



Department  
for Education

# **Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2021**

**Research report**

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# Executive Summary

## Introduction

The Survey of Childcare and Early Years Providers (SCEYP) is an annual large-scale survey collecting information on a broad range of provision characteristics from private providers, voluntary providers, maintained schools and childminders in England. The survey is used to monitor and evaluate early years provision, helping to inform the development of government policy in this area. In 2017, the Department for Education commissioned the National Centre for Social Research (NatCen) and Frontier Economics to conduct the SCEYP on an annual basis from 2018 to 2020. This new programme of research included two core surveys: a main SCEYP which continued to collect data on a variety of topics and a new short survey to collect data on hourly fees charged to parents from a sufficiently large sample to deliver robust estimates of mean hourly parent-paid fees at the local authority level. In March 2020, the survey planned for spring 2020 was delayed by one year due to the COVID-19 pandemic.

This report presents an analysis of early years providers' finances using combined data from the main and short surveys for 2021. It also analyses data from the previous surveys in 2018 and 2019 to present trends since 2018. This study builds on previous reports analysing the financial data for 2018 and 2019 (Cattoretti et al 2019; Paull & Wilson 2020) and on a report on Local Authority Fees Statistics for 2021 (Department for Education 2021b).

The objectives of this work were:

- To present the total cost of delivering childcare for all ages of children in the setting and the total income received by settings, together with breakdowns into their constituent parts, for different types of providers;
- To explore providers' costs by describing the patterns in the unit cost (cost per child per hour) and staff hourly pay across different types of providers;
- To explore providers' income by describing the patterns in the underlying parent-paid hourly fees and additional charges for parents across different types of providers; and
- To consider how these financial measures changed between 2019 (before the COVID-19 pandemic) and spring 2021 across different regions in England, across urban and rural areas, and across areas with different levels of deprivation.

It should be noted that fieldwork for the 2021 survey took place between March and July 2021 when early years settings were still experiencing some disruption as a result of the COVID-19 pandemic which began in early 2020. In addition, this report highlights some significant changes between 2019 (before the start of the pandemic) and 2021 but it is



not possible using this data alone to determine to what extent, if any, the observed changes are the result of the COVID-19 pandemic or other factors.

## Methodology

The 2021 SCEYP included a mixed-mode (telephone and online) main survey and a mixed-mode (online and paper questionnaire) short survey undertaken between March and July 2021. Three different datasets from the two surveys were used in this report. The first dataset contained a subsample of respondents from the main survey who undertook the financial variant and included information on total cost and total income. The second dataset contained a subsample of respondents from the main survey who undertook the fees variants and all respondents to the additional short survey and included information on hourly parent-paid fees and additional charges. The third dataset contained a subsample of respondents from the main survey who undertook the staffing variant and included information on staff hourly pay.<sup>1</sup>

All statistics and regression analysis were weighted using specific weights designed for each dataset to help ensure that the findings were nationally representative of group-based providers and childminders registered with Ofsted as of July 2020 and school-based providers in the January 2020 Schools Census.<sup>2</sup> More information about the survey and the information contained in each survey variant is available in the technical reports for 2018 (Marshall et al 2018), 2019 (Marshall et al 2019) and 2021 (Butt et al 2021).

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

- **Private** providers: Ofsted-registered privately owned providers operating on non-domestic premises. These included independent schools offering early years provision on site;
- **Voluntary** providers: Ofsted-registered providers run by a charity or voluntary management committee on a not-for-profit basis;

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<sup>1</sup> In order to reduce the response burden on providers, some sets of questions were only asked of some providers. In addition to a set of core questions, each respondent was asked a subset of questions from three variants for group-based providers, from two variants for school-based providers and from two variants for childminders. Variant 3 for group-based providers and variant 2 for school-based providers and childminders included questions on cost, income, parent-paid hourly fees and free entitlement funding rates. Information on parent-paid hourly fees and free entitlement funding rates was also collected in variant 1 for group-based providers and variant 2 for school-based providers. Variant 2 for group-based providers and variant 1 for school-based providers and childminders included staff-level questions on hourly pay.

<sup>2</sup> The Ofsted register and Schools Census were used as the sampling frame for the survey and the weights were designed to match the sampling frames. These sources were used as the sampling frame because they were the most up-to-date sources available at the time of sampling.

- **Nursery classes:** Maintained early years classes within a primary school with a qualified teacher present;
- **MNS** (maintained nursery schools): Purpose-built maintained schools specifically for children in their early years with a qualified teacher present; and
- **Childminders:** Ofsted-registered individuals providing early years care in domestic premises<sup>3</sup>.

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

Because childminders constitute a high proportion of all providers (50 percent in 2021) but deliver a small proportion of places (12 percent in 2021) (Department for Education 2021a), statistics are presented for all providers and for all providers excluding childminders.

