, where the providers have been ranked by total weekly income, while the top whisker reports the 90<sup>th</sup> percentile. The bottom of the box presents the 25<sup>th</sup> percentile, the middle line within the box the 50<sup>th</sup> percentile (the median), and the top of the box the 75<sup>th</sup> percentile. The interquartile range is the distance between the top and bottom of the box.

The interquartile range (the difference between the 75<sup>th</sup> and 25<sup>th</sup> percentiles) illustrates the spread of the middle 50% of providers when ranked by total weekly income.

The interquartile range was greatest for private group-based providers and for maintained nursery schools (£6,496 and £6,186, respectively). As with costs, this likely reflects private group-based providers' larger variation in size relative to other provider types, while variation within maintained nursery schools likely reflects the small sample size. Private group-based providers had the largest ratio between the 75<sup>th</sup> and 25<sup>th</sup> percentiles (4.2) which was similar to the equivalent ratio for total weekly cost (4.0). Ratios between the 75<sup>th</sup> and 25<sup>th</sup> percentiles were smaller for other provider types: 2.6 for voluntary group-based providers (2.5 for total weekly cost) and 1.8 for maintained nursery schools (1.8 for total weekly cost). Nursery class childcare settings had a slightly wider distribution for total weekly income (2.6) than for total weekly cost (2.1) whereas the opposite was true for childminders (2.1 for total weekly income and 2.4 for total weekly cost).

Maintained nursery schools had a wider distribution between the 90<sup>th</sup> and 10<sup>th</sup> percentiles for total weekly income (7.3) than for total weekly cost (3.1), albeit based on a relatively small sample size. This suggests that the tails of the distribution are wider for maintained nursery schools' total weekly incomes than for their total weekly costs.

## 2.4 Income decomposition

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

Around half of providers' total income in 2022 came from parent-paid fees. A third came from free entitlement funding, and the remaining 15% from "other" sources, such as additional charges to parents, charitable donations, government grants or local authority support for specific items.

While the proportion of income from "other" sources remained fairly constant between 2018 and 2022, there was **a shift from parent-paid fees to free entitlement funding**. The share of income from parent-paid fees fell from 62% in 2018 to 52% in 2022, while the share of income from free entitlement funding increased from 26% to 33%.

This change is consistent with an increase in awareness and take-up of free entitlement funded hours. For example, the proportion of parents who were aware of the 30 hours offer for three- and four-year-old children increased from 78%<sup>7</sup> to 83%<sup>8</sup> between 2018

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<sup>7</sup> [Childcare and early years survey of parents: 2018](#)

<sup>8</sup> [Childcare and early years survey of parents: 2021](#)

and 2021. There was a corresponding increase in take up of the 30-hours entitlement among three- and four-year-old children between 2018 and 2022.<sup>9</sup>

However, there are considerable differences in income decomposition across provider types.

School-based providers derive the large majority of their income from free entitlement funding, which in 2022 contributed approximately 83% of nursery class childcare settings' income and 70% of maintained nursery schools' income. The decomposition of income for maintained nursery schools remained stable between 2018 and 2022, while nursery classes increased their proportion of income from free entitlement funding (from 72% of total weekly income in 2018 to 83% in 2022) with a similar-sized decrease in the proportion of income from "other" sources.

The majority of voluntary group-based providers' income came from free entitlement funded hours (58% in 2022) whereas private group-based providers received similar proportions of their income from parent-paid fees (47%) and free entitlement funded hours (41%).

The majority of childminders' income came from parent-paid fees (70% in 2022) compared to 13% from free entitlement funded hours. However, there was a slight shift away from parent-paid fees (a decrease from 77% of total weekly income in 2018 to 70% in 2022) to "other" sources of income (an increase from 11% of total weekly income in 2018 to 17% in 2022).

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<sup>9</sup> [Early Years Census](#)

**Table 5: Breakdown of income by provider type (2018, 2019, 2021, and 2022)**

<b>Provider type</b>	<b>Proportion of income from parent-paid fees</b>	<b>Proportion of income from free entitlement funding</b>	<b>Proportion of income from other sources</b>	<b>Number of providers</b>
<b>Private providers</b>				
2018	44%	45%	11%	298
2019	47%	41%	12%	420
2021	47%	43%	11%	535
2022	47%	41%	12%	206
<b>Voluntary providers</b>				
2018	26%	63%	11%	288
2019	25%	63%	12%	418
2021	25%	63%	13%	454
2022	26%	58%	16%	227
<b>Nursery class childcare settings</b>				
2018	7%	72%	21%	128
2019	12%	74%	14%	201
2021	11%	75%	14%	207
2022	6%	83%	12%	230
<b>Maintained nursery schools</b>				
2018	8%	71%	20%	83
2019	10%	69%	21%	52
2021	8%	64%	28%	55
2022	8%	70%	22%	43
<b>Childminders</b>				
2018	77%	12%	11%	288
2019	75%	13%	12%	370
2021	69%	18%	12%	394
2022	70%	13%	17%	185
<b>All providers</b>				
2018	62%	26%	12%	1,105
2019	59%	29%	12%	1,483
2021	55%	33%	12%	1,669
2022	52%	33%	15%	924
<b>All providers except childminders</b>				
2018	27%	59%	15%	817
2019	32%	56%	13%	1,113
2021	32%	55%	12%	1,275
2022	26%	60%	14%	739

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers includes 20, 22, 24, and 33 'other' group-based providers for 2018, 2019, 2021, and 2022 respectively.

## 2.5 Income-to-cost ratio

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

### **Income-to-cost ratio for all providers and for all providers excluding childminders**

Mean and median income-to-cost ratios in 2022 were 1.15 and 1.00, respectively. This means that the median provider received £1 in income for every £1 that they spent on costs. Mean and median income-to-cost ratios were similar when excluding childminders (1.13 and 1.03, respectively).

A higher mean income-to-cost ratio than median income-to-cost ratio suggests that some providers had income-to-cost ratios much higher than the median (raising the mean with little if any impact on the median). This suggests that the distribution of income-to-cost ratios is positively skewed and that again the median may be a more suitable indicator than the mean of the average providers' income-to-cost ratio.

The median income-to-cost ratio across all providers in 2022 was around the same as in 2018 (1.00 compared to 0.99). However, when childminders are excluded there has been a decrease of 0.04 (3.7%) in the median income-to-cost ratio from 1.07 to 1.03.

According to Table 1, the median total weekly costs for all providers excluding childminders increased by 32% between 2018 and 2022. According to Table 4, however, median total weekly incomes only increased by 17%. This explains why the median income-to-cost ratio for all providers excluding childminders fell between 2018 and 2022.

### **Income-to-cost ratio across provider types**

Private group-based providers had the highest median income-to-cost ratio (1.15) in 2022, indicating that the median private group-based provider earned £1.15 in income for every £1 in costs. Median income-to-cost ratios for voluntary group-based providers (1.01) and childminders (0.99) were around one (indicating that around half of these providers had incomes higher than their costs and vice versa).

The median income-to-cost was below one for nursery class childcare settings (0.91) and maintained nursery schools (0.95) indicating that over half of these providers were not covering their outgoings through current income sources. Income-to-cost ratios of consistently below one for school-based providers may more generally be explained by cross-subsidisation from other areas of the school that they are based in.

With the exception of childminders, median income-to-cost ratios fell for all provider types between 2018 and 2022, with the greatest fall found among nursery class childcare settings (a 9% fall, from 0.99 to 0.91). Voluntary group-based providers' and maintained nursery schools' income-to-cost ratios fell by 3% and 5%, respectively. There was a

smaller decline for private group-based providers (1%), representing a partial reversal in the decline in the income-to cost-ratio seen for these providers between 2019 and 2021. Income-to-cost ratios increased by 7% for childminders between 2018 and 2022 (0.93 to 0.99), with a 10% increase (0.90 to 0.99) between 2021 and 2022. Among other reasons, one may be that childminders paid themselves less in 2022, consistent with a post-pandemic decrease in the median pay of full-time self-employed workers of 10%<sup>10</sup>.

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<sup>10</sup> This comparison compares median annual earnings of those self-employed and working full time between 2019-20 and 2021-22 using the [Family Resources Survey](#)

**Table 6: Income-to-cost ratio by provider type (2018, 2019, 2021, and 2022)**

<b>Provider type</b>	<b>Mean income to cost ratio</b>	<b>Median income to cost ratio</b>	<b>Number of providers</b>
<b>Private providers</b>			
2018	1.70	1.17	423
2019	1.58	1.15	548
2021	1.49	1.10	614
2022	1.29	1.15	450
<b>Voluntary providers</b>			
2018	1.34	1.04	411
2019	1.27	1.03	527
2021	1.25	1.01	534
2022	1.06	1.01	401
<b>Nursery class childcare settings</b>			
2018	1.15	0.99	115
2019	1.21	0.97	373
2021	1.23	1.00	357
2022	0.96	0.91	271
<b>Maintained nursery schools</b>			
2018	1.02	1.00	101
2019	0.96	0.97	85
2021	1.07	0.97	88
2022	1.00	0.95	59
<b>Childminders</b>			
2018	1.19	0.93	303
2019	1.46	0.92	391
2021	1.18	0.90	427
2022	1.16	0.99	385
<b>All providers</b>			
2018	1.27	0.99	1,377
2019	1.42	0.99	1,954
2021	1.25	0.96	2,050
2022	1.15	1.00	1,619
<b>All providers except childminders</b>			
2018	1.43	1.07	1,074
2019	1.37	1.04	1,563
2021	1.35	1.03	1,623
2022	1.13	1.03	1,234

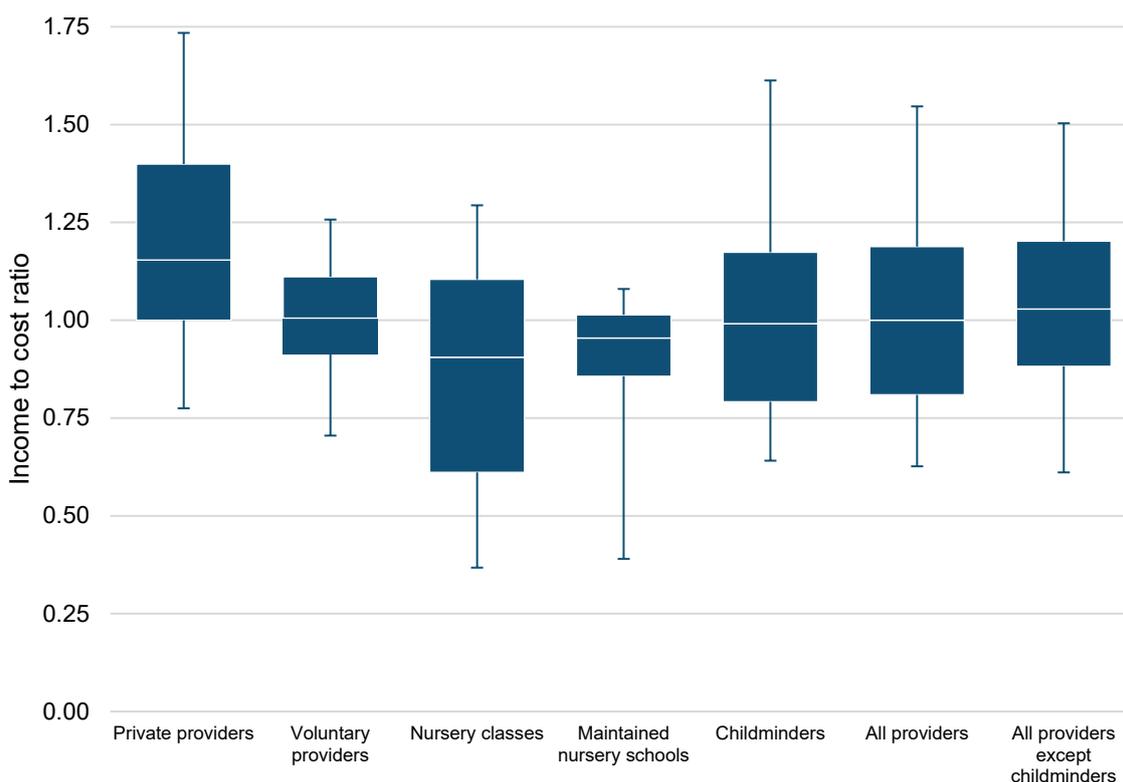
Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers includes 24, 30, 30, and 53 'other' group-based providers for 2018, 2019, 2021, and 2022 respectively.

## Distribution of income-to-cost ratios within provider types

Figure 3 presents income-to-cost ratios for the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (median), 75<sup>th</sup>, and 90<sup>th</sup> percentile provider. The 25<sup>th</sup> percentile private group-based provider had an income-to-cost ratio of 1, which suggests that three quarters of private group-based providers had income that at least covered their weekly costs.

Nursery class childcare settings had the widest interquartile range (0.49) with a quarter of nursery class childcare settings registering an income-to-cost ratio of 0.61 or below. The fact that a significant proportion of nursery class childcare settings have such low income-to-cost ratios suggests that there is widespread cross-subsidisation from the schools of which these providers are part. The next widest interquartile range was among private group-based providers (0.4), followed by childminders (0.38). Maintained nursery schools and voluntary group-based providers had the smallest interquartile ranges (0.16 and 0.2, respectively), although at the lower extreme, the 10<sup>th</sup> percentile-maintained nursery school had an income-to-cost ratio of 0.39, 0.56 below the median for maintained nursery schools.

**Figure 3: Distribution of income-to-cost ratios by provider type (2022)**



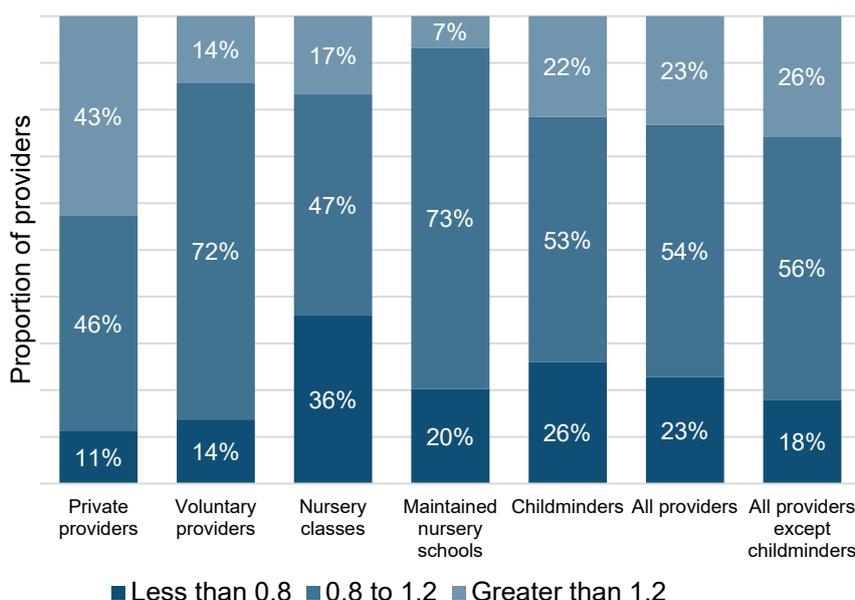
Source: Survey of Childcare and Early Years Providers 2022. Note: The bottom whisker reports the 10<sup>th</sup> percentile for the provider type, where the providers have been ranked by income-to-cost ratio, while the top whisker reports the 90<sup>th</sup> percentile. The bottom of the box presents the 25<sup>th</sup> percentile, the middle line within the box the 50<sup>th</sup> percentile (the median), and the top of the box the 75<sup>th</sup> percentile. The interquartile range is the distance between the top and bottom of the box.

Figure 4 presents the proportion of providers whose income-to-cost ratios were less than 0.8, between 0.8 and 1.2, and greater than 1.2. 43% of private group-based providers had an income-to-cost ratio of over 1.2 (i.e., made a clear profit in 2022), a higher proportion than any other provider type. Another 46% of private group-based providers had an income-to-cost ratios of between 0.8 and 1.2 (i.e., were around breakeven). Only around 10% of private group-based provider had an income-to-cost ratio of below 0.8 (i.e., made a clear loss).

Childminders were the provider type with the second-highest proportion of providers with income-to-cost ratios above 1.2 (22%). However, around one in four (26%) childminders' income-to-cost ratios were below 0.8 – a higher proportion than voluntary group-based providers (14%) and maintained nursery schools (20%). Only nursery class childcare settings (36%) had a higher proportion of providers with income-to-cost ratios below 0.8 than childminders.

The provider types with the lowest proportion of providers with an income-to-cost ratio above 1.2 (voluntary providers, nursery class childcare settings, and maintained nursery schools) were also those with the highest proportion of costs associated with staffing. This suggests that a key factor determining providers' profitability and explaining variation across providers is the cost of staff, which is consistent with staff costs making up the majority of providers' costs across all providers (as shown in Table 2). These providers also derived the largest shares of their income from free entitlement funding. This is consistent with these providers being less able to make profit through setting parent-paid fees.

**Figure 4: Distribution of providers by income-to-cost ratio band (2022)**



Source: Survey of Childcare and Early Years Providers 2022. Note: Number of respondents are as reported in Table 6.