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

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

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

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

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<sup>3</sup> Childminders can also be registered with a childminder agency but were not included in this sample

Comparisons across provider types and across years were tested for statistical significance at the 95 percent confidence level. Finding statistical significance indicates that there is at least a 95 percent chance that the two means being compared are different from each other. However, differences in means are less likely to be significant the lower the sample sizes and the greater the variance around the mean, all else equal. Because the sample sizes used here are not large and the financial measures contain a high degree of variation, comparisons across types and changes over time are described regardless of statistical significance, with the findings on statistical significance also reported.

## **Headline findings for changes between 2019 and 2021**

In considering the changes between 2019 and 2021, it should be noted that fieldwork for the 2021 survey took place between March and July 2021 when early years settings were still experiencing some disruption as a result of the COVID-19 pandemic which began in early 2020. The descriptions of changes between 2019 (before the start of the pandemic) and 2021 do not allow an analysis of the extent to which observed changes are the result of the COVID-19 pandemic or other factors.

Overall, there were relatively few changes in the financial measures between 2019 and 2021:

- There were no statistically significant changes in the mean income-to-cost ratio.
- The mean unit cost was higher in 2021 than in 2019, but this was not different from the inflation rate and was solely driven by a substantial increase for childminders. For all other providers, there was a small and statistically insignificant change which was considerably below the annual rate of increase in 2018 to 2019.
- Mean hourly pay was higher in 2021 than 2019, but the change was not different from average earnings growth and the average annual increase was lower than in 2018 to 2019.
- Mean hourly parent-paid fees were higher in 2021 than 2019 and the rate of change was above the inflation rate. However, the average annual increase was similar to that in 2018 to 2019.
- A greater share of income came from free entitlement funding and a smaller share from parent-paid fees in 2021 than in 2019 for childminders, but there were no changes in the contributions of different income sources for other providers.
- The mean gap between hourly funding rates for free entitlement funding and hourly parent-paid fees continued to widen between 2019 and 2021 for all types of providers. Whereas the widening gap between 2018 and 2019 was due to little

change in the funding rate while hourly fees increased, the increasing differences between 2019 and 2021 were due to smaller rises in the funding rate than the rises in hourly fees.

- The proportion of providers using any additional charges for parents (over and above regular hourly fees) fell between 2019 and 2021 in contrast to unchanged use between 2018 and 2019.

## Total cost and income

Table 1 presents the total weekly cost, total weekly income and income-to-cost ratio for all providers (and all providers excluding childminders) in 2018, 2019 and 2021.

Total weekly cost is the total financial outgoings (excluding rent and mortgage payments for childminders) paid by providers each week. The mean total weekly cost for all providers was £2,239 in 2021 (and £4,609 for all providers excluding childminders). There was no statistically significant difference in the mean weekly cost between 2018 and 2019 and between 2019 and 2021. The total weekly cost in 2021 was highest for MNS (£11,644) and lowest for childminders (£466), with little difference in the mean between private providers (£5,129) and voluntary providers (£4,506) and the mean for nursery classes (£2,841) slightly lower.<sup>4</sup>

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

Provider type	Mean total weekly cost	Number of providers	Mean total weekly income	Number of providers	Mean income-to-cost ratio	Number of providers
All providers						
2018	£1,759	1,574	£1,881	1,664	1.27	1,377
2019	£2,141	2,235	£2,872	2,248	1.42	1,954
2021	£2,239	2,377	£2,504	2,380	1.25	2,050
All providers except childminders						
2018	£4,048	1,242	£4,673	1,283	1.43	1,074
2019	£4,499	1,779	£6,387	1,778	1.37	1,563
2021	£4,609	1,866	£5,125	1,885	1.35	1,623

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

<sup>4</sup> The differences between private providers and nursery classes and between voluntary providers and nursery classes were not statistically significant.

Note: The sample consists of all providers with at least one preschool child. Independent (private school) providers are included in the private category. All statistics were weighted to be nationally representative.

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

Additional and specialist services can mean any service outside the core delivery of childcare and early education and they cover a range of specialist support for children, family support and system leadership. Specific examples include specialist support for children with special educational needs and disabilities (SEND), other specialist child support (such as English as an additional language), meetings with support professionals about children, specialist family support, general family support, family bonding, working groups and networking, and training and career professional development delivery. Other work has estimated that the costs for these services only constitute 3 percent of all costs, although the average proportion is higher for some provider types (6 percent for nursery classes and 8 percent for MNS<sup>5</sup>). Hence, some of the differences in total cost across different types of provider may reflect variation in the scope of services that they deliver.

For all providers, just under three-quarters (74 percent) of the total cost in 2021 was for staff, with 3 percent for mortgage or rent payments, 7 percent for food, 4 percent for materials and 1 percent for training. For providers excluding childminders, the proportion spent on staff was also 74 percent, but the proportion spent on rent and mortgage was higher (8 percent), reflecting that rent and mortgage costs were not collected for childminders and the proportions spent on food (3 percent), materials (3 percent) and training (1 percent) were correspondingly lower.

Total weekly income is the amount from all sources received by providers each week. The mean total weekly income for all providers was £2,504 in 2021 (and £5,125 for all providers excluding childminders) and was not statistically significantly different from 2019. The mean total weekly income in 2021 was highest for MNS (£10,838) and private providers (£7,005) and lowest for childminders (£448), but there was no statistically significant difference in the mean between voluntary providers (£3,598) and nursery classes (£2,902). Analogous to total cost, this variation in total income may reflect both differences in provider size and in the amount received per hour of care for each child.

On average, providers received 55 percent of their income from parent-paid fees in 2021, with 33 percent from free entitlement funding and 12 percent from other sources (table 2). However, there were substantial differences in the income breakdown across the five provider types: while private providers received similar proportions of income from parent-paid fees (47 percent) and free entitlement funding (43 percent), most income came from free entitlement funding for voluntary providers (63 percent), nursery classes

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<sup>5</sup> Figure 4 in Paull & Xu (2019).

(75 percent) and MNS (64 percent), while childminders received more than two-thirds (69 percent) of their income from parent-paid fees.

**Table 2: Breakdown of income in 2021**

Proportion of income in category	Private	Voluntary	Nursery class	MNS	Child-minders	All providers	All providers except child-minders
Parent-paid fees	47%	25%	11%	8%	69%	55%	32%
Free entitlement funding	43%	63%	75%	64%	18%	33%	55%
Other sources	11%	13%	14%	28%	12%	12%	12%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	535	454	207	55	394	1,669	1,275

Source: Survey of Childcare and Early Years Providers, 2021

Note: All providers included 24 other group-based providers. Columns may not sum to 100 due to rounding. The proportion received from parent-paid fees was statistically significantly different for all pairwise comparisons across the five provider types except for nursery classes and MNS. The proportion received from free entitlement funding was statistically significantly different for all pairwise comparisons across the five provider types except for voluntary providers and MNS. The proportion received from other sources was statistically significantly different between MNS and all other four provider types.

The income-to-cost ratio is total weekly income divided by total weekly cost. The mean income-to-cost ratio for all providers was 1.25 in 2021 (and 1.35 for all providers excluding childminders) (table 1). This indicates that, on average, total income was higher than total cost and that, on average, providers received £1.25 in income for every £1 they spent on their costs. There were no statistically significant differences in the income-to-cost ratio between 2019 and 2021 for all providers and for all providers excluding childminders. The mean ratio in 2021 was highest for private providers (1.49) and lowest for MNS (1.07), but there were no statistically significant differences in the mean ratio between voluntary providers (1.25), nursery classes (1.23) and childminders (1.18).<sup>6</sup> The median income-to-cost ratio for all providers (the middle observation when