## 2.6 Regional differences in cost, income, and income-to-cost ratio

### Regional variation in total weekly cost and total weekly income

Table 7 and Table 8 report the median total weekly cost for all providers and for all providers except childminders. London has by far the highest median total weekly cost with a median of £1,093 for all providers and £3,846 for all providers excluding childminders, which is 56% (£392) and 21% (£677) higher respectively than the next most expensive region. The gap between London and other regions is also large for total weekly income both for all providers (£962, 18% higher than the second-highest median of £814 in the West Midlands) and for all providers excluding childminders (£3,846, 33% higher than the second-highest median of £2,885 in the West Midlands). The East Midlands has the lowest median total weekly cost and income (£385 for both) of all regions for all providers, while the North East has the lowest weekly cost and income (£2,209 and £2,049, respectively) for all providers excluding childminders.

Regional variation in total weekly cost and income reflects variation in regions' wider economies, as well as the composition of providers across provider types. For example, median total weekly costs and incomes for all providers in London were 77% and 67% higher than the England average. In part, this reflects regional Gross Domestic Household Income (GDHI) per capita, being 39% higher in London than the England average. However, the difference in median cost and income between London and the rest of England is larger than the difference in GDHI per capita, suggesting that other factors may be involved. In contrast, regional GDHI per capita was 12% lower in the North West than the England average, while median total weekly costs and incomes in the North West were 6% lower and 16% lower respectively than the England average.<sup>11</sup>

Some regions (such as the West Midlands and the East of England) do not follow this pattern. In these regions, other factors, such as the composition of providers across provider types, may explain differences. Specifically, regional GDHI per capita was 14% lower in the West Midlands than the England average, but median total weekly costs and incomes were estimated to be 14% and 42% respectively higher than average. Cost and income may be higher in the West Midlands as childminders (who have the lowest cost and income) made up a smaller proportion of all providers (25%) in the West Midlands than other regions.

In contrast, in the East of England, regional GDHI per capita was 4% higher than the England average but median total weekly costs and incomes were 21% and 16% lower

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<sup>11</sup> [ONS 2020 Regional Gross Disposable Household Income](#)

than the English average, respectively. This may be partly explained by the relatively high proportion of providers in the East of England that are childminders (34%).

**Table 7: Median total weekly costs, by region (2022)**

Region	All providers	All providers except childminders	Total number of providers	Total number of providers except childminders
East Midlands	£385	£2,566	125	90
East of England	£485	£2,326	206	152
London	£1,093	£3,846	241	189
North East	£558	£2,209	81	66
North West	£583	£2,429	194	150
South East	£519	£2,509	315	235
South West	£574	£2,404	189	144
West Midlands	£701	£2,615	136	109
Yorkshire and The Humber	£596	£3,169	132	99
All regions	£617	£2,731	1,619	1,234

Source: Survey of Childcare and Early Years Providers 2022. Note: All regions figures are reported in Table 1.

**Table 8: Median total weekly income, by region (2022)**

Region	All providers	All providers except childminders	Total number of providers	Total number of providers except childminders
East Midlands	£385	£2,547	125	90
East of England	£481	£2,312	206	152
London	£962	£3,846	241	189
North East	£558	£2,044	81	66
North West	£481	£2,673	194	150
South East	£581	£2,750	315	235
South West	£535	£2,326	189	144
West Midlands	£814	£2,885	136	109
Yorkshire and The Humber	£615	£2,577	132	99
All regions	£575	£2,721	1,619	1,234

Source: Survey of Childcare and Early Years Providers 2022. Note: All regions figures are reported in Table 4.

In contrast to the considerable regional variation in cost and income, there is relatively little variation in income-to-cost ratios across regions. Table 9 presents the regional distribution of median income-to-cost ratios for all providers and for all providers excluding childminders. When including all providers there is little variation in the median income-to-cost ratio. With the exception of the West Midlands (0.96), all regions posted a median income-to-cost ratio of either 0.99 or 1.00. When childminders are excluded, there is a little more variation in income-to-cost ratios, but these ratios all still lie between 0.98 (Yorkshire and the Humber) and 1.05 (East Midlands, North West, and the South East).

**Table 9: Median income-to-cost ratios, by region (2022)**

<b>Region</b>	<b>All providers</b>	<b>All providers except childminders</b>	<b>Total number of providers</b>	<b>Total number of providers except childminders</b>
East Midlands	1.00	1.05	125	90
East of England	1.00	1.03	206	152
London	0.99	1.03	241	189
North East	1.00	1.02	81	66
North West	0.99	1.05	194	150
South East	1.00	1.05	315	235
South West	1.00	1.00	189	144
West Midlands	0.96	1.02	136	109
Yorkshire and The Humber	1.00	0.98	132	99
All regions	1.00	1.03	1,619	1,234

Source: Survey of Childcare and Early Years Providers 2022. Note: All regions figures are reported in Table 6.

## 3. Unit cost and staff hourly pay

### 3.1 Unit cost

The unit cost is an approximate measure of a provider's average cost per child per hour for all children<sup>12</sup> in the setting.

Table 10 presents mean and median unit costs by provider type. Unit costs have been estimated using a different methodology to previous years, as explained in the Appendix. As such, unit costs for 2022 are not directly comparable to those for previous years. Both mean and median unit cost are presented. Mean unit costs are more sensitive to extreme values than median unit costs.

The limitations of the unit cost measure should also be noted. There are limitations to the information collected from providers on total cost, while the number of hours of care provided was estimated (more information is provided in the Appendix). As a result, caution should be applied to the interpretation of the unit cost measures, especially compared to other measures such as hourly parent-paid fees where these limitations are less relevant (for example, with a far larger sample size).

In 2022, the mean unit cost for all providers was estimated to be £6.73 per hour, or £6.60 per hour for all providers excluding childminders. The median unit cost for all providers was £5.21 per hour or £4.95 per hour for all providers excluding childminders. The mean unit cost for all providers was greater than the median (£6.73 per hour compared to £5.21 per hour, representing a 29% difference). When excluding childminders, the mean unit cost for all providers was greater than the median by approximately 33% (£6.60 per hour compared to £4.95 per hour). This suggests that there are some providers with very large unit costs that increase the mean but not the median. For example, around 15% of providers were identified to have unit costs greater than £10 per hour. This suggests that the median may be a better indicator than the mean of unit costs for the average provider.

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<sup>12</sup> Including both preschool and, if they are enrolled at the setting, school-age children.

**Table 10: Unit cost by provider type (2022)**

Provider type	Mean provider unit cost	Median provider unit cost	Number of providers
Private providers	£6.24	£4.57	431
Voluntary providers	£6.07	£4.97	389
Nursery class childcare settings	£7.92	£5.41	227
Maintained nursery schools	£9.04	£7.64	55
Childminders	£6.81	£5.42	372
All providers	£6.73	£5.21	1,520
All providers except childminders	£6.60	£4.95	1,148

Source: Survey of Childcare and Early Years Providers, 2022. Note: All providers includes 46 'other' group-based providers.

The median unit cost was highest for maintained nursery schools (£7.64 per hour). This was 41% greater than the next highest median unit cost, found among childminders (£5.42 per hour) and nursery class childcare settings (£5.41 per hour). The lowest median unit costs were among group-based providers: £4.97 per hour for voluntary group-based providers and £4.57 per hour for private group-based providers. It should be noted that childminders' costs do not include rent or mortgage payments.

As discussed later (e.g., Table 12), the higher median unit cost for school-based providers is partly driven by higher staff hourly pay (which in turn is driven by their more highly qualified workforce). Childminders' unit costs being higher than private group-based and voluntary group-based providers is consistent with private and voluntary group-based providers being able to take greater advantage of economies of scale with a greater number of booked places per provider (an average of 36 and 24 booked places per provider, respectively) compared to childminders (an average of 3 booked places per provider)<sup>13</sup>.

Table 11 presents mean and median unit costs by region. London had the highest median unit costs. Its median unit cost of £7.24 per hour was 30% and 34% respectively higher than the next highest median unit costs found in the South East (£5.55 per hour) and the East of England (£5.42 per hour). Despite having the highest proportion of school-based providers (the provider type with the highest median unit cost), the lowest median unit cost was registered in the North East (£3.10 per hour), 27% lower than the next lowest median unit cost (£4.27 per hour in the East Midlands).

However, the sample sizes for each region are far smaller than for other measures reported in this report (such as hourly parent-paid fees), so these estimates should be

<sup>13</sup> [2022 Survey of Childcare and Early Years Providers](#)

treated with caution. For example, the sample size for the North East region was only 79 providers.

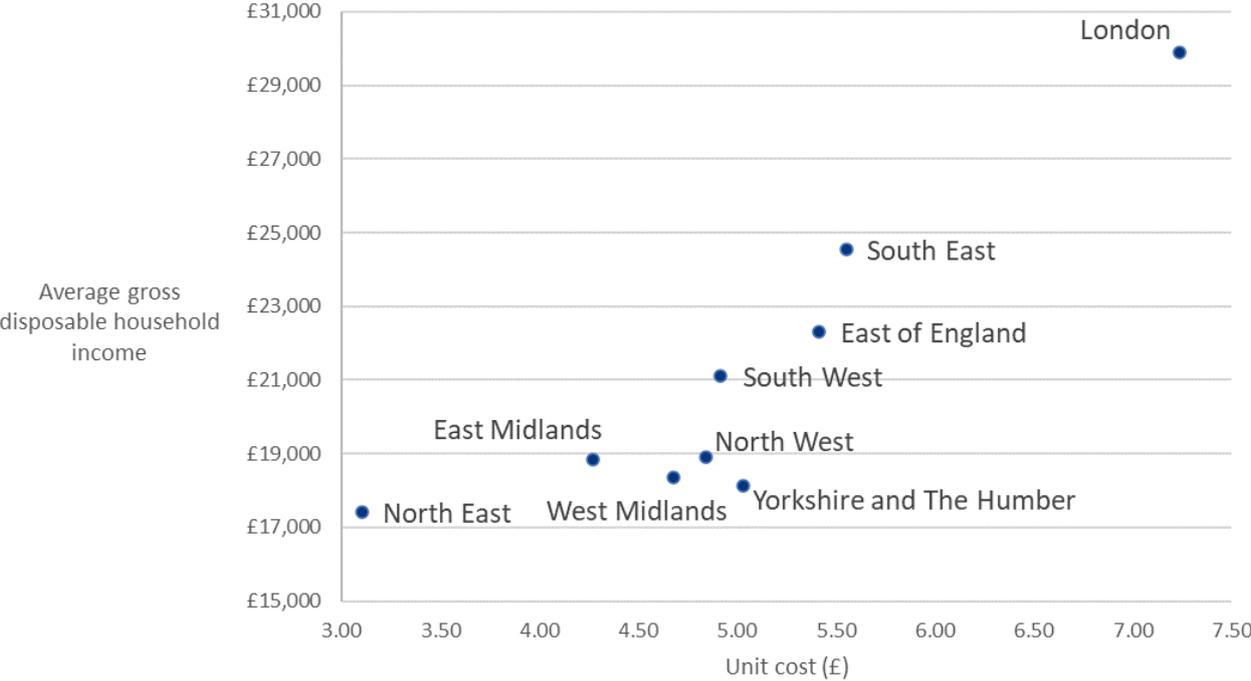
This suggests that there are other factors that may help to explain regional variation in unit cost. Figure 5 presents the median unit cost for each region alongside their average gross disposable household income in 2020. The positive correlation between providers' unit costs and average household incomes is consistent with higher staff costs (which make up the majority of providers' costs) being correlated with higher average household incomes (Figure 5).

**Table 11: Unit cost by region (2022)**

Region	Mean unit cost	Median unit cost	Number of providers
East Midlands	£5.31	£4.27	121
East of England	£6.30	£5.42	192
London	£8.57	£7.24	217
North East	£5.03	£3.10	79
North West	£5.82	£4.84	194
South East	£8.18	£5.55	289
South West	£5.82	£4.92	170
West Midlands	£5.95	£4.67	129
Yorkshire and The Humber	£6.52	£5.03	129
All providers	£6.73	£5.21	1,520

Source: Survey of Childcare and Early Years Providers, 2022

**Figure 5: Unit cost and average gross disposable household income by region (2022)**



Source: Survey of Childcare and Early Years Providers 2022 and ONS Gross disposable household income 2020<sup>14</sup>

### 3.2 Staff hourly pay

Staff hourly pay is defined as gross weekly earnings (before tax and National Insurance are deducted) divided by contracted weekly work hours.

It should be noted that childminders’ hourly pay is estimated using a different method to other staff types (including childminding assistants). Instead of actual salaries, childminders are asked to report the amount of money they draw from their business in the form of a “salary”. Further details can be found in the Appendix.

Table 12 presents the mean and median staff hourly pay per hour by provider type. Mean staff hourly pay per hour was between 6% and 27% higher than median staff hourly pay per hour across the various provider types. This suggests that a small number of staff have much higher hourly pay than other staff and that the median is a better measure than mean of the “typical” childcare worker’s hourly pay.

Across all providers, the median staff hourly pay was £10.00 per hour in 2022 (this was the same whether childminders were included or excluded). The median hourly pay per hour was highest among staff working in nursery class settings (£13.00 per hour),

<sup>14</sup> [ONS Regional gross disposable household income](#)

followed by £10.34 per hour for staff working in maintained nursery schools. Median hourly pay was £10.00 per hour for both private group-based providers and for voluntary group-based providers. Childminders had the lowest median hourly pay (£7.97 per hour), approximately a fifth (20%) lower than the median staff hourly pay across all provider types<sup>15</sup>.

The trend in median staff hourly pay across providers in 2022 replicates similar patterns across providers found in 2018, 2019, and 2021. Specifically, staff at school-based providers posted the highest hourly pay rates, followed by those at group-based providers and then childminders. This is consistent with school-based providers having a more qualified workforce on average compared to the other provider types. For example, over a third (35%) of staff working at school-based providers had Level 6 qualifications in 2022 compared to only around one in ten group-based provider staff (11%) and childminders (10%)<sup>16</sup>.

This higher staff hourly pay may lead to lower income-to-cost ratios for school-based providers compared to other provider types (as shown in Table 6), but this is somewhat offset by lower spending on other cost items such as rent/mortgages (as shown in Table 2).

Median staff hourly pay across all providers increased by 6% between 2021 and 2022 (and 6% amongst all providers when childminders were excluded), which was approximately the same as the 7% increase in the National Living Wage in April 2022 (from £8.91 per hour to £9.50 per hour). Further, the increase in the median staff hourly pay across all providers between 2018 and 2022 was 18%, again similar to the 21% increase in the National Living Wage over this period.

The largest increases in median hourly pay between 2021 and 2022 were found among private group-based providers (8%) followed by voluntary group-based providers (6%) and childminders (4%), while the median hourly pay among staff at Nursery class childcare settings increased by 1%. In stark contrast, the estimated median hourly pay among staff at maintained nursery schools fell by 19% (although the latter was based on a considerably smaller sample size than the sample sizes of other provider types).

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<sup>15</sup> Childminders' median hourly pay of £7.97 per hour was lower than the National Living Wage in 2022 (£9.50 per hour from April 2022). Staff may be paid under the National Living Wage for a variety of reasons. Childminders' hourly pay is derived from average childminding income per hour, which may be less than the National Living Wage. Hourly pay for staff in all provider types is derived using contracted hours of work per week. As a result, hourly pay may be underestimated if the number of hours worked differs from contracted hours. Further, if they are self-employed, they are not eligible for the National Living Wage. The Accommodation Offset, where accommodation is provided by the employer and the cost deducted from staff pay, may result in the hourly pay being less than the minimum wage, although it is not clear what proportion of childcare staff this applied to.

<sup>16</sup> [2022 Survey of Childcare and Early Years Providers](#)

**Table 12: Hourly staff pay by provider type (2018, 2019, 2021, and 2022)<sup>17</sup>**

Provider type	Mean hourly pay	Median hourly pay	No. of providers
<b>Private providers</b>			
2018	£9.17	£8.32	4,353
2019	£10.58	£8.57	4,946
2021	£11.94	£9.30	6,073
2022	£10.65	£10.00	4,672
<b>Voluntary providers</b>			
2018	£9.35	£8.57	2,941
2019	£10.20	£8.75	3,495
2021	£11.58	£9.46	3,348
2022	£11.45	£10.00	2,789
<b>Group-based providers</b>			
2022	£11.03	£10.00	7875
<b>Nursery class childcare settings</b>			
2018	£16.32	£12.51	698
2019	£16.84	£12.51	1,601
2021	£18.78	£12.92	2,212
2022	£16.57	£13.00	2,436
<b>Maintained nursery schools</b>			
2018	£15.41	£11.95	370
2019	£14.35	£11.95	284
2021	£19.38	£12.69	359
2022	£12.40	£10.34	137
<b>School-based providers</b>			
2022	£16.09	£12.82	2573
<b>Childminders</b>			
2018	£7.46	£6.92	434
2019	£8.89	£6.99	605
2021	£8.23	£7.69	637
2022	£9.21	£7.97	702
<b>All providers</b>			
2018	£9.95	£8.50	9,022
2019	£11.13	£8.80	11,136
2021	£12.50	£9.46	12,859
2022	£11.44	£10.00	11,150
<b>All providers except childminders</b>			
2018	£10.31	£8.65	8,588
2019	£11.38	£8.91	10,531
2021	£12.94	£9.46	12,222
2022	£11.75	£10.00	10,448

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers included 226, 205, 230, and 414 staff in other group-based providers for 2018, 2019 and 2021 respectively. Childminders include both childminders and childminding assistants.

<sup>17</sup> Medians are considered to be a better measure of average staff pay. In this table, mean salaries have also been shown, for completeness and for comparison with previous reports. According to survey data, mean salaries for staff working in most types of providers fell between 2021 and 2022. This contradicts other evidence - for instance, an increase in the National Living Wage between 2021 and 2022 and a corresponding increase in median salaries. We are investigating the reasons for this which we believe may be the result of differences in the methodology used to derived mean hourly pay in this report and the methodology that previous authors used to calculate mean hourly pay in earlier years

As discussed, some of the variation in hourly pay across provider types is associated with variation in the average qualification levels of staff across provider types. Table 13 provides hourly pay by level of highest level of qualification across different provider types in 2022, while Table 14 reports the hourly pay premium of staff relative to those with no qualifications or highest qualification at Level 1.

Staff employed in nursery class childcare settings had the highest median hourly pay across all (highest) qualification levels, as well as the highest hourly pay increment associated with higher levels of qualification. Specifically, individuals qualified to Level 3 working at Nursery class childcare settings achieved a median hourly pay rate that was approximately 15% greater than those with no formally recognised qualifications or Level 1 qualifications (as highest). The corresponding estimate was 43% for those with Level 5 qualifications (as highest) – although generally relatively few staff have Level 5 as their highest level of qualification<sup>18</sup>, before sharply increasing to more than double (129% greater) for those with Level 6 qualifications. The trend in hourly pay across qualifications was flatter for maintained nursery schools (with the corresponding premium standing at 16% for those with Level 5 qualifications (as highest) and 86% for those in possession of Level 6 qualifications).

### **The higher hourly pay among school-based providers was driven by**

- a larger proportion of staff at school-based providers with higher-level qualifications compared to other provider types, and
- a higher hourly pay premium for staff with higher-level qualifications at school-based providers compared to other provider types.

This may be driven by the fact that staff working for school-based providers tend to be older. For example, 51% of staff working for school-based providers were 40 years old and older, compared to 35% of staff working for group-based providers. As a result, staff working for school-based providers may be older and more experienced for a given level of qualification, which may be reflected in a higher hourly pay premium.

There were much smaller increases in hourly pay across qualifications for group-based providers, with childcare workers at private group-based providers seeing only a 5% median hourly uplift associated with Level 3 qualifications (compared to possession of no formally recognised qualifications or qualifications at Level 1). The premium associated with Level 5 and Level 6 qualifications was estimated to be 15% and 21%, respectively.

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<sup>18</sup> For example, 5% of staff working in group-based and school-based providers had Level 5 qualifications as their highest level of qualification, while it was 4% for childminders and 1% for childminding assistants ([2022 Survey of Childcare and Early Years Providers](#))

Pay premiums for childcare workers employed by voluntary group-based providers were very similar - 5%, 21% and 18%, respectively.

In contrast, among childminders, those with higher-level qualifications have *lower* median hourly pay than those with lower-level qualifications.

“Childminder staff” includes childminders and childminding assistants. Childminders tend to have higher-level qualifications than childminding assistants<sup>19</sup>. However, childminders’ hourly pay is on average lower than those of childminding assistants. This may, in part, be driven by childminders’ hourly pay being calculated in a different way to that for other staff such as childminding assistants. It may also, however, reflect the additional tasks that childminders have to carry out – related to managing their business and completing paperwork – after the children that they look after have gone home.

**Table 13: Median hourly staff pay by highest level of qualification and provider type (2022)**

Provider type	None or Level 1	Level 2	Level 3	Level 4	Level 5	Level 6 or higher
Private providers	£9.54	£9.50	£10.00	£11.00	£11.00	£11.54
Voluntary providers	£9.50	£9.50	£10.00	£11.00	£11.50	£11.24
Nursery class childcare settings	£10.00	£10.23	£11.54	£12.64	£14.29	£22.93
Maintained nursery schools	£8.60	£9.62	£10.09	£9.76	£10.00	£16.03
Childminders	£8.84	£8.62	£7.86	£6.41	£7.67	£6.94
All providers	£9.50	£9.50	£10.00	£10.70	£11.20	£12.98
All providers except childminders	£9.50	£9.51	£10.00	£11.03	£11.30	£13.25

Source: Survey of Childcare and Early Years Providers, 2022. Note: Number of providers can be found in the accompanying tables.

<sup>19</sup> For example, in 2022 42% of childminding assistants did not have an Early Years qualification, whereas only 13% of childminders did not have an Early Years qualification ([2022 Survey of Childcare and Early Years Providers](#))

**Table 14: Hourly staff pay premium relative to no formally recognised qualifications or Level 1 qualifications by provider type (2022)**

Provider type	None or Level 1	Level 2	Level 3	Level 4	Level 5	Level 6 or higher
Private providers	0%	0%	5%	15%	15%	21%
Voluntary providers	0%	0%	5%	16%	21%	18%
Nursery class childcare settings	0%	2%	15%	26%	43%	129%
Maintained nursery schools	0%	12%	17%	13%	16%	86%
Childminders	0%	-2%	-11%	-27%	-13%	-21%
All providers	0%	0%	5%	13%	18%	37%
All providers except	0%	0%	5%	16%	19%	39%

Source: Survey of Childcare and Early Years Providers, 2022. Note: Number of providers can be found in the accompanying tables.

Table 15 presents median hourly pay by level of highest qualification and age group in 2022. Table 16 reports the hourly pay premium relative to those whose highest qualification is Level 2 and below for each age group, while Table 17 reports the hourly pay premium relative to those aged 16 to 24 for each level of highest qualification.

The increase in hourly pay associated with a higher-level qualification increases with age before levelling off at the age of 40 and above, as shown in Table 16. The increase in hourly pay associated with a Level 4 or 5 qualification and a Level 6 qualification (relative to those with Level 2 or below as their highest qualification) was 3% and 8%, respectively, for those aged 16 to 24. This increased to 15% and 34% for those aged 25 to 39, before rising again to 21% and 46% for those aged between 40 and 49. The larger qualifications premium for older age groups is consistent with those older age groups potentially having greater experience in childcare and a complementarity between qualifications and experience.

The median hourly pay of those whose highest qualification is Level 2 or below was either the National Living Wage or very close to it across all age groups (i.e., £9.50 per hour). Further, Table 17 shows that for those in possession of a Level 3 qualification (as highest), there was relatively little difference in median hourly pay across age groups.

The difference in hourly pay across age groups was most pronounced for those with higher-level qualifications. For example, staff whose highest qualifications were at Level 4 or 5 and staff with Level 6 qualifications saw differences of 18% and 35% between those aged 40 to 49 and those aged 16 and 24. This suggests that additional experience is particularly beneficial to levels of pay for staff with higher levels of qualifications.

**Table 15: Median hourly staff pay by level of highest qualification and age group (2022)**

Level of highest qualification	Age 16 to 24	Age 25 to 39	Age 40 to 49	Age 50 plus	All ages
Level 2 or below	£9.50	£9.60	£9.50	£9.50	£9.50
Level 3	£9.80	£10.00	£10.00	£10.00	£10.00
Level 4 or 5	£9.75	£11.00	£11.54	£11.20	£11.00
Level 6 or higher	£10.30	£12.82	£13.89	£13.95	£12.99
All levels	£9.62	£10.00	£10.00	£10.00	£10.00

Source: Survey of Childcare and Early Years Providers, 2022. Note: Number of providers can be found in the accompanying tables.

**Table 16: Hourly staff pay premium relative to Level 2 and below by age group (2022)**

Level of highest qualification	Age 16 to 24	Age 25 to 39	Age 40 to 49	Age 50 plus	All ages
Level 2 or below	0%	0%	0%	0%	0%
Level 3	3%	4%	5%	5%	5%
Level 4 or 5	3%	15%	21%	18%	16%
Level 6 or higher	8%	34%	46%	47%	37%
All levels	1%	4%	5%	5%	5%

Source: Survey of Childcare and Early Years Providers, 2022. Note: Number of providers can be found in the accompanying tables.

**Table 17: Hourly staff pay premium relative to age 16 to 24 by level of highest qualification (2022)**

Level of highest qualification	Age 16 to 24	Age 25 to 39	Age 40 to 49	Age 50 plus	All ages
Level 2 or below	0%	1%	0%	0%	0%
Level 3	0%	2%	2%	2%	2%
Level 4 or 5	0%	13%	18%	15%	13%
Level 6 or higher	0%	24%	35%	35%	26%
All levels	0%	4%	4%	4%	4%

Source: Survey of Childcare and Early Years Providers, 2022. Note: Number of providers can be found in the accompanying tables.

### 3.3 Proportion of staff paid at or below the NLW

This is the proportion of staff aged 23 and older with hourly pay less than or equal to the National Living Wage (NLW).

Around one in five (21%) childcare staff aged 23 and older across all providers were paid at or below the NLW in 2022 (£9.50 per hour)<sup>20</sup>. The proportion paid at or below the NLW was highest by far among childminders, (75%). Childminders' hourly pay was derived using a different method to other staff so may not be directly comparable (more details can be found in the Appendix).

However, there are two likely reasons why childminders might earn below the NLW. Firstly, because NLW legislation does not apply to self-employed workers like childminders. Secondly because, unlike other childcare staff, childminders have to carry out additional tasks – such as completing paperwork – after the children that they look after have gone home. Among the remaining staff, childminding assistants is the occupational category registering the next highest proportion of staff (37%) who were paid at or below the NLW.

**Table 18: Proportion of staff paid at or below the NLW (2022)**

Provider type	Proportion earning below the NLW	Number of providers
Private providers	16%	2,385
Voluntary providers	18%	135
Nursery class childcare settings	13%	4,162
Maintained nursery schools	16%	2,662
Childminding assistants	37%	126
Childminders	75%	433
All providers	21%	10,328
All providers except childminders	15%	9,769

Source: Survey of Childcare and Early Years Providers, 2022. Note: All providers include 425 staff in other group-based providers.

Staff working for group-based and school-based providers had similar proportions paid at or below the NLW, ranging from 13% for nursery class childcare settings to 18% for voluntary group-based providers. The similarity in proportions paid at or below the NLW among group-based and school-based providers, despite differences in median hourly

<sup>20</sup> Staff may be paid under the National Living Wage for a variety of reasons. "Average hourly pay" is derived using contracted hours of work per week. As a result, it may be underestimated if the number of hours someone actually works is less than their contracted hours. The Accommodation Offset, for instance, where accommodation is provided by the employer and the cost deducted from staff pay, may result in hourly pay being less than the minimum wage, although it is not clear what proportion of childcare staff this applied to.

pay for these provider types, suggests that differences in median hourly pay are driven by differences in pay for those with higher hourly pay rather than those with lower hourly pay. This is consistent with the finding that staff with higher-level qualifications working for school-based providers are paid more than those with the same qualifications working for group-based providers.

## 4. Parent-paid fees and government funding rates

The previous section focused on providers' costs, including important components of their costs. This section continues previous discussion of providers' incomes, investigating in more detail the fees providers charge parents and the funding rates that the government pays to providers for free entitlement hours, as well as differences between the two.

### 4.1 Hourly parent-paid fees

Hourly parent paid fees are the average hourly fee charged by providers to parents.

#### Hourly parent paid fees by age of child

Table 19, Table 20, and Table 21 present the mean and median hourly fees paid by parents for children under the age of two, for two-year-old children, and for three- and four-year old preschool children, respectively.<sup>21</sup>

For all childcare providers in 2022, the mean hourly parent-paid fee was £5.68 for children under the age of two, £5.72 for two-year-old children, and £5.60 for three- and four-year-old children. When excluding childminders, the corresponding mean hourly parent-paid fees were £6.52 for children under the age of two, £6.28 for two-year-old children, and £5.99 for three- and four-year-old children.

Comparing provider types, mean hourly fees were lowest among childminders across all age groups.

Mean hourly parent-paid fees were highest among private group-based providers for two-year-old and three- and four-year-old children. For children under the age of two, private group-based providers had the second-highest mean hourly parent-paid fee (£6.59), just behind maintained nursery schools (£6.63).

The median hourly parent-paid fee (the middle observation when providers are ranked from lowest to highest) tended to be slightly lower than the mean hourly parent-paid fee across all provider types and age groups.<sup>22</sup> The median hourly parent-paid fee (unlike the mean) is not influenced by extreme values (such as a few providers having much larger hourly fees). Given the median and mean values are relatively close (in general the mean

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<sup>21</sup> Hourly parent-paid fees are not presented for school-age children because the hourly fees would not be representative for this age group as they exclude school-age children amongst providers not offering any preschool childcare provision.

<sup>22</sup> Median hourly fees tend to be whole or half pounds (or at a precise five or ten pence), reflecting the clustering of hourly fees around easily computable figures.

value is approximately £0.50 higher than the corresponding median), both give a good indication of the hourly fees charged by a 'typical' provider.

Differences across provider types in median hourly parent-paid fees tended to mirror differences in mean parent-paid hourly fees, with childminders having the lowest median values and private group-based providers the highest.

The gap in median hourly parent-paid fees between childminder and other providers tended to be narrower for older age groups. For example, the difference in median hourly parent-paid fee between childminders and nursery class childcare settings (the provider type with the next-lowest fees) was £0.71 for children under the age of two. However, for three- and four-year-old children, median hourly fees for childminders, voluntary providers, and nursery class childcare settings varied by only £0.24-£0.35 per hour. This reflects the fact that hourly parent-paid fees tended to decline more rapidly among non-childminder providers with increasing age groups.

From 2021 to 2022, providers saw a rise in mean hourly parent-paid fees of 3% for children under the age of two, and 3% and 4% for two-year-old and for three- and four-year-old children, respectively. The equivalent increases when childminders were excluded were 5% for children under the age of two and for three- and four-year-olds, and 6% for two-year-old children. These figures are below the CPI inflation rate of 9.1% between May 2021 and May 2022.<sup>23</sup>

The only provider type to see consistent mean hourly parent-paid fee rises above the rate of inflation were nursery class childcare settings, with a 23% rise for children under the age of two, 19% for two-year-old children, and 14% for three- and four-year-old children. This may be because nursery class childcare settings are least reliant on parent-paid fees as their source of income (Table 5), and so would be the provider type most able to raise parent-paid fees without a corresponding fall in registered places (as parents using nursery class childcare settings would have more childcare hours funded by free entitlements and therefore be less price-sensitive to parent-paid fees).<sup>24</sup>

Table 6 in Chapter 3 showed a decline in mean income-to-cost ratios for nursery class childcare settings between 2021 and 2022 (from 1.23 to 0.96), concurrent with the sharp rise in hourly parent-paid fees. Therefore, a possible explanation for these observed patterns could be nursery class childcare settings attempting to raise parent fees relatively rapidly in an attempt to reduce deficits.

The next highest annual increase in the hourly fees charged to parents was for maintained nursery schools where mean hourly fees for children under the age of two

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<sup>23</sup> From the [ONS consumer price index: Consumer price inflation, UK: May 2022](#)

<sup>24</sup> Similarly, Figure 14 in Chapter 5 shows that, for three- and four-year olds, Nursery class childcare settings' income is almost entirely determined by free-entitlement funding.

increased by 11% (although this figure and the equivalent rise for nursery class childcare settings in this age group should be treated with caution, as they are based on small samples of providers).

In comparison, between 2021 and 2022, childminders saw a relatively small increase in mean hourly fees (2%). Voluntary group-based providers also only saw an increase in mean hourly fees of 1% for children under the age of two, though this is somewhat compensated by relatively large hourly fee increases among two-year-old and among three- and four-year-old children (6% and 7% respectively).

**Table 19: Mean and median hourly parent-paid fees for children under age two (2018, 2019, 2021, and 2022)**

<b>Provider type</b>	<b>Mean hourly fee</b>	<b>Median hourly fee</b>	<b>Number of providers</b>
<b>Private providers</b>			
2018	£5.71	£5.20	1,651
2019	£5.92	£5.50	2,124
2021	£6.27	£5.80	2,017
2022	£6.59	£6.15	1,984
<b>Voluntary providers</b>			
2018	£5.11	£4.85	312
2019	£5.39	£5.00	374
2021	£6.06	£5.33	345
2022	£6.15	£5.70	276
<b>Nursery class childcare settings</b>			
2018	£5.09	£4.85	24
2019	£5.46	£4.80	41
2021	£4.98	£4.94	36
2022	£6.11	£5.71	24
<b>Maintained nursery schools</b>			
2018	£4.76	£4.50	10
2019	£5.70	£5.53	22
2021	£5.96	£6.00	22
2022	£6.63	£6.50	10
<b>Childminders</b>			
2018	£4.82	£4.50	6,805
2019	£4.92	£4.50	5,391
2021	£5.23	£5.00	4,886
2022	£5.36	£5.00	3,489
<b>All providers</b>			
2018	£5.02	£4.50	8,899
2019	£5.15	£5.00	8,090
2021	£5.53	£5.00	7,432
2022	£5.68	£5.25	5,915
<b>All providers except childminders</b>			
2018	£5.61	£5.10	2,094
2019	£5.81	£5.35	2,699
2021	£6.20	£5.70	2,546
2022	£6.52	£6.00	2,426

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers includes 97, 128, 126, and 132 'other' group-based providers for 2018, 2019, 2021 and 2022 respectively.