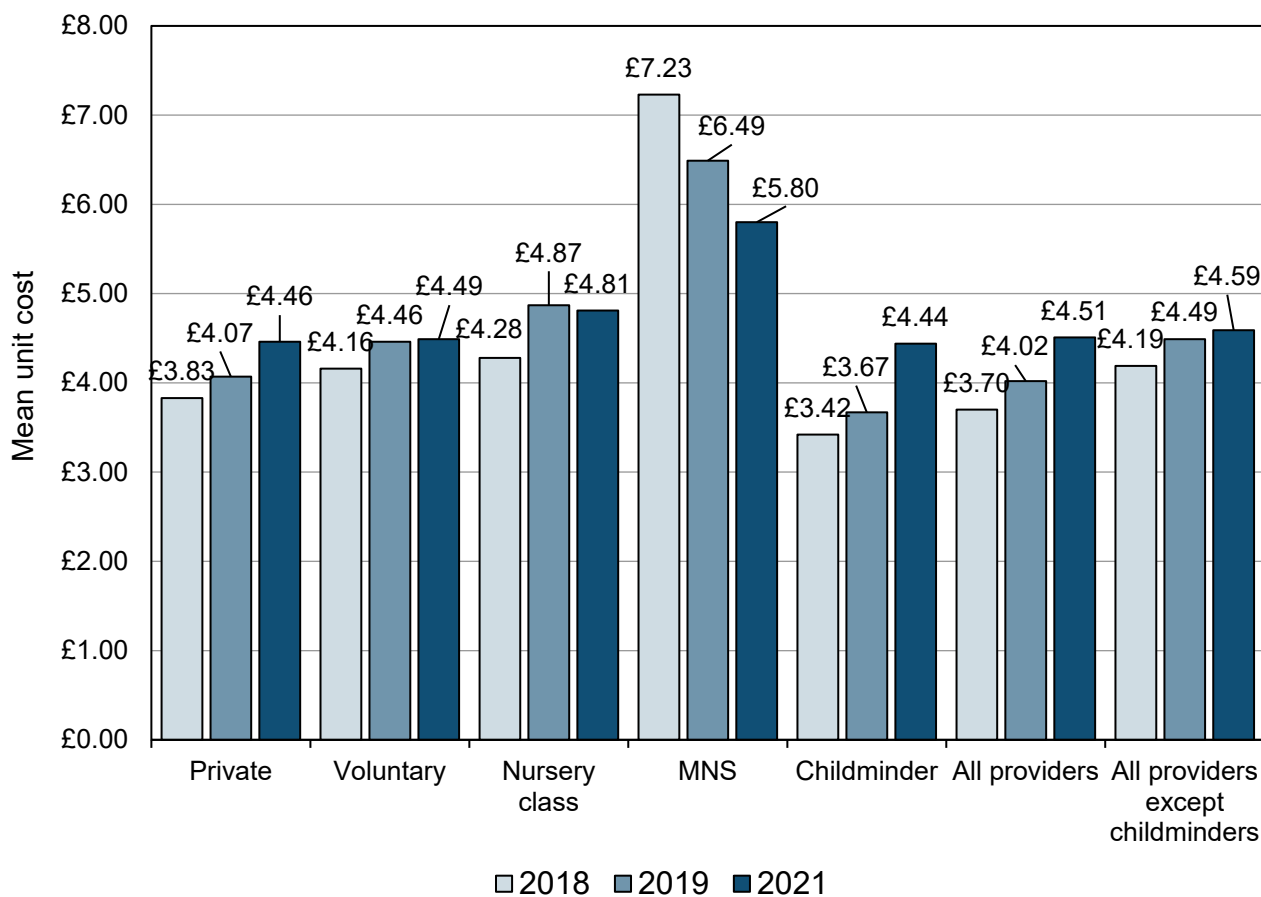
<sup>6</sup> The mean income-to-cost ratio was statistically significantly different for private providers and MNS and for private providers and childminders.

providers are ranked from lowest to highest) was 0.96, indicating that half of providers were around or below the breakeven point where total costs equal total income. The median of 1.03 for all providers excluding childminders indicates that half of these providers were above the breakeven point where total costs equal total income.

## Unit cost and staff hourly pay

The unit cost (shown in figure 1) is an approximate measure of the average delivery cost per child per hour for all children in the setting.

**Figure 1: Unit cost**



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

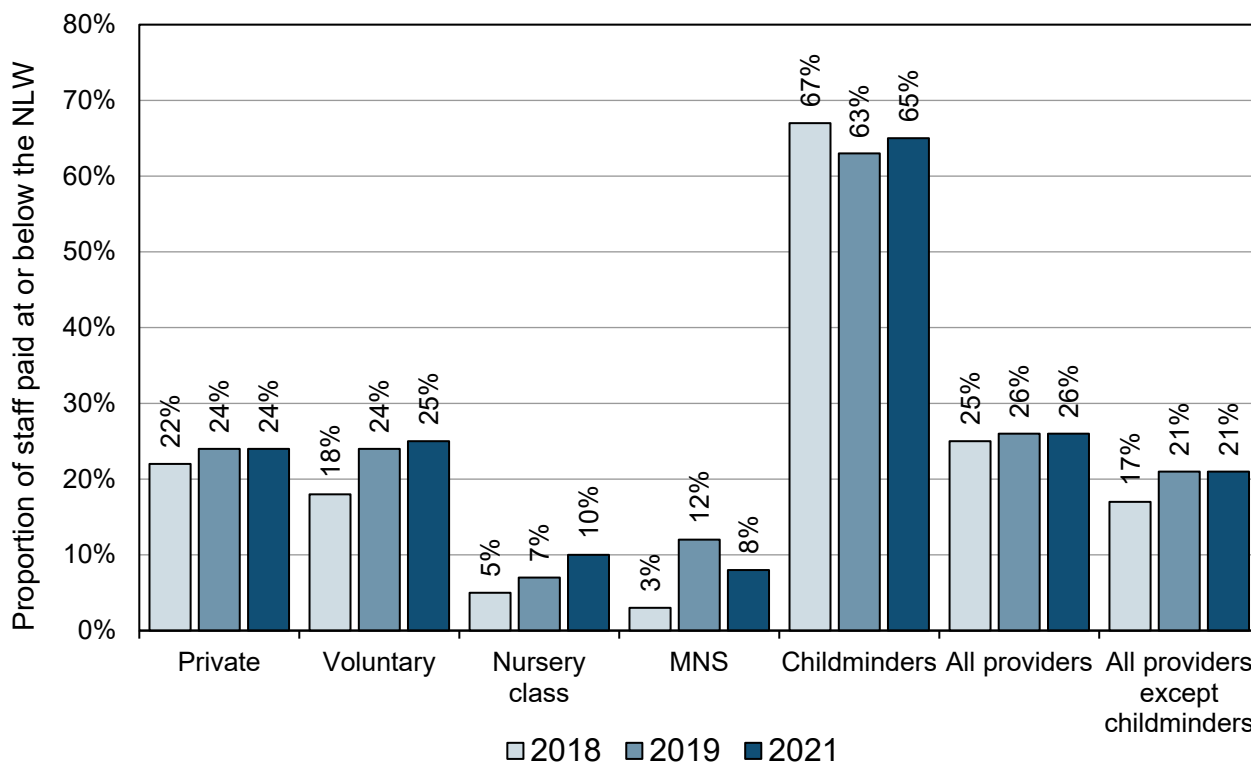
Note: Sample sizes for private providers, voluntary providers, nursery classes, MNS, childminders, all providers and all providers excluding childminders were 483, 462, 143, 104, 324, 1,544 and 1,220 in 2018; 619, 528, 413, 86, 416, 2,097 and 1,681 in 2019; and 707, 555, 405, 88, 458, 2,241 and 1,783 in 2021. The figures for 2019 were revised from those in the 2019 report (Paull & Wilson 2020) due to additional cleaning of total childcare hours for 22 providers (3 private providers, 2 voluntary providers and 17 nursery providers).