**Table 20: Mean and median hourly parent-paid fees for two-year-old children (2018, 2019, 2021, and 2022)**

<b>Provider type</b>	<b>Mean hourly fee</b>	<b>Median hourly fee</b>	<b>Number of providers</b>
<b>Private providers</b>			
2018	£5.63	£5.04	2,359
2019	£5.85	£5.30	3,050
2021	£6.21	£5.70	2,973
2022	£6.49	£6.00	2,699
<b>Voluntary providers</b>			
2018	£4.86	£4.50	1,710
2019	£5.18	£4.75	1,957
2021	£5.56	£5.00	1,750
2022	£5.92	£5.35	1,522
<b>Nursery class childcare settings</b>			
2018	£5.10	£4.75	156
2019	£4.95	£4.66	399
2021	£5.24	£5.00	531
2022	£6.24	£5.24	447
<b>Maintained nursery schools</b>			
2018	£5.43	£5.00	79
2019	£5.57	£5.15	115
2021	£6.15	£6.00	132
2022	£6.21	£5.80	108
<b>Childminders</b>			
2018	£4.78	£4.50	6,838
2019	£4.88	£4.50	5,333
2021	£5.16	£4.50	5,047
2022	£5.28	£5.00	3,481
<b>All providers</b>			
2018	£5.01	£4.50	11,323
2019	£5.16	£4.95	11,129
2021	£5.53	£4.95	10,649
2022	£5.72	£5.25	8,485
<b>All providers except childminders</b>			
2018	£5.34	£5.00	4,485
2019	£5.55	£5.00	5,796
2021	£5.94	£5.40	5,602
2022	£6.28	£5.78	5,004

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers includes 181, 275, 216, and 228 'other' group-based providers for 2018, 2019, 2021 and 2022 respectively.

**Table 21: Mean and median hourly parent-paid fees for three- and four-year-old preschool children (2018, 2019, 2021, and 2022)**

<b>Provider type</b>	<b>Mean hourly fee</b>	<b>Median hourly fee</b>	<b>Number of providers</b>
<b>Private providers</b>			
2018	£5.48	£5.00	2,550
2019	£5.72	£5.10	3,376
2021	£6.10	£5.50	3,245
2022	£6.29	£6.00	2,810
<b>Voluntary providers</b>			
2018	£4.80	£4.40	1,857
2019	£5.03	£4.50	2,141
2021	£5.36	£5.00	1,884
2022	£5.75	£5.00	1,610
<b>Nursery class childcare settings</b>			
2018	£4.82	£4.20	598
2019	£4.67	£4.20	1,259
2021	£5.01	£4.50	1,602
2022	£5.71	£5.00	1,337
<b>Maintained nursery schools</b>			
2018	£5.09	£5.00	97
2019	£5.30	£5.00	142
2021	£5.92	£5.50	155
2022	£5.95	£5.50	132
<b>Childminders</b>			
2018	£4.73	£4.50	7,203
2019	£4.80	£4.50	5,624
2021	£5.09	£4.80	5,457
2022	£5.22	£5.00	3,647
<b>All providers</b>			
2018	£4.92	£4.50	12,514
2019	£5.04	£4.67	12,849
2021	£5.39	£5.00	12,583
2022	£5.60	£5.00	9,778
<b>All providers except childminders</b>			
2018	£5.17	£4.68	5,311
2019	£5.34	£5.00	7,225
2021	£5.71	£5.00	7,126
2022	£5.99	£5.43	6,131

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers includes 209, 307, 240, and 242 'other' group-based providers for 2018, 2019, 2021 and 2022 respectively.

## **Distribution of hourly parent-paid fees within provider types and age groups**

As well as variation between provider types, Figure 6 below illustrates the variation in hourly parent-paid fees within provider types. It presents the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (median), 75<sup>th</sup>, and 90<sup>th</sup> percentile hourly parent-paid fee for each provider type, and for each age group.

There is a relatively flat distribution of hourly parent-paid fees for all providers across age groups, which is driven by the flat distribution of hourly parent-paid fees among childminders. This highlights the different age-based fee structures particularly between childminders and group-based providers.

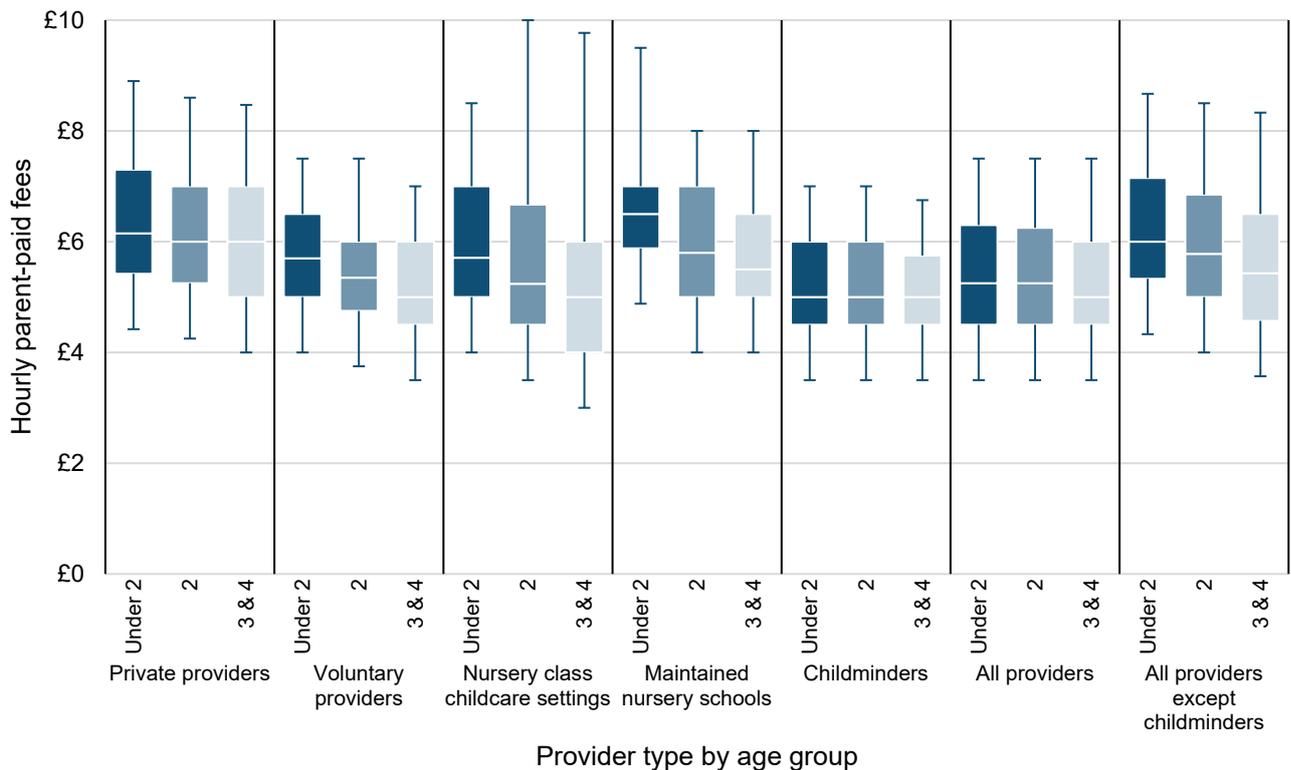
All reported percentiles are lower or the same for older age groups for private group-based providers, voluntary group-based providers, and maintained nursery schools. In comparison, childminders had a median hourly parent-paid fee of £5.00 for all age groups, with only the 75<sup>th</sup> and 90<sup>th</sup> percentile value declining slightly when moving from two-year-old children to three- and four-year-old children.

Most nursery class childcare settings charged lower hourly parent-paid fees for older age groups, but there were considerable differences at the top of the distribution. For instance, the 75<sup>th</sup> percentile hourly parent-paid fee for nursery class childcare settings was estimated to be £7.00 per hour for children under the age of two, falling to £6.67 per hour for two-year-old children and £6.00 per hour for three- and four-year-old children.

In comparison, the equivalent for the 90<sup>th</sup> percentile nursery class hourly parent-paid fee was £8.50 per hour for children under the age of two, but increased to £10 per hour for two-year-old children and for three- and four-year old children. This made nursery class hourly parent-paid fees the most variable among providers, driven by very high fees charged by a relatively small number of providers. Within this group, there is a disproportionate number of independent reception and nursery classes that have high parent-paid fees (a mean of £8.54 for two-year-olds and £8.95 for three- and four-year-olds) compared to maintained reception and nursery classes (a mean of £5.54 for two-year-olds and £5.16 for three- and four-year-olds).

As a further illustration of the variation in fees charged within this provider type, the 90<sup>th</sup> percentile hourly parent-paid fee for all providers for three- and four-year-old children was almost 1.9 times the 10<sup>th</sup> percentile fee. The corresponding ratio for nursery class childcare settings was just over 3.0.

**Figure 6: Distribution of hourly parent-paid fees by age of child and provider type (2022)**



Source: Survey of Childcare and Early Years Providers 2022. Notes: The bottom whisker reports the 10<sup>th</sup> percentile for the provider type, where the providers have been ranked by hourly parent-paid fees, while the top whisker reports the 90<sup>th</sup> percentile. The bottom of the box presents the 25<sup>th</sup> percentile, the middle line within the box the 50<sup>th</sup> percentile (the median), and the top of the box the 75<sup>th</sup> percentile. The interquartile range is the distance between the top and bottom of the box.

## 4.2 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 years entitlement.

Table 22 and Table 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.<sup>25</sup> The first column of values provides the mean hourly free entitlement

<sup>25</sup> Comparisons are not made for children under the age of two and school-age children, because children in these age groups are not currently eligible for local authority free entitlement funding.

funding rate, being the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the free early years entitlement<sup>26</sup>.

The next column repeats the mean hourly parent-paid fees as reported in Table 20 and Table 21. The following column shows the difference between the two means.

The mean hourly free entitlement funding rate for all providers was £5.38 for two-year-old children, and £4.65 for three- and four-year-old children. This represents a 3% increase compared to 2021 for two-year-old children, and a 4% increase for three- and four-year old children.

Mean hourly parent-paid fees were £0.35 higher than mean free entitlement funding rates for two-year-old children, and £0.87 higher for three- and four-year-old children. The larger difference for the older age group was driven by the drop in hourly free entitlement funding rates between the two age groups, and occurs despite there only being a small decrease in mean hourly parent-paid fees moving to the higher age group.

The difference being smaller for two-year-olds (compared to the other age groups) is consistent with hourly free entitlement funding rates being greater for that age group. The funding formula has a higher base rate for two-year-old children, as free entitlement funding for two-year-olds is currently targeted at disadvantaged children.

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<sup>26</sup> These will not necessarily directly correspond with Department for Education published rates. Free entitlement funding rates are calculated using the Early Years National Funding Formula (EYNFF), set up in 2017/18 and updated yearly. This formula consists of a universal base rate for each age group, and factors for additional needs (e.g., free school meal provision) that varies funding across providers. The formula also includes a cost adjustment multiplier that reflects local variation in costs and conditions and supporting workforce qualifications.

**Table 22: Mean hourly parent-paid fees and hourly free entitlement funding rates for two-year-old children (2018, 2019, 2021, and 2022)**

Provider type	Mean free entitlement funding rate	Mean parent-paid hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding	Number of providers for hourly fee
<b>Private providers</b>					
2018	£5.11	£5.63	-£0.52	1,892	2,359
2019	£5.09	£5.85	-£0.76	2,453	3,050
2021	£5.22	£6.21	-£0.99	2,350	2,973
2022	£5.38	£6.49	-£1.11	2,029	2,699
<b>Voluntary providers</b>					
2018	£5.09	£4.86	£0.23	1,410	1,710
2019	£5.11	£5.18	-£0.07	1,638	1,957
2021	£5.33	£5.56	-£0.23	1,423	1,750
2022	£5.44	£5.92	-£0.48	1,222	1,522
<b>Nursery class childcare settings</b>					
2018	£5.04	£5.10	-£0.06	170	156
2019	£4.99	£4.95	£0.04	381	399
2021	£5.22	£5.24	-£0.02	492	531
2022	£5.39	£6.24	-£0.85	297	447
<b>Maintained nursery schools</b>					
2018	£5.41	£5.43	-£0.02	85	79
2019	£5.35	£5.57	-£0.22	158	115
2021	£5.42	£6.15	-£0.73	159	132
2022	£5.61	£6.21	-£0.60	120	108
<b>Childminders</b>					
2018	£4.99	£4.78	£0.21	1,713	6,838
2019	£4.98	£4.88	£0.10	1,392	5,333
2021	£5.14	£5.16	-£0.02	1,392	5,047
2022	£5.28	£5.28	£0.00	888	3,481
<b>All providers</b>					
2018	£5.07	£5.01	£0.06	5,424	11,323
2019	£5.06	£5.16	-£0.10	6,254	11,129
2021	£5.23	£5.53	-£0.30	5,955	10,649
2022	£5.38	£5.72	-£0.34	4,737	8,485
<b>All providers except childminders</b>					
2018	£5.11	£5.34	-£0.23	3,711	4,485
2019	£5.10	£5.55	-£0.45	4,862	5,796
2021	£5.26	£5.94	-£0.68	4,592	5,602
2022	£5.42	£6.28	-£0.86	3,849	5,0054

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers includes 154, 232, 168, and 181 'other' group-based providers for the funding rate in 2018, 2019, 2021, and 2022 respectively. All providers includes 181, 275, 216, and 228 'other' group-based providers for the hourly fee in 2018, 2019, 2021 and 2022 respectively.

**Table 23: Mean hourly parent-paid fees and hourly free entitlement funding rates for three- and four-year-old children (2018, 2019, 2021, and 2022)**

Provider type	Mean free entitlement	Mean parent-paid hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
<b>Private providers</b>					
2018	£4.33	£5.48	-£1.15	2,273	2,550
2019	£4.36	£5.72	-£1.36	3,014	3,376
2021	£4.52	£6.10	-£1.58	2,941	3,245
2022	£4.66	£6.29	-£1.63	2,343	2,810
<b>Voluntary providers</b>					
2018	£4.25	£4.80	-£0.55	1,670	1,857
2019	£4.31	£5.03	-£0.72	1,999	2,141
2021	£4.49	£5.36	-£0.87	1,754	1,884
2022	£4.57	£5.75	-£1.18	1,478	1,610
<b>Nursery class childcare settings</b>					
2018	£4.43	£4.82	-£0.39	815	598
2019	£4.48	£4.67	-£0.19	1,763	1,259
2021	£4.62	£5.01	-£0.39	2,135	1,602
2022	£4.87	£5.71	-£0.84	1,386	1,337
<b>Maintained nursery schools</b>					
2018	£5.19	£5.09	£0.10	113	97
2019	£5.22	£5.30	-£0.08	196	142
2021	£5.29	£5.92	-£0.63	201	155
2022	£5.25	£5.95	-£0.70	145	132
<b>Childminders</b>					
2018	£4.26	£4.73	-£0.47	5,114	7,203
2019	£4.30	£4.80	-£0.50	4,221	5,624
2021	£4.42	£5.09	-£0.67	4,298	5,457
2022	£4.54	£5.22	-£0.68	2,111	3,647
<b>All providers</b>					
2018	£4.30	£4.92	-£0.62	10,167	12,514
2019	£4.34	£5.04	-£0.70	11,471	12,849
2021	£4.49	£5.39	-£0.90	11,539	12,583
2022	£4.65	£5.60	-£0.95	7,671	9,778
<b>All providers except childminders</b>					
2018	£4.34	£5.17	-£0.83	5,053	5,311
2019	£4.38	£5.34	-£0.96	7,250	7,225
2021	£4.55	£5.71	-£1.16	7,241	7,126
2022	£4.72	£5.99	-£1.27	5,560	6,131

Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: All providers includes 182, 278, 210, and 208 'other' group-based providers for the funding rate in 2018, 2019, 2021, and 2022 respectively. All providers includes 209, 307, 240, and 242 'other' group-based providers for the hourly fee in 2018, 2019, 2021 and 2022 respectively.

## Hourly parent-paid fees and hourly free entitlement funding rates across provider types

For two-year-old children, maintained nursery schools had the highest mean funding rate (£5.61 per hour), while childminders had the lowest mean funding rate (£5.28 per hour). The same was true for three- and four-year-old children – maintained nursery schools had the highest mean funding rate (£5.25 per hour) and childminders the lowest mean funding rate (£4.54 per hour).

Almost every provider type for both age groups had a higher mean hourly parent-paid fee than mean free entitlement funding rate. For two-year-old children, this ranged from childminders where they were the same to a £1.11 per hour higher rate for private group-based providers. For three- and four-year-old children, differences ranged from £0.70 per hour for maintained nursery schools and £0.68 per hour for childminders to £1.63 per hour for private group-based providers.

Differences between provider types (within age groups) are driven by provider type differences in hourly parent-paid fees, as mean hourly free entitlement funding rates were relatively consistent across different provider types (with the exception of higher rates for maintained nursery schools). However, differences between age groups within provider types are driven by age group differences in hourly free entitlement funding rates, as mean hourly parent-paid fees were relatively consistent across age groups.

Funding rates for all provider types rose modestly and relatively uniformly across provider types from 2021 to 2022, with the exception of maintained nursery schools', where funding rates for three- and four-year-old children fell by 1%. Increases in mean hourly free entitlement funding rates ranged from 2% for voluntary group-based providers, to 4% for two-year-old children in maintained nursery schools and 5% for three- and four-year old children in nursery class childcare settings.

The gap between mean hourly parent-paid fees and mean hourly free entitlement funding rates increased for most provider types between 2021 and 2022, driven by higher growth in hourly parent-paid fees. The increase in this gap was most substantial for nursery class childcare settings. For example, while the mean hourly parent-paid fee for two-year-old children was only £0.39 higher than the mean funding rate for nursery class childcare settings in 2021, in 2022 it was £0.84 higher.

## Distribution of hourly free entitlement funding rates within provider types

Free entitlement funding rates are calculated using the Early Years National Funding Formula (EYNFF), set up in 2017/18 and updated yearly.<sup>27</sup> This formula consists of a universal base rate for each age group, and factors for additional needs, using measures of free school meal provision, disability, special educational needs, and English as an

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<sup>27</sup> [Early years 2022 to 2023 hourly funding rates for 2, 3 and 4-year-olds: technical note](#)

additional language to vary the funding across providers. Furthermore, the formula also includes a cost adjustment multiplier that reflects local variation in costs and conditions, including supplements for local deprivation, rurality, supporting flexible childcare (e.g., out-of-hours provision), and supporting workforce qualifications. An additional supplement is paid to maintained nursery schools.

Reflecting the distribution of free entitlement funding rates both across and within provider types that this formula leads to, Figure 7 presents the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (the median), 75<sup>th</sup> and 90<sup>th</sup> percentile self-reported hourly free entitlement funding rate for all age groups and provider types.

As well as being higher on average, the distribution of hourly free entitlement funding rates for two-year-old children was slightly more compact than for three- and four-year-old children.

When looking at all providers, for the middle 50% of providers, hourly free entitlement funding rates for two-year-olds were between £5.15 and £5.57 per hour (i.e., an “interquartile range” of £0.42). In comparison, for the middle 50% of providers, hourly free entitlement funding rates for three- and four-year-old children were between £4.25 and £4.80 per hour (an interquartile range of £0.55). The step down in funding rates for older age groups results in the median hourly free entitlement funding rate for two-year-old children (£5.39) being almost equivalent to the funding rate associated with the 90<sup>th</sup> percentile for three- and four-year old children (£5.40). This step change in funding rates between the two age groups reflects the funding formula having a higher base rate for two-year-old children, as free entitlement funding for this age group is currently targeted at disadvantaged children.

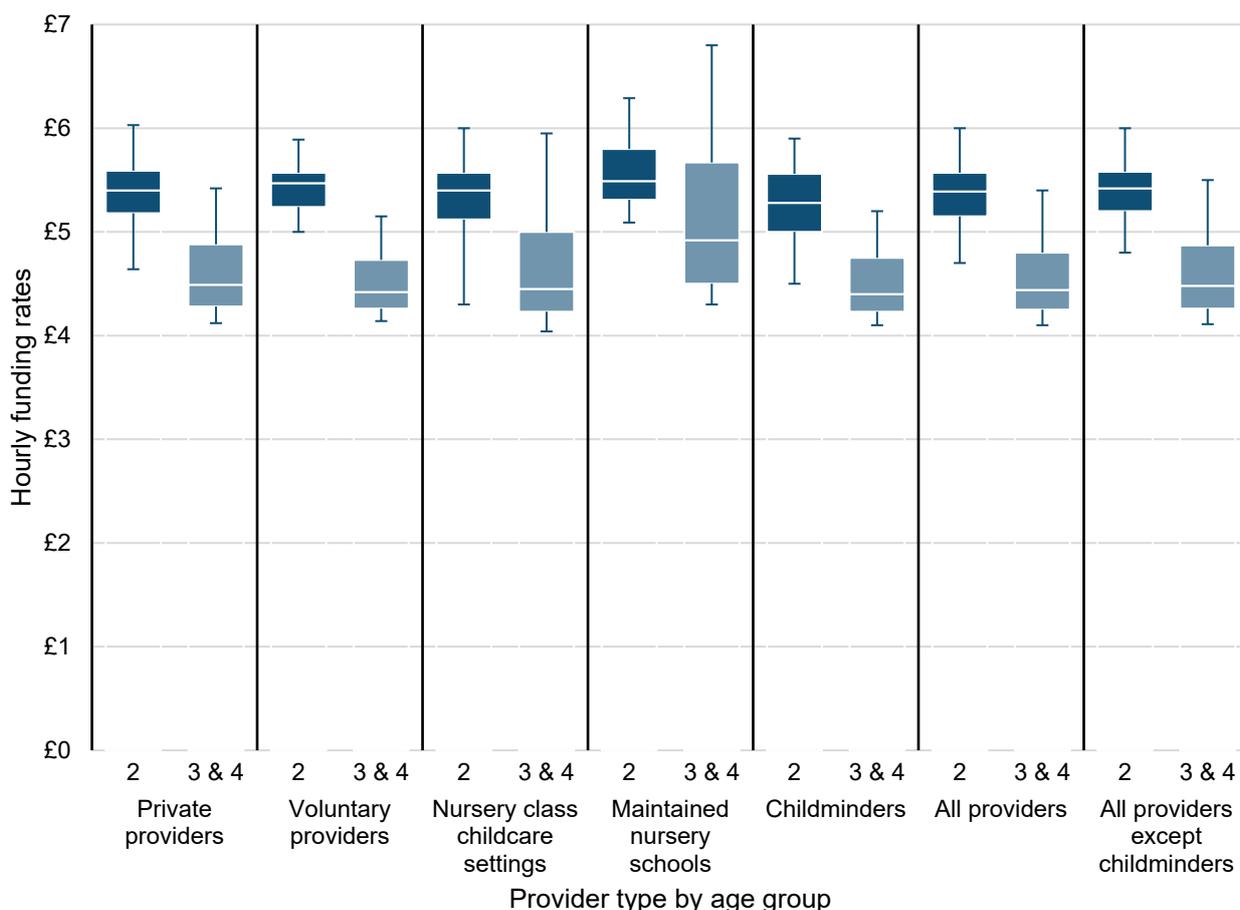
The distribution of hourly free entitlement funding rates among the middle 50% of providers was most compact among voluntary group-based providers, with an interquartile range of £0.33 per hour for two-year-old children and £0.47 per hour for three- and four-year-old children. The difference in hourly free entitlement funding rate levels between age groups was such that the 10<sup>th</sup> percentile funding rate for two-year-old children for voluntary group-based providers (£5.00 per hour) was only slightly below the 90<sup>th</sup> percentile funding rate for three- and four-year-old children (£5.15 per hour).

Most provider types had roughly similar distributions within age groups. The main exception was maintained nursery schools, which had higher median values compared to other provider types. This reflects the specific supplement for maintained nursery schools in the EYNFF, which is intended to compensate for their requirement to have head teachers, governing bodies and qualified teachers, unlike other providers. This may also be partly explained by the type of care that is provided by maintained nursery schools compared to other provider types. For example, the proportion of maintained nursery schools with at least one child with SEND in 2022 was 99% compared to 82% for nursery

class childcare settings, 83% for private and voluntary providers, and 19% for childminders.

Maintained nursery schools also had a wider distribution of funding rates, particularly for three- and four-year-old children. This is illustrated by the 90<sup>th</sup> percentile funding rate for maintained nursery schools for this age group being £6.80 per hour compared to £6.29 per hour for two-year-old children, despite the median hourly free entitlement funding rate for two-year-old children being £0.57 per hour higher.

**Figure 7: Distribution of hourly funding rates by age of child and provider type (2022)**



Source: Survey of Childcare and Early Years Providers 2022. Note: The bottom whisker reports the 10<sup>th</sup> percentile for the provider type, where the providers have been ranked by hourly funding rates, while the top whisker reports the 90<sup>th</sup> percentile. The bottom of the box presents the 25<sup>th</sup> percentile, the middle line within the box the 50<sup>th</sup> percentile (the median), and the top of the box the 75<sup>th</sup> percentile. The interquartile range is the distance between the top and bottom of the box.

## 4.3 Regional distribution of parent-paid fees and free entitlement funding rates

### Regional variation in hourly parent-paid fees

Table 24 and Table 25 report the median hourly parent-paid fees across age groups for all providers and all providers except childminders.

Considering all providers, London had the highest median hourly parent-paid fees, standing at £7.00 for children under two and two-year-old children, and £6.56 for three- and four-year-old children. The next highest hourly parent-paid fees were in the neighbouring regions of the South East and the East of England, which were nevertheless more than £1.00 less per hour for each age group (the South East, the next most expensive region, had hourly parent-paid fees of £5.60 per hour for children under two, £5.75 per hour for two-year-olds and £5.50 per hour for three- and four-year-old children).

This outcome occurs despite the South East and the East of England having the highest proportion of childminders as childcare providers (at 35% and 34% of all providers respectively). This is reflected in Table 25 where childminders are excluded, and median hourly parent-paid fees in these two regions are closer to (but still lower) than London.

The pattern of regional hourly parent-paid fees closely matches the regional distribution of gross disposable household income (GDHI) (Table 26). London, the South East, and the East of England, the three regions with the highest hourly fees in each age group, also had the highest GDHI. Similarly, the North East, and Yorkshire and the Humber are the two regions with the lowest GDHI and the lowest median hourly parent-paid fees, £4.50 for children under two and for three- and four-year-old children.

This suggests that regional variation in fees seem to be driven by local demand but also input costs, particularly as staff costs represent the majority of providers' costs.

**Table 24: Distribution of median hourly parent-paid fees by region, all providers (2022)**

Region	Children under two years old	Two-year-old children	Three- and four-year old children	Number of providers for children under two	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	£4.75	£4.75	£4.60	525	734	847
East of England	£5.50	£5.50	£5.35	595	1,004	1,186
London	£7.00	£7.00	£6.56	923	1,183	1,352
North East	£4.50	£4.50	£4.50	266	325	401
North West	£4.80	£4.80	£4.75	745	1,029	1,234
South East	£5.60	£5.75	£5.50	931	1,569	1,698
South West	£5.00	£5.00	£5.00	695	1,052	1,163
West Midlands	£5.00	£5.00	£4.80	574	778	884
Yorkshire and The Humber	£4.50	£4.60	£4.50	663	813	1,017

Source: Survey of Childcare and Early Years Providers 2022

**Table 25: Distribution of median hourly parent-paid fees by region, all providers except childminders (2022)**

Region	Children under two years old	Two-year-old children	Three- and four-year old children	Number of providers for children under two	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	£5.80	£5.50	£5.20	223	438	527
East of England	£6.50	£5.87	£5.50	238	656	786
London	£7.50	£7.00	£6.67	354	626	804
North East	£5.34	£5.00	£5.00	102	176	222
North West	£5.48	£5.02	£5.00	357	612	825
South East	£6.50	£6.00	£6.00	409	1,046	1,173
South West	£6.00	£5.50	£5.00	262	620	704
West Midlands	£5.90	£5.50	£5.00	259	446	560
Yorkshire and The Humber	£5.50	£5.21	£5.00	222	385	532

Source: Survey of Childcare and Early Years Providers 2022

**Table 26: Gross disposable household income per person by region (2020)<sup>28</sup>**

<b>Region</b>	<b>Average gross disposable household income</b>
East Midlands	£18,844
East of England	£22,310
London	£29,890
North East	£17,416
North West	£18,900
South East	£24,551
South West	£21,117
West Midlands	£18,363
Yorkshire and The Humber	£18,119

Source: ONS

Figure 8 shows how median hourly parent-paid fees vary by Local Authority. Darker areas are Local Authorities with higher median hourly fees<sup>29</sup>.

The information confirms that London (reproduced separately on the right-hand side of the figure) has the highest hourly parent-paid fees. However, the finer geographical level shows that the higher parent-paid fees in the neighbouring regions of the South East and the East of England are observed primarily in the areas immediately outside of London, with median fees generally declining as the distance from London increases. This may suggest a premium on hourly parent-paid fees not only in London but in the surrounding commuter towns, with London driving the higher hourly parent-paid fees in the surrounding regions rather than separate 'hotspots' in these regions.

Looking within London, highest hourly parent-paid fees are seen in the inner west boroughs (Hammersmith and Fulham, Kensington and Chelsea). In general, the inner boroughs, the north, and the west to south-west saw the highest hourly parent-paid fees, with lower fees in the outer boroughs and boroughs in the east of London.

Finally, Figure 8 shows that, aside from London, hourly parent-paid fees tend to be higher in urban areas than the surrounding rural ones. Evidence of this can be seen around Manchester (North West), Birmingham (West Midlands), and Bristol (South West). Further information about parent-paid fees by Local Authority can be found in the 2022 Survey of Childcare and Early Years Providers<sup>30</sup>.

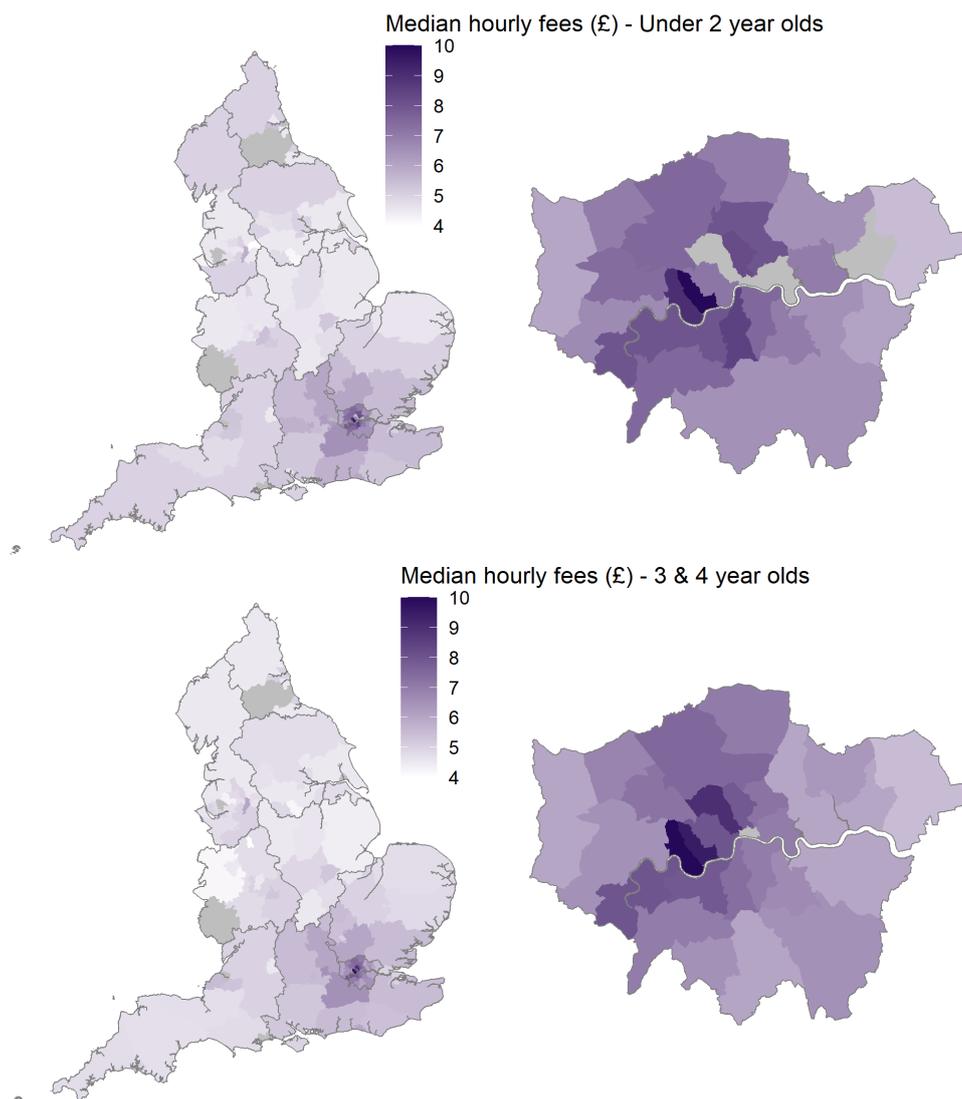
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<sup>28</sup> [ONS Regional gross disposable household income](#)

<sup>29</sup> Areas with fewer than ten provider responses have been greyed out to avoid statistical disclosure of small samples.

<sup>30</sup> [2022 Survey of Childcare and Early Years Providers](#)

**Figure 8: Median hourly parent-paid fees by Local Authority, all providers (2022)**



Source: Survey of Childcare and Early Years Providers 2022. Note: Level of geography is ONS 'Counties and Unitary Authorities'. Areas with no data or fewer than ten respondents are shaded grey to preserve anonymity.

### **Regional variation in hourly free entitlement funding rates**

Table 27 and Table 28 report the median hourly free entitlement funding rates across age groups for all providers and all providers excluding childminders.

As with hourly parent-paid fees, median funding rates were highest in London, standing at £6.03 per hour for two-year-old children, and £5.26 per hour for three- and four-year-old children. Again, the South East and the East of England had the next highest funding rates but these were more similar to other regions outside the capital than for hourly parent-paid fees. Excluding London, median funding rates ranged from £5.24 per hour (East Midlands) to £5.47 per hour (South East) for two-year-old children, and from £4.30

per hour (East Midlands, South West, and West Midlands) to £4.62 per hour (South East) for three- and four-year-old children.