The mean unit cost for all providers was £4.51 per child per hour in 2021 (and £4.59 for all providers excluding childminders). The mean unit cost in 2021 was highest for MNS (£5.80) and nursery classes (£4.81), but there was very little difference between the mean unit cost for private providers (£4.46), voluntary providers (£4.49) and childminders

(£4.44).<sup>7</sup> The mean unit cost for all providers was statistically significantly higher in 2021 than in 2019 and the difference of £0.49 corresponds to an increase of 12 percent. The difference between 2019 and 2021 for childminders (£0.77 corresponding to an increase of 21 percent) was also statistically significant, but there were no statistically significant differences in the unit cost between 2019 and 2021 for any other individual provider type or for all providers excluding childminders.

Staff hourly pay is gross weekly earnings divided by contracted weekly work hours. The mean staff hourly pay across all providers was £12.50 in 2021 (and £12.94 for all providers excluding childminders). The mean hourly pay was statistically significantly higher in 2021 than in 2019 for all providers and for all providers excluding childminders. This reflected statistically significantly higher hourly pay for private providers, voluntary providers and nursery classes, but there were no statistically significant differences in hourly pay between 2019 and 2021 for MNS and childminders. Mean hourly pay in 2021 was higher for nursery classes (£18.78) and MNS (£19.38) and lower for childminders (£8.23), but there was no statistically significant difference between the means for private providers (£11.94) and voluntary providers (£11.58).

**Figure 2: Proportion of staff aged 25+ paid at or below the NLW**



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

<sup>7</sup> The mean unit cost was statistically significantly higher for MNS on the one hand and private providers, voluntary providers and childminders on the other.



Note: Sample sizes for private, voluntary, nursery class, MNS, childminders, all providers and all providers except childminders were 3,154, 2,513, 605, 345, 414, 7,212 and 6,798 in 2018; 3,803, 3,145, 1,505, 263, 555, 9,449 and 8,894 in 2019; and 4,869, 3,074, 2,082, 334, 599, 11,160 and 10,561 in 2021. The figures for 2018 and 2019 have been revised from the report for 2019 (Paull & Wilson 2020) due to revised weighting. The proportions of staff aged 23 plus for 2021 were identical to those for staff aged 25 plus except that the proportion was 25 percent instead of 24 percent for private providers, 27 percent instead of 26 percent for all providers and 22 percent instead of 21 percent for all providers except childminders. The sample size for staff aged 23 plus was 11,892 (732 or 7 percent larger than the sample for those aged 25 plus).

Just over one-quarter (26 percent) of all staff aged 25 and over were paid at or below the statutory minimum of the National Living Wage (NLW) in 2021 (and 21 percent of all staff excluding childminders) (figure 2). This proportion varied considerably across provider types, with only 10 percent of staff in nursery classes and 8 percent of staff in MNS paid at or below the NLW, while the proportions were higher for private providers (24 percent) and voluntary providers (25 percent). The proportion for childminders was even higher (65 percent).