Regional variation in funding rate does not match regional variation in GDHI as closely as parent-paid hourly fees do, with funding rates less variable over regions. Additionally, the regions with the lowest GDHI (North East and Yorkshire and the Humber) do not have the lowest funding rates. This is because the calculation of free entitlement funding is not solely based on considerations of cost of living, which will match regional variation in incomes, but also other regional factors, such as local deprivation measures and measures of rurality and sparsity.<sup>31</sup> This would act more toward standardising funding rates across regions with different average incomes.

**Table 27: Median hourly funding rates by region, all providers (2022)**

Region	Two-year-old children	Three- and four-year old children	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	£5.24	£4.30	439	689
East of England	£5.45	£4.50	588	942
London	£6.03	£5.26	559	1,009
North East	£5.35	£4.41	201	307
North West	£5.28	£4.35	607	955
South East	£5.47	£4.62	822	1,342
South West	£5.28	£4.30	578	896
West Midlands	£5.38	£4.30	461	712
Yorkshire and The Humber	£5.30	£4.35	482	819

Source: Survey of Childcare and Early Years Providers 2022

<sup>31</sup> These factors, among others, are referenced in the [Early Years National Funding Formula operational guide](#)

**Table 28: Median hourly funding rates by region, all providers except childminders (2022)**

Region	Two-year-old children	Three- and four-year old children	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	£5.27	£4.30	350	511
East of England	£5.50	£4.50	506	688
London	£6.03	£5.40	449	746
North East	£5.36	£4.45	143	219
North West	£5.30	£4.39	501	725
South East	£5.47	£4.66	730	1,040
South West	£5.36	£4.30	473	604
West Midlands	£5.40	£4.30	376	522
Yorkshire and The Humber	£5.33	£4.35	321	505

Source: Survey of Childcare and Early Years Providers 2022

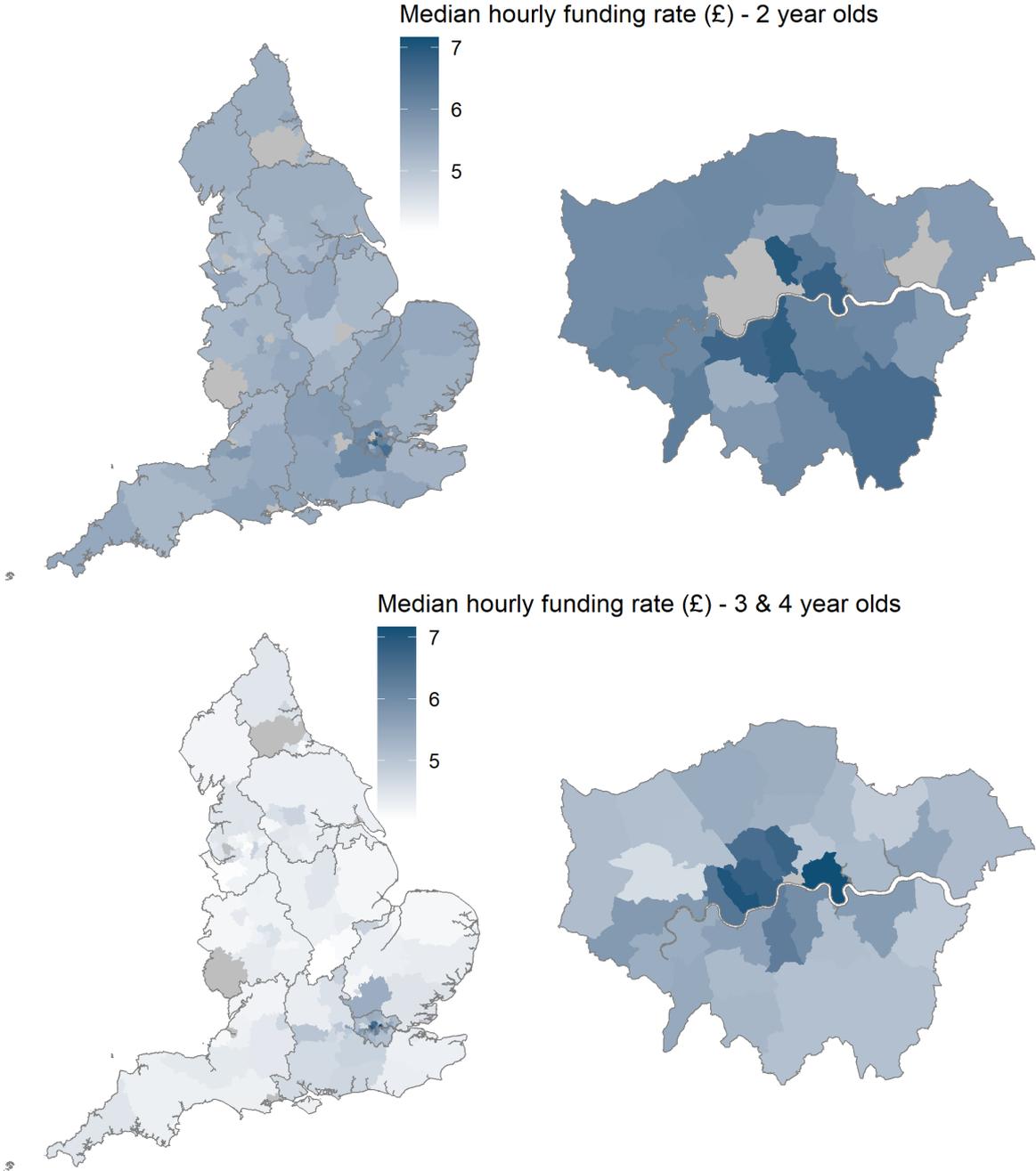
More granular regional variation can be seen in Figure 9, when looking at the geographic distribution of funding rates across Local Authorities. Again, darker areas are Local Authorities with higher median funding rates<sup>32</sup>.

Compared to parent-paid hourly fees, there was less variation at Local Authority level. Hourly free entitlement funding rates varied from between roughly £4.00 per hour to £7.00 per hour across the country, compared to £4.00 per hour to £10.00 per hour for parent-paid fees. Furthermore, although London still saw the highest funding rates for each age group, the pattern is less pronounced than with hourly parent-paid fees. One component of the EYNFF used to calculate free entitlement funding rates that would lead to less variation at the local authority level is supplements given for rural or sparse areas, where economies of scale may not be as easily realised. This negates the pattern of urban ‘hotspots’ as seen with hourly parent-paid fees, which are not present for free entitlement funding rates in Figure 9 (with the exception of London, where adjustments for local costs seem to dominate).

Looking within London, although the same inner-west boroughs that had the highest hourly parent-paid fees also tended to have the highest hourly free entitlement funding rates, other boroughs (such as Tower Hamlets) also had higher hourly funding rates. This again demonstrates that funding rates reflect factors other than local incomes, such as measures of local deprivation.

<sup>32</sup> Areas with fewer than ten provider responses have been greyed out to preserve anonymity.

**Figure 9: Median hourly funding rates by Local Authority, all providers (2022)**



Source: Survey of Childcare and Early Years Providers 2022. Note: Level of geography is ONS 'Counties and Unitary Authorities'. Areas with no data or fewer than ten respondents are shaded grey to preserve anonymity. The same colour scale is used across both age groups to aid comparison.

## Regional variation in the difference between hourly funding rates and hourly parent-paid fees

Table 29 and Table 30 report the difference between the median hourly parent-paid fee and the median hourly free entitlement funding rate.

Considering two-year-old children and all providers, only the three regions with the highest median hourly parent-paid fees (London, South East, and East of England) had higher median parent paid fees than free entitlement funding rates. This difference is greatest in London, where the difference of £0.80 per hour was twice that in the region with the next largest difference, the South East (Table 29).

For this age group, hourly free entitlement funding rates were greater than hourly parent-paid fees in all other regions, with the North East having the greatest difference of £0.48 (i.e., median funding rates were £0.48 greater than median hourly parent-paid fees). For three- and four-year-old preschool children, the median difference is negative for all regions, both when including childminders (Table 29) and when they are excluded (Table 30). In other words, median funding rates are lower than median parent fees in all regions.

**Table 29: Median hourly free entitlement funding rate minus median hourly parent-paid fee by region, all providers (2022)**

Region	Two-year-old children	Three- and four-year old children	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	£0.16	-£0.46	427	612
East of England	-£0.18	-£0.64	578	875
London	-£0.80	-£1.31	525	873
North East	£0.48	-£0.20	179	239
North West	£0.17	-£0.30	575	855
South East	-£0.40	-£1.11	796	1,261
South West	£0.01	-£0.58	565	866
West Midlands	£0.03	-£0.48	431	625
Yorkshire and The Humber	£0.31	-£0.22	459	729

Source: Survey of Childcare and Early Years Providers 2022.

**Table 30: Median hourly free entitlement funding rate minus median hourly parent-paid fee by region, all providers except childminders (2022)**

Region	Two-year-old children	Three- and four-year old children	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	-£0.10	-£0.90	339	437
East of England	-£0.31	-£0.82	498	628
London	-£0.80	-£1.27	418	616
North East	£0.00	-£0.52	122	154
North West	£0.06	-£0.50	472	633
South East	-£0.50	-£1.29	706	965
South West	-£0.10	-£0.74	462	581
West Midlands	-£0.14	-£0.83	348	440
Yorkshire and The Humber	£0.00	-£0.57	299	419

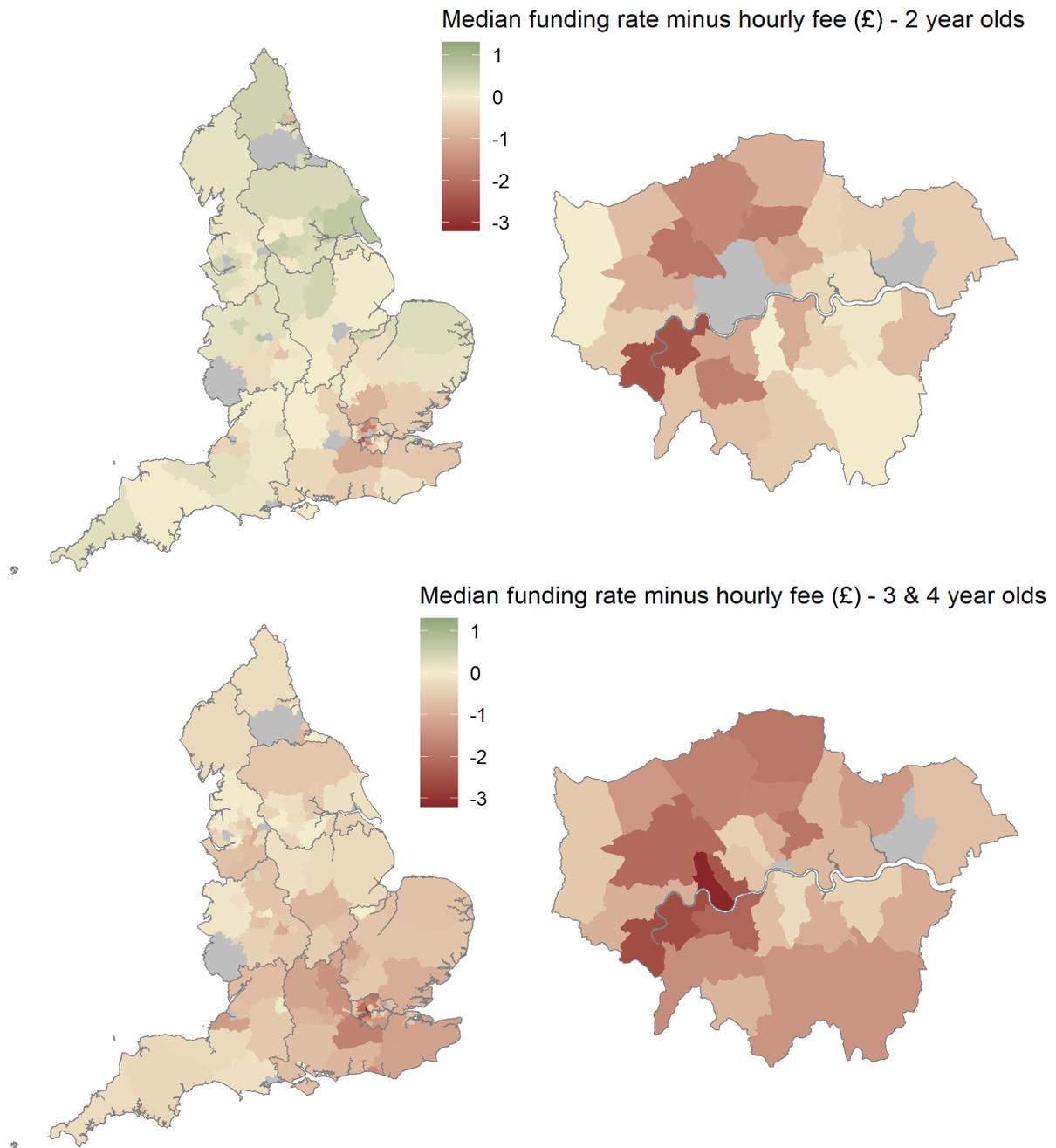
Source: Survey of Childcare and Early Years Providers 2022

Figure 10 presents the hourly free entitlement funding rate minus hourly parent-paid fee by Local Authority. Local Authorities move from yellow to green the further median funding rates rise above median hourly fees. Similarly, they move from yellow to red the further median hourly fees fall below median funding rates.

The flatter distribution of hourly free entitlement funding rates across regions (compared to the distribution of hourly parent-paid fees) resulted in more positive (fewer negative) differences between funding rates and parent-paid fees in Local Authorities outside of London and its surrounding areas. For two-year-old children, the flatter distribution of hourly free entitlement funding rates across regions results in positive differences in Local Authorities outside of London and surrounding areas, although there were some negative differences in urban areas away from London such as Bristol. London boroughs were most likely to have hourly free entitlement funding rates that were below hourly parent-paid fees (illustrated by the predominance of red shading).

As with hourly parent-paid fees, variation within regions near to London (the South East and the East of England) reflected these regions' proximity to London, with Local Authorities closer to London seeing more negative differences. There was a similar regional trend for three- and four-year-old children, but with more negative differences between hourly free entitlement funding rates and hourly parent-paid fees. Only nine Local Authorities posted a positive difference between median funding rates and median hourly parent-paid fees.

**Figure 10: Median rate minus median hourly fee by Local Authority (2022)**



Source: Survey of Childcare and Early Years Providers 2022. Note: The level of geography is ONS 'Counties and Unitary Authorities'. Shading moves from yellow to green as median funding rate minus median hourly fee rises above zero. Shading moves from yellow to red as median funding rate minus median hourly fee falls below zero. The same colour scale is used across age groups to aid comparison.

## 4.4 Use of additional charges

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

### Income from additional charges

Table 31 shows that only 1% of all providers' total income derived from additional charges to parents in 2022. As well as being a tiny fraction of total income, income from additional charges is itself only a small fraction of the 15% of all providers' income that did not come from either parent-paid fees or free-entitlement funding (as reported under 'other' income in Table 5, which also includes voluntary support, local authority or government grants for specific items, and other uncategorised income). From a different perspective, additional charges represent only 1.8% of all providers' income derived from parent-paid fees.

Private providers derive the highest proportion of total income from additional charges, (1.7%). Nursery class childcare settings had the lowest proportion, (0.5%). Overall, the small proportion of income from this source suggests that varying additional charges generally does not have a significant impact on providers' overall income.

**Table 31: Proportion of providers' income from additional charges (2022)**

Provider type	Proportion of total income	Number of providers
Private providers	1.7%	204
Voluntary providers	1.0%	224
Nursery class childcare settings	0.5%	230
Maintained nursery schools	1.4%	43
Childminders	0.9%	183
All providers	1.0%	916
All providers except childminders	1.1%	733

Source: Survey of Childcare and Early Years Providers 2022. Note: All providers also includes 32 'other' group-based providers.