The proportion of staff paid at or below the NLW was statistically significantly higher in 2021 than in 2019 for staff in nursery classes. There were no statistically significant differences for any other individual provider type, all providers and for all providers except childminders.

## Parent-paid fees and additional charges

Hourly parent-paid fees are the average hourly fee charged to parents. The mean hourly fee was £5.53 for children under the age of two, £5.53 for two-year-old children and £5.39 for three- and four-year-old preschool children in 2021 (table 3). For all providers excluding childminders, the mean hourly fee was £5.89 for children under the age of two, £5.94 for two-year-old children and £5.71 for three- and four-year-old preschool children.

For two-year-old children and three- and four-year-old preschool children, the mean hourly fee was highest for private providers and MNS and lowest for nursery classes and childminders, with the mean hourly fee for voluntary providers in the middle.<sup>8</sup> There was a similar pattern for the hourly fee for children under the age of two except that the mean hourly fee for voluntary providers was at a similar level to that for private providers and MNS.<sup>9</sup> These patterns are similar to those for 2018 and 2019. Evidence in the report for 2018 (Cattoretti et al 2019) showed that most providers charge the same hourly fees for all ages of children, which partly explains the consistency in this pattern across the three age groups.

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<sup>8</sup> The differences across provider types are all statistically significant except for private providers and MNS and for nursery classes and childminders.

<sup>9</sup> For children under age two, the differences across provider types are all statistically significant except for private providers and voluntary providers; private providers and MNS; voluntary providers and MNS; and nursery classes and childminders.

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

<b>Provider type</b>	<b>Mean hourly fee for children under age two</b>	<b>Number of providers</b>	<b>Mean hourly fee for two-year-old children</b>	<b>Number of providers</b>	<b>Mean hourly fee for three- and four-year-old preschool children</b>	<b>Number of providers</b>
<b>Private providers</b>						
2018	£5.71	1,651	£5.63	2,359	£5.48	2,550
2019	£5.92	2,124	£5.85	3,050	£5.72	3,376
2021	£6.27	2,017	£6.21	2,973	£6.10	3,245
<b>Voluntary providers</b>						
2018	£5.11	312	£4.86	1,710	£4.80	1,857
2019	£5.39	374	£5.18	1,957	£5.03	2,141
2021	£6.06	345	£5.56	1,750	£5.36	1,884
<b>Nursery classes</b>						
2018	£5.09	24	£5.10	156	£4.82	598
2019	£5.46	41	£4.95	399	£4.67	1,259
2021	£4.98	36	£5.24	531	£5.01	1,602
<b>MNS</b>						
2018	£4.76	10	£5.43	79	£5.09	97
2019	£5.70	22	£5.57	115	£5.30	142
2021	£5.96	22	£6.15	132	£5.92	155
<b>Childminders</b>						
2018	£4.82	6,805	£4.78	6,838	£4.73	7,203
2019	£4.92	5,391	£4.88	5,333	£4.80	5,624
2021	£5.23	4,886	£5.16	5,047	£5.09	5,457
<b>All providers</b>						
2018	£5.02	8,899	£5.01	11,323	£4.92	12,514
2019	£5.15	8,090	£5.16	11,129	£5.04	12,849
2021	£5.53	7,432	£5.53	10,649	£5.39	12,583
<b>All providers except childminders</b>						
2018	£5.61	2,094	£5.34	4,485	£5.17	5,311
2019	£5.81	2,699	£5.55	5,796	£5.34	7,225
2021	£5.89	2,546	£5.94	5,602	£5.71	7,126

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

Note: All providers for children under age two included 97, 138 and 126 other group-based providers for 2018, 2019 and 2021 respectively. All providers for two-year-old children included 181, 275 and 216 other group-based providers for 2018, 2019 and 2021 respectively. All providers included 209, 307 and 240 other group-based providers for 2018, 2019 and 2021 respectively.

The mean hourly fees for all providers was £0.38 higher in 2021 than in 2019 (£5.53 compared to £5.15) for children under the age of two, £0.37 higher (£5.53 compared to £5.16) for two-year-old children and £0.35 higher (£5.39 compared to £5.04) for three- and four-year-old preschool children. These differences between 2019 and 2021 correspond to increases of 7.4 percent, 7.2 percent and 6.9 percent for the three age groups respectively and are statistically significantly higher than the inflation rate between May 2019 and May 2021. The hourly fee was statistically significantly higher in 2021 than in 2019 for all three age groups for all providers except childminders and for each provider type, with two exceptions for children under age two for nursery classes and for MNS (although the small sample sizes for these two cases mean these results should be treated with caution).