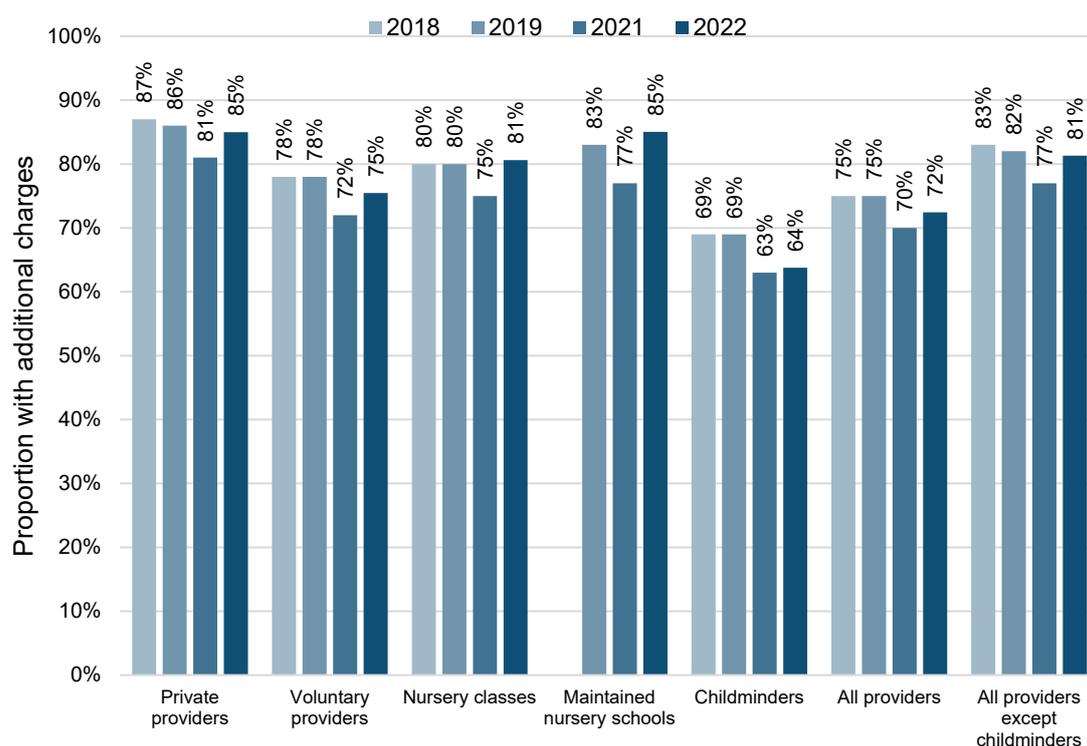
### Use of additional charges

Figure 11 shows that 72% of all providers imposed some form of additional charges for parents in 2022, rising to 81% of providers when excluding childminders. This proportion was highest for private providers and maintained nursery schools (85%) and slightly lower for nursery class childcare settings (81%) and voluntary providers (75%). Only 64%

of childminders made additional charges to parents, although childminders have the highest proportion of costs attributable to food and materials (Table 2)<sup>33</sup>.

The use of additional charges increased slightly from 2021 to 2022 across all provider types. However, with the exception of childminders, this increase tended to bring use of additional charges more in line with figures from 2018 and 2019.

**Figure 11: Proportion of providers making additional charges to parents by provider type (2022)**



Source: Survey of Childcare and Early Years Providers, 2018, 2019, 2021, and 2022. Note: Proportion of providers with additional charges was not reported in the 2018 survey for maintained nursery schools.

### Use of different kinds of additional charges

While Figure 11 shows a modest increase in the proportion of childcare providers making additional charges, the following section breaks down additional charges by specific items.

<sup>33</sup> This can partly be explained by a smaller proportion of childminders (compared to most other provider types) using additional charges such for items such as food, as discussed later.

In 2022, the additional charges that the largest proportion of providers made were for unarranged late pickups (40%), one-off activities (38%) and meals (32%) (Table 32). However, there was considerable variation in the use of different types of charges across provider types.

- Additional charges relating to meals were more likely to be found among private group-based providers (41%), nursery class childcare settings (51%), and maintained nursery schools (49%), and less likely among voluntary group-based providers (20%) and childminders (23%).
- The proportion of providers making additional charges for consumables (e.g., nappies and suncream) were generally low across all provider types (9%), but particularly among nursery class childcare settings and maintained nursery schools (2% and 4% respectively). In comparison, 16% of private group-based providers had additional charges for consumables.
- There was considerable variation in the use of additional charges for unarranged late pickups, with 60% of private group-based providers compared with 15% of nursery class childcare settings imposing these charges.
- 38% of private group-based providers imposed additional charges for registration and other administration tasks. However, these charges were not widespread among nursery class childcare settings, maintained nursery schools, and childminders (4%, 4%, and 3% respectively).

**Table 32: Proportion of providers using different kinds of additional charges (2022)**

Proportion of costs in category	Private providers	Voluntary providers	Nursery class childcare settings	Maintained nursery schools	Childminders	All providers	All providers except childminders
Meals	41%	20%	51%	49%	23%	32%	41%
Snacks	24%	24%	10%	28%	10%	14%	19%
Consumables	16%	11%	2%	4%	10%	9%	9%
Regular activities	18%	9%	8%	6%	13%	13%	12%
One-off activities	30%	30%	56%	45%	35%	38%	40%
Unarranged late pickups	60%	42%	15%	37%	41%	40%	39%
Registration or other administration	38%	20%	4%	4%	3%	12%	21%
Other items	4%	4%	6%	12%	2%	4%	5%
Number of providers	3,081	1,681	2,717	173	4,607	12,527	7,920

Source: Survey of Childcare and Early Years Providers 2022. Note: All providers also includes 268 'other' group-based providers. 'Other items' consists of additional charges for uniforms, transport, late payment fees, additional hours or sessions, or any other specific answer given.

Table 33 shows how the proportion of providers making additional charges changed from 2021 in terms of percentage point differences. Across all providers, there was a modest increase in the proportion of providers making additional charges for one-off activities (4 percentage points), and meals (3 percentage points). The proportion of providers using charges for "other" items (comprising uniforms, transport, late payment fees, additional hours or sessions, or any other specific answer) fell by two percentage points.

Each provider type had a slight increase in the proportion of providers making additional charges for meals, regular activities, and unarranged late pickups. There was an 8 percentage point increase in the proportion of nursery class childcare settings charging for one-off activities, and a 4 percentage point increase in the proportion of providers charging for meals (somewhat compensated by a 2 percentage point decrease in the proportion of nursery class childcare settings making additional charges for snacks). There was a 5 percentage-point increase in the proportion of private group-based providers charging for unarranged late pickups and for registration or other administration. While the proportion of childminders making additional charges increased

for most categories, this was only by 1 to 2 percentage points (and not at all in the case of registration and other administration).

**Table 33: Percentage point change from 2021 to 2022 in the proportion of providers using different kinds of additional charges**

Proportion of costs in category	Private providers	Voluntary providers	Nursery class childcare settings	Maintained nursery schools	Childminders	All providers	All providers except childminders
Meals	+2pp	+1pp	+4pp	+3pp	+1pp	+3pp	+4pp
Snacks	+1pp	+3pp	-2pp	+6pp	+2pp	0pp	0pp
Consumables	+3pp	+3pp	0pp	-1pp	+1pp	0pp	0pp
Regular activities	+2pp	+1pp	+2pp	+2pp	+1pp	+1pp	+1pp
One-off activities	0pp	+2pp	+8pp	+5pp	+1pp	+4pp	+6pp
Unarranged late pickups	+5pp	+2pp	+1pp	+1pp	+1pp	0pp	-1pp
Registration or other administration	+5pp	+2pp	+2pp	0pp	0pp	+1pp	+1pp
Other items	-4pp	-5pp	-3pp	-1pp	-2pp	-2pp	-3pp

Source: Survey of Childcare and Early Years Providers 2021 and 2022. Note: 'Other items' consists of additional charges for uniforms, transport, late payment fees, additional hours or sessions, or any other specific answer given.

Overall, in comparison to 2021, childcare providers in 2022 seemed to have moved away from charging for smaller and more bespoke items (captured in the 'other items' row) and compensated this by charging for more common items, particularly one-off activities and meals.

The latter may also have been driven by increases in the cost of items such as meals, snacks, and other consumables that led providers to pass on some of the costs to parents through additional charges. This is consistent with large increases in the cost of food compared to previous years. For example, the cost of food and non-alcoholic drinks in May 2022 was 8.7% higher than in May 2021, while between May 2020 and May 2021 the cost had in fact fallen by 1.3%.<sup>34</sup> The increase in the proportion of providers using charges for one-off activities is consistent with a greater number of one-off activities since the relaxation of COVID-19 restrictions.

<sup>34</sup> [ONS \(2022\) Rising cost of pasta, bread, and other everyday foods leaves most vulnerable the worst off](#)

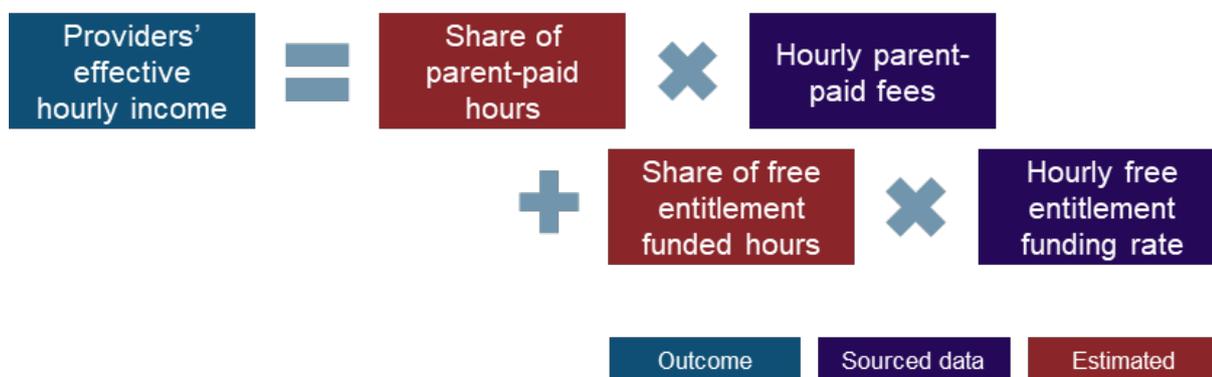
## 5. Hourly effective income

Providers' hourly effective income captures how much providers receive in income per hour of care that they provide, accounting for both hourly free entitlement funding rates and hourly parent-paid fees.

### 5.1. Hourly effective income

A measure of providers' hourly effective income was calculated by taking a weighted average of hourly parent-paid fees and free entitlement funding rates, weighted by the share of hours paid for by each source of income. This is set out in Figure 12 (see the Appendix for more information about the methodology and how shares of parent-paid hours and free entitlement funded hours are estimated).

**Figure 12: Calculation of providers' effective hourly income**



The idea behind this measure is to provide a clearer indication of providers' hourly income than can be elicited from looking at either parent-paid hourly fees or free entitlement funding rates in isolation. For instance, two providers could have identical hourly fees and funding rates, where the hourly fee is relatively high and the funding rate relatively low. However, if one provider has a larger proportion of its care funded by the free entitlement, it would have a lower income per hour than the other provider that has a larger proportion of its care funded by parent fees. The hourly effective income measure would capture this difference and can further be compared to the hourly fees and funding rates of different provider types to ascertain which source of income certain childcare providers may be more reliant on for different age groups of children.

Table 34 and Table 35 show the mean and median hourly effective income by provider type for two-year-old children and for three- and four-year-old children respectively.

Providers had a mean hourly effective income of £5.61 per hour for two-year-old children, increasing to £5.69 per hour when excluding childminders. Private group-based providers

had the highest mean effective income, (£5.81 per hour). Childminders had a mean effective income of £5.15 per hour, much lower than any other provider type.

The median hourly effective income for two-year-old children was £5.46 per hour, approximately £0.15 per hour lower than the mean. Indeed, across provider types, median effective incomes were slightly lower than means, demonstrating the influence of a few providers at the top of the distribution on the mean (although this effect was limited, given the closeness of the two measures).

For three- and four-year-old children, mean hourly effective income across all providers was £4.92 per hour, or £4.96 per hour excluding childminders. Maintained nursery schools had a much higher mean effective income (£5.73 per hour) than other provider types. Voluntary group-based providers had the lowest mean effective income (£4.71 per hour).

The median hourly effective income across all providers of £4.64 was again lower than the mean. Maintained nursery schools had the highest median effective income, but this was £0.72 per hour lower than the mean value, suggesting a stronger influence from providers at the top of the distribution on this figure. This was similarly the case for nursery class childcare settings, which, at £4.50 per hour, had the lowest hourly effective income. This figure, along with data suggesting that nursery class childcare settings had the second highest unit costs (Table 10) and the highest staff salaries (Table 13), helps to explain why Nursery class childcare settings have the lowest income-to-cost ratios of any type of provider (Table 6).

Providers' median unit cost per hour (£5.21 per hour, Table 10) was between the median hourly effective income for three- and four-year-old children (£4.64) and the median hourly effective income for two-year-old children for each provider type (£5.46), with the exception of private group-based providers and maintained nursery schools.

**Table 34: Mean and median provider hourly effective income for two-year-old children (2022)**

Provider type	Mean hourly effective income	Median hourly effective income	Number of providers
Private providers	£5.81	£5.61	307
Voluntary providers	£5.56	£5.38	300
Nursery class childcare settings	£5.63	£5.48	50
Maintained nursery schools	£5.76	£5.63	36
Childminders	£5.15	£5.06	61
All providers	£5.61	£5.46	793
All providers except childminders	£5.69	£5.51	732

Source: Survey of Childcare and Early Years Providers 2022. Note: All providers includes 39 'other' group-based providers.

**Table 35: Mean and median provider hourly effective income for three- and four-year-old children (2022)**

Provider type	Mean hourly effective income	Median hourly effective income	Number of providers
Private providers	£5.17	£4.81	369
Voluntary providers	£4.71	£4.52	375
Nursery class childcare settings	£4.86	£4.50	200
Maintained nursery schools	£5.73	£5.01	42
Childminders	£4.81	£4.61	159
All providers	£4.92	£4.64	1,191
All providers except childminders	£4.96	£4.65	1,032

Source: Survey of Childcare and Early Years Providers 2022. Note: All providers includes 46 'other' group-based providers.

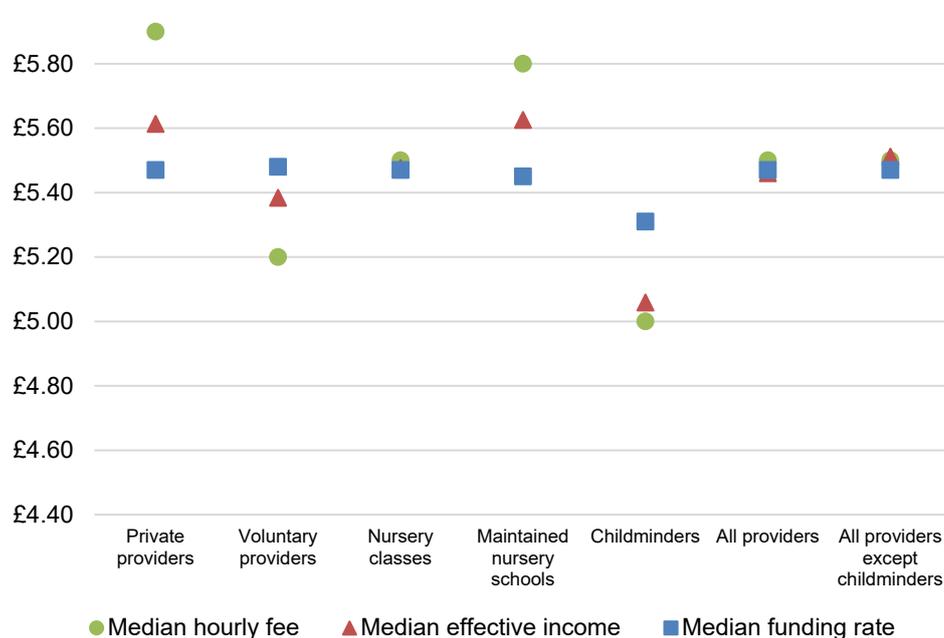
Figure 13 and Figure 14 compare providers' median hourly effective income with their median free entitlement funding rate and median parent-paid hourly fees, for two-year-old children and for three- and four-year-old children, respectively.<sup>35</sup>

<sup>35</sup> The median values for parent-paid hourly fees and free entitlement funding rates in the figures were calculated over the sample of providers with hourly effective income data, in order to be able to compare the measures. This is a smaller number of observations than used in Chapter 4, and so the hourly fee and funding rate values in the figures may differ marginally from those in the previous chapter. As reported in Table 34 and Table 35, the sample used to calculate parent-paid hourly fees and free entitlement funding rates for the comparisons in this chapter are 793 providers for two-year-old and 1,191 providers for three-

As the hourly effective income is calculated as a weighted average of the latter two measures, the hourly effective income for a given provider will fall somewhere in between their hourly parent-paid fees and their free-entitlement funding rate. The closer to one income source (say, free-entitlement funding rates), the more that effective income is determined primarily by that source (e.g., free-entitlement funding rates pay for relatively more hours of childcare provided).

Consequently, the hourly effective income measure can be used to determine which source of income different provider types may be more reliant on. This is what the figures below set out to achieve by plotting the distance of the median effective provider income from the median rate of each income source.<sup>36</sup>

**Figure 13: Median hourly effective income, parent-paid hourly fees, and free entitlement funding rates, for two-year-old children by provider type (2022)**

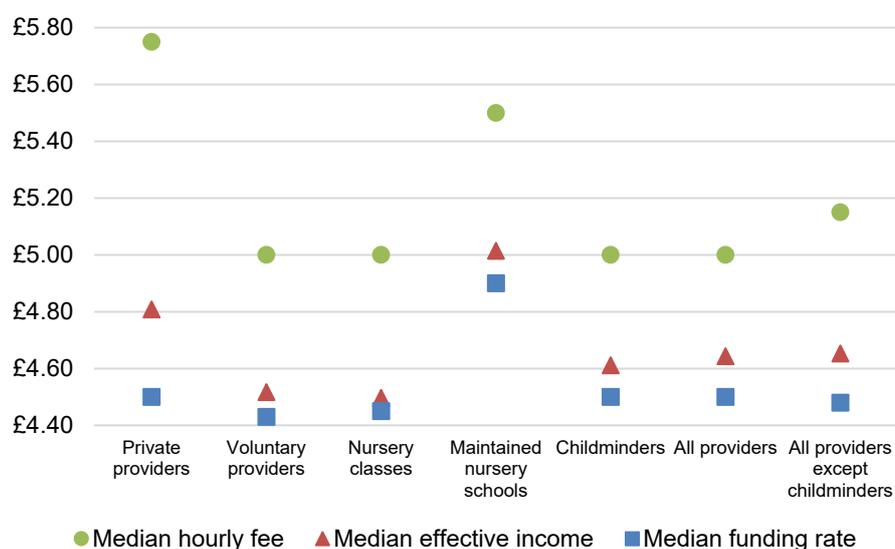


Source: Survey of Childcare and Early Years Providers 2022. Note: Number of providers are as reported in Table 34.

and four-year-old children. In Chapter 4, funding rate statistics are based on a sample of 4,737 providers for two-year-old and 7,671 providers for three- and four-year-old children. Hourly fee statistics are based on a sample of 8,487 providers for two-year-old and 9,782 providers for three- and four-year-old children.