Tables 4 and 5 present a comparison for the mean hourly parent-paid fees with funding rates for two-year-old children and three- and four-year-old preschool children. The funding rates are the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the free early education entitlement (and do not directly correspond with Department for Education published rates). The middle column in the table shows the difference between the two means, with a positive number indicating cases where the mean funding rate was higher than the mean hourly fee and a negative number indicating cases where the mean funding rate was lower than the mean hourly fee.

For two-year-old children:<sup>10</sup>

- For all providers, the mean funding rate was higher than the mean hourly parent-paid fees in 2018 (by £0.06), but this had reversed in 2019, with the mean hourly funding rate being lower than the mean hourly parent-paid fees (by £0.10). In 2021, this gap had widened to a mean hourly funding rate which was £0.30 lower than the mean hourly parent-paid fees.
- For all providers excluding childminders, the mean hourly funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £0.23 in 2018 to £0.45 in 2019 and £0.68 in 2021.

For three- and four-year-old preschool children:<sup>11</sup>

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<sup>10</sup> For all providers and for all providers except childminders, the differences between the hourly funding rate and hourly parent paid fees were statistically significant in every year. The changes in these differences were statistically significant for 2018 to 2019 and for 2019 to 2021.

<sup>11</sup> For all providers and for all providers except childminders, the differences between the hourly funding rate and hourly parent paid fees were statistically significant in every year. The changes in these differences were statistically significant for 2018 to 2019 and for 2019 to 2021.

- For all providers, the mean hourly funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £0.62 in 2018 to £0.70 in 2019 and £0.90 in 2021.
- For all providers excluding childminders, the mean hourly funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £0.83 in 2018 to £0.96 in 2019 and £1.16 in 2021.

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

Provider type	Mean funding rate	Mean hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
All providers					
2018	£5.07	£5.01	£0.06	5,424	11,323
2019	£5.06	£5.16	- £0.10	6,254	11,129
2021	£5.23	£5.53	- £0.30	5,955	10,649
All providers except childminders					
2018	£5.11	£5.34	- £0.23	3,711	4,485
2019	£5.10	£5.55	- £0.45	4,862	5,796
2021	£5.26	£5.94	- £0.68	4,592	5,602

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

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

Provider type	Mean funding rate	Mean hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
All providers					
2018	£4.30	£4.92	- £0.62	10,167	12,514
2019	£4.34	£5.04	- £0.70	11,471	12,849
2021	£4.49	£5.39	- £0.90	11,539	12,583
All providers except childminders					
2018	£4.34	£5.17	- £0.83	5,053	5,311
2019	£4.38	£5.34	- £0.96	7,250	7,225
2021	£4.55	£5.71	- £1.16	7,241	7,126

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

Additional charges are charges that providers require parents to pay for specific items over and above the regular fees. Some 70 percent of all providers had additional charges for parents in 2021 (and 77 percent of all providers excluding childminders had additional charges). This proportion was highest for private providers (81 percent), slightly lower for voluntary providers, nursery classes and MNS (72 percent, 75 percent and 77 percent respectively) and notably lower for childminders (63 percent). These proportions were almost identical between 2018 and 2019 but were statistically significantly lower in 2021 than in either 2018 or 2019 for all providers, for all providers excluding childminders and for each provider type except MNS.

In 2021, the most common types of charges were for unarranged late pickups (40 percent of providers had such charges), one-off activities (34 percent of providers) and meals (29 percent of providers). Less common were charges for snacks (14 percent of providers), regular activities (12 percent of providers), consumables (9 percent of providers) and registration or other administration (11 percent of providers).

## **Patterns of changes between 2019 and 2021**

Patterns of changes between 2019 and 2021 in the key financial measures were explored across several local and setting characteristics. Because of the small sample sizes for some categories of the characteristics and the challenge this presents for identifying statistically significant differences in changes between two points in time, no tests of statistical significance are reported and the patterns treated as indicative rather than precise.

The key findings are:

- There were few strong patterns in the changes in the financial measures across regions. There were some indications that fees increased more in line with higher increases in costs in the North West and West Midlands, while the income-to-cost ratio fell in line with rising costs in the South West.
- There were few strong patterns in the changes in the financial measures across deprivation levels. There was some indication that smaller increases in pay and reductions in costs in the most deprived areas were associated with a lower increase in fees than in other areas.
- The increases in unit costs and hourly fees and the decline in the income-to-cost ratio were greater in urban areas than rural areas. However, the greater increase in mean hourly staff pay in rural areas was not consistent with these patterns.
- The increases in hourly staff pay, unit costs and hourly fees were greater for providers in chains than single-site providers and the mean income-to-cost ratio increased for providers in chains while it declined for single-site providers.