<sup>36</sup> Despite hourly effective income falling between hourly parent-paid fees and hourly funding rates for a given provider, this does not necessarily occur when comparing median values in aggregate. This can be seen from the aggregate measures of 'all providers' and 'all providers except childminders' in Figure 12. This occurs as hourly parent-paid fees can be higher than hourly free entitlement funding rates (as tends to be the case for private providers) or vice versa (as tends to be the case for childminders) from provider to provider. Consequently, when aggregating providers and rank ordering values, due to variation of hourly fees above or below funding rates, the middle value of hourly effective income may fall outside of the middle values of parent-paid hourly fees and local authority free entitlement funding rates. Nevertheless, comparing the median values can be informative when looking at specific types of provider where the ordering of hourly fees and funding rates tends to be more consistent.

**Figure 14: Median hourly effective income, parent-paid hourly fees, and free entitlement funding rates, for three- and four-year-old children by provider type (2022)**



Source: Survey of Childcare and Early Years Providers 2022. Note: Number of providers are as reported in Table 35.

For two-year-old children, private providers’ effective income is more reliant on free entitlement funding than on parent-paid fees, shown by the median effective income (£5.61 per hour) being somewhat closer to the median funding rate (£5.47 per hour) than the median fee (£5.90 per hour). This means that, despite private group-based providers charging a relatively high hourly parent fee, most of the childcare hours they provide are in fact funded by free entitlements.

The median effective income for childminders (£5.06 per hour), on the other hand, was closer to their median hourly parent-paid fee (£5.00 per hour) than to their median funding rate (£5.31 per hour).

The large proportion of hours provided at the lower hourly parent-paid fees contributes to childminders’ effective income being considerably lower than other providers, on top of the fact that their hourly parent-paid fees and free entitlement funding rates are lower than other providers’.

For three- and four-year-old children, there was a greater spread between median hourly parent-paid fees and median hourly local authority free entitlement funding rates, with the former being higher across all provider types. For all providers, median hourly effective income is closer to median hourly funding rates, suggesting that the majority of income comes from free entitlement funding rather than from parent-paid fees. This is particularly true for voluntary group-based providers and nursery class childcare settings, the latter having an hourly effective income (£4.50 per hour) almost identical to the median hourly

local authority free entitlement funding rate (£4.48 per hour) and not the higher median hourly parent-paid fee rate (£5.00 per hour). This suggests that nursery class childcare settings for this age group derive almost their entire income from local authority free entitlement funding rather than parent-paid hourly fees. Even for private group-based providers, despite having a median hourly parent-paid fee of £5.75 per hour, median hourly effective income was estimated to be only £4.81 per hour, much closer to the median hourly local authority free entitlement funding rate of £4.50 per hour.

Finally, comparing the effective hourly income across different age groups for childminders, the figures show that the sharp decline in hourly local authority free entitlement funding rates determines the change in hourly effective income associated with older children (as median hourly parent-paid fees are more similar between age groups), particularly as local authority funding rates seem to be a more important determinant of effective hourly income in the older age group. Overall, this suggests that childcare provider incomes for three- and four-year olds are determined to a greater extent by local authority hourly free entitlement funding rates, which are lower than hourly parent-paid fees across all types of providers.

## **5.2. Regional distribution of hourly effective income**

Table 36 and Table 37 present the regional distribution of median hourly effective income for two-year-old children and three- and four-year-old children, for all providers and all providers except childminders respectively.

At £6.43 per hour, London has the highest median hourly effective income for the lower age group, followed by the South East (£5.67 per hour) and the East of England (£5.50 per hour). Again, this follows the regional pattern of hourly parent-paid fees and hourly free entitlement funding rates. At the other end of the spectrum are the North West (£5.10 per hour) and the East Midlands (£5.14 per hour). These are the two regions with the lowest median hourly funding rates (but not the lowest median hourly parent-paid fees), illustrating the influence of free-entitlement funding on incomes in these regions.

For three- and four-year-old children, the pattern is similar, with London (£5.76 per hour) having the highest median hourly effective income. Again, the fall in hourly effective incomes across regions for these children relative to two-year-old children reflects the comparative fall in hourly funding rates across these age groups, rather than the comparatively small decrease in hourly parent-paid fees. This again suggests that a higher share of effective income is made up of free entitlement funding in this age group.

Results and conclusions do not materially change when excluding childminders, with hourly effective incomes generally rising slightly with their exclusion.

**Table 36: Median hourly effective income by region, all providers (2022)**

Region	Two-year-old children	Three- and four-year old children	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	£5.14	£4.38	59	94
East of England	£5.50	£4.52	99	162
London	£6.43	£5.76	99	156
North East	£5.34	£4.50	43	59
North West	£5.10	£4.44	101	142
South East	£5.67	£4.84	164	238
South West	£5.22	£4.50	99	138
West Midlands	£5.38	£4.50	66	98
Yorkshire and The Humber	£5.20	£4.48	63	104

Source: Survey of Childcare and Early Years Providers 2022

**Table 37: Median hourly effective income by region, all providers except childminders (2022)**

Region	Two-year-old children	Three- and four-year old children	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	£5.32	£4.38	54	82
East of England	£5.50	£4.55	93	138
London	£6.44	£5.78	95	138
North East	£5.42	£4.53	39	53
North West	£5.16	£4.45	94	127
South East	£5.74	£4.83	153	205
South West	£5.33	£4.42	90	117
West Midlands	£5.46	£4.50	60	87
Yorkshire and The Humber	£5.30	£4.47	54	85

Source: Survey of Childcare and Early Years Providers 2022

# Appendix

## A1. Descriptions of financial measures

### Total weekly cost

The total financial outgoings (excluding rent and mortgage payments for childminders) paid by providers each week.

Providers were asked for their “current<sup>37</sup> total costs including staffing, premises, materials, administration costs and so on, that is, 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 number of weeks the reported costs covered.

The collection of information and calculation of the total cost differed for childminders in two ways.

- Firstly, the question asking for the total cost for childminders specifically omitted rent and mortgage costs and asked for their “current costs including staffing, materials, administration costs but excluding rent and mortgage payments”.
- Secondly, childminders were asked “how much childminding income do you currently 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.

Six 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 does not include the foregone rent that could be generated by 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 reporting of their total cost.

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<sup>37</sup> In 2018 and 2019, providers were asked for “typical” amounts throughout the survey, but this was amended to “current” for the 2021 survey as the situation in 2021 may not have been regarded as typical. The 2022 retained the same wording (i.e., “current”).

- Childminders were asked to exclude rent or mortgage payments from their total costs and were not asked to report these amounts separately. Consequently, the costs incurred by 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 may lead to some overstatement of total cost in those cases where childminders also included the implicit payment to themselves in their reporting of total costs incurred. 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 did not include 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. Hence, some of the differences in total cost across different provider types may reflect variation in the scope of services that they deliver.
- It should be noted that settings which are part of multi-site chains may not have included the costs of head office administration in their report of total cost. The total cost and unit cost may therefore be understated, and the income-to-cost ratio overstated for settings that are part of chains.

### **Cost decomposition**

Division of the total cost into the proportions paid for staff, rent or mortgage, food, materials, training costs and a residual "other" category.

In addition to reporting a total cost, providers were asked for the amounts they currently pay for staffing, 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>38</sup>

Additional validation checks were included in the 2022 survey to improve the accuracy of the cost information provided. This included a validation call back stage where providers were called back about total cost and components of total cost if

- the total cost of delivering provision is more than 10% greater than the sum of the component costs or
- any of the individual cost components are greater than the total reported cost.

Further details can be found in the 2022 childcare and early years provider survey technical report.

The breakdown of total cost into the proportions was calculated as the amount for each category divided by the total costs. To note:

- Staff costs include the amounts spent on staff salaries (including wages, taxes, national insurance, and pension contributions), covering all frontline carers and staff in supporting roles (e.g., cooks and cleaners), but does not include outsourced services (e.g., outsourcing of cleaning to an external company).
- Childminders were asked about staff costs as (a) the amount they spend on all staff that they directly pay and (b) the childminding income they personally earn (including any pay for themselves and any amounts that they regularly draw before any tax is deducted). 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 pay for rent or mortgage.
- Food costs include meals, snacks and refreshments.
- Materials costs include items such as books, toys and art materials.
- Training costs include items such as classes, courses and materials.

It should be noted that the cost breakdowns for childminders are not directly comparable to other providers because rent or mortgage payments were not reported.

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<sup>38</sup> In 2018, providers were not specifically asked for the amount they spent on other items and the residual calculation was used for 2018, 2019, 2021, and 2022 for consistency. Other costs may include other venue or accommodation 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).

## **Total weekly income**

The total income from all sources received by providers each week.

Providers were asked for their current total income including income from parent-paid fees, free entitlement funding, 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 number of weeks it covered.

## **Income decomposition**

Division of total income into the proportions received from parent-paid fees, local authority free entitlement funding and other sources.

Providers were asked to report the amount of income they received from parent-paid fees and local authority 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 and fundraising activities, added to the difference between the total income reported and the sum of the amounts reported for each of the income sources.<sup>39</sup> Additional charges include 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 and registration or other administration charges.

If the total sum of reported income from parent fees, funding rates, additional charges, and voluntary activities was greater than the separately reported total annual income, these providers were excluded from results.

As with cost information, additional validation checks were included in the 2022 survey to improve the accuracy of the income information provided. This included a validation stage where providers were called back about total income and components of total income if

- the total income from delivering provision was more than 10% higher than the sum of the individual income component or
- any of the income components were greater than the total reported income.

As with the collection of cost information, this process improved the accuracy of income data compared to previous years by allowing providers to alter implausible answers,

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<sup>39</sup> In 2018, providers were not specifically asked for the amount they received from other sources and the residual calculation was used for 2018, 2019, 2021, and 2022 for consistency. Other income may include government grants or local authority support for specific items.

which improved the accuracy of components of income and therefore the residual 'other' category.

Further details can be found in the 2022 childcare and early years provider survey technical report.

### **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 total 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, a provider with total weekly income of £5,000 and total weekly cost of £4,000 would have an income-to-cost ratio of 1.25, while a provider with total weekly income of £3,000 and total weekly cost of £4,000 would have an income-to-cost ratio of 0.75.

The ratio of total income to total cost captures a measure broadly equivalent to the rate of profit and loss for for-profit providers (independent schools, private group-based providers and childminders) or the rate of surplus or deficit for not-for-profit providers (voluntary providers and maintained school-based providers).

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 their business to be sustainable<sup>40</sup>.

### **Unit cost**

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

Unit cost is estimated as total weekly cost divided by total weekly hours of care provided.

Total weekly hours are estimated by dividing the total income associated with each age group for each source of funding by the corresponding funding rate associated with that group of children (e.g., dividing total parent-paid fee income for children under the age of two by the relevant parent-paid hourly fee for children under the age of two).

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<sup>40</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.

The derived unit cost was trimmed to remove unit costs of zero or those in excess of £40 per hour.

Unit cost is estimated using a different methodology to previous years. The previous methodology estimated the total number of hours of care provided in the week based on the number of booked places and estimates of the number of hours of care provided for a particular type of care (e.g., full day). The methodology used in this report estimates total hours of care provided by dividing total income from providing care for parent-paid hours and free entitlement funding hours (for each age group) by the average hourly parent-paid fee or hourly free entitlement funding rate (for each age group).

### **Staff hourly pay**

Staff hourly pay is defined as gross weekly earnings divided by contracted weekly work hours before tax and National Insurance are deducted.

For childminders, an analogous measure of hourly earnings was derived from the amount of income that they 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 working 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 (107 cases) or in excess of £300 per hour (4 cases).

### **Hourly parent-paid fees**

The average hourly fee charged to parents.

The 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-age 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 per hour.

### **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 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 by the Department for Education to local authorities in the Early Years National Funding Formula. 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. These differences may arise due to supplements available to providers, such as those related to for deprivation, flexibility, and rurality.

### **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 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; and
- other items not mentioned above.

### **Hourly effective income**

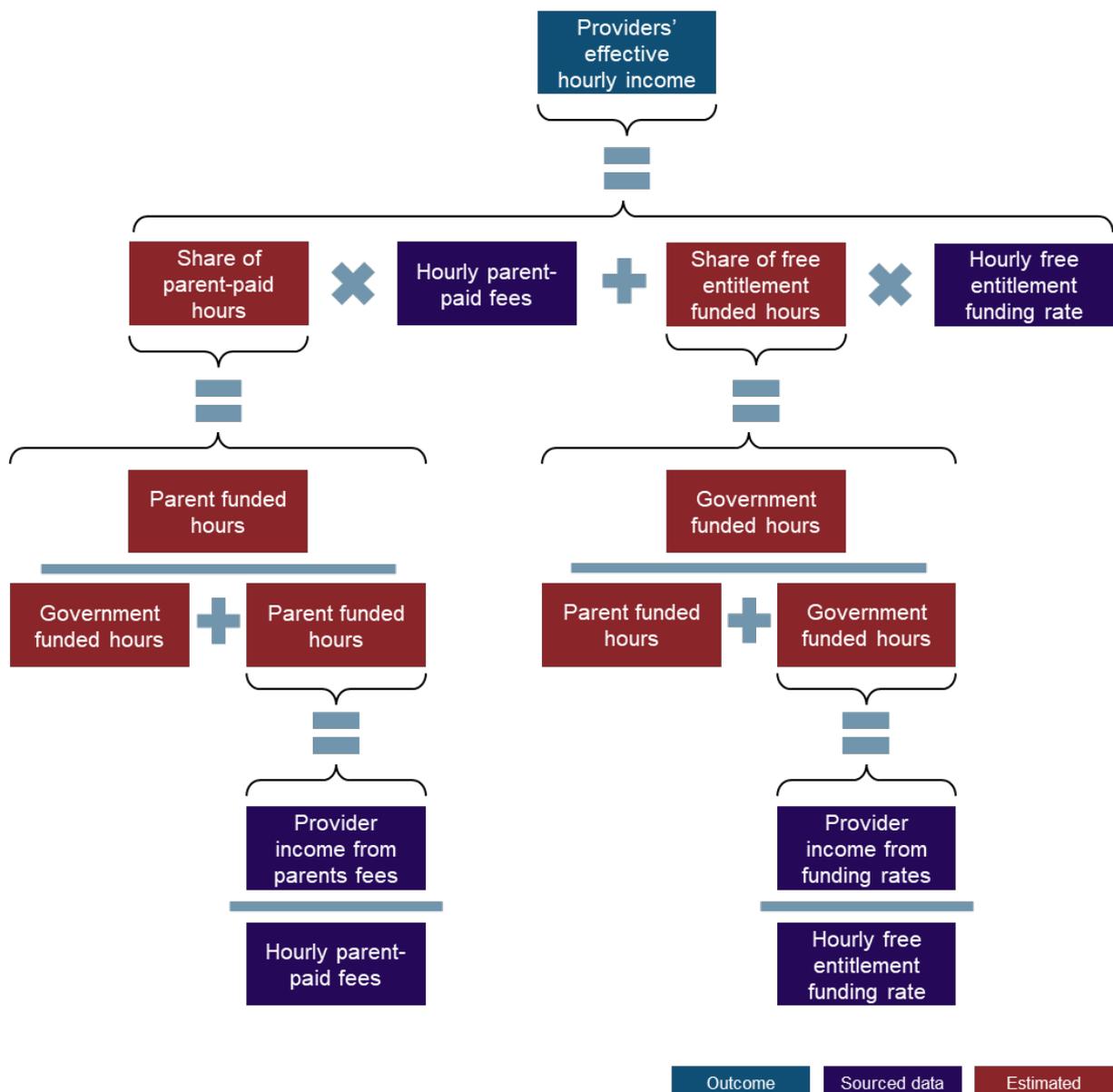
Providers’ hourly effective income captures how much providers receive in income per hour of care that they provide, accounting for both hourly free entitlement funding rates and hourly parent-paid fees.

Hourly effective income captures the average income that providers receive per hour for a particular age group. This is an average of the hourly local authority free entitlement funding rate and hourly parent-paid fee, weighted by the proportion of hours of care funded by free entitlements and parent fees.

An estimate of the number of parent-paid hours is calculated by dividing total provider income from parent-paid hours by average hourly parent-paid fees. A similar calculation is undertaken for free entitlement funding hours.

Figure 15 diagrammatically sets out each calculation step described above, helping to illustrate how data sourced from the SCEYP is used to construct each estimated parameter needed to calculate providers' effective hourly income.

**Figure 15: Detailed calculation of providers' effective hourly income**





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