# 1. Introduction

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

In 2017, the Department for Education commissioned the National Centre for Social Research (NatCen) and Frontier Economics to conduct the SCEYP on an annual basis from 2018 to 2020, which was subsequently extended to 2021 due to the COVID-19 pandemic.

This programme of research has produced a series of surveys:

- Main surveys in 2018, 2019 and 2021 continued to collect data on a variety of topics such as staff-to-child ratios, delivery of government policies, provision for children with special educational needs and disabilities (SEND), staff qualifications and pay, and the financial aspects of delivery (such as delivery costs, income sources and fees charged to parents). In March 2020, the survey planned for spring 2020 was delayed by one year due to the COVID-19 pandemic.
- A new, second short financial survey was introduced in 2018 to run alongside the main survey, collecting information on hourly fees charged to parents and funding rates for government-funded free hours, as well as a small number of core questions. The purpose of this short survey was to boost the sample for the fees data to provide a sufficiently large sample to deliver robust estimates of mean hourly parent-paid fees at the local authority level. As with the main survey, this short survey was undertaken in 2018, in 2019 and then in 2021 following a year's delay due to the COVID-19 pandemic.
- A follow-up survey to the main survey in 2019 was undertaken in January and February 2020 to collect data on how early years providers support disadvantaged children, children with SEND, the home learning environment and healthy eating.
- A series of four surveys were undertaken in July 2020, September/October 2020, November/December 2020 and November/December 2021 to collect data on how childcare providers have responded to the COVID-19 pandemic and to monitor the status of childcare provision through the pandemic.

NatCen and Frontier have also been commissioned to undertake several elements of smaller-scale, qualitative data collection to supplement the survey data and analysis.

Using this data, NatCen and Frontier Economics have delivered a series of publications including:

- Two official statistics reports for each of the core surveys in 2018, 2019 and 2021, with a main report covering a broad range of topics (Department for Education 2018a, 2019a, 2021a) and a second report focused on hourly parent-paid fees statistics at the local authority level (Department for Education 2018b, 2019b, 2021b).
- Two finance reports using data from 2018 and 2019 to analyse providers' finances (Cattoretti et al 2019; and Paull & Wilson 2020). The finance report for 2018 was complemented by additional evidence collection in reports on delivery costs for early years providers (Paull & Xu 2019) and maintained nursery schools (Paull & Popov 2019).
- Three stand-alone research reports on different topics including on the delivery of 30 hours free childcare (Speight et al 2019); occupancy and staff ratios (Speight et al 2020); and how early years providers support disadvantaged children, children with SEND, the home learning environment and healthy eating (Butt & Ratti 2020).<sup>12</sup>

In addition, the Department for Education has published a series of reports presenting data from the SCEYP COVID-19 surveys.<sup>13</sup>

This report builds on the finance reports produced for 2018 and 2019 and presents an analysis of early years providers' finances using data from the SCEYP for 2021 as well as data from 2018 and 2019. The objectives of this work were:

- To present the total cost of delivering childcare for all ages of children in the setting and the total income received by settings, together with their constituent parts, for different types of providers (chapter 3);
- To explore providers' costs by describing the patterns in the unit cost (cost per child per hour) and staff hourly pay across different types of providers (chapter 4);
- To explore providers' income by describing the patterns in the underlying parent-paid hourly fees and additional charges for parents across different types of providers (chapter 5); and

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<sup>12</sup> A fourth thematic report on the early years workforce using the 2021 data is forthcoming.

<sup>13</sup> These include Hunnikin & Blackburn (2020), Hunnikin (2020) and Davies and Hunnikin (2021), covering the first three waves of the COVID-19 surveys. A fourth report covering the fourth wave of data collection in December 2021 is forthcoming.

- To consider how these financial measures changed between 2019 (before the COVID-19 pandemic) and spring 2021 across different regions in England, across urban and rural areas, and across areas with different levels of deprivation. (chapter 6).

It should be noted that fieldwork for the 2021 survey took place between March and July 2021 when early years settings were still experiencing some disruption as a result of the COVID-19 pandemic which began in early 2020. In addition, this report highlights some significant changes between 2019 (before the start of the pandemic) and 2021 but it is not possible using this data alone to determine to what extent, if any, the observed changes are the result of the COVID-19 pandemic or other factors.



## 2. Methodology

The first section in this chapter describes the data sources and weighting, while the second section considers the impact of the COVID-19 pandemic on data collection in 2021 and comparisons with earlier surveys. The second and third sections describe the provider types and child age groups used throughout the report. The fourth section describes the reporting of statistical significance.

### 2.1 Data sources and weighting

The 2021 SCEYP included a mixed-mode (telephone and online) main survey and a mixed-mode (online and paper questionnaire) short survey undertaken between March and July 2021. The data used in this report included only providers with preschool children in order to provide consistency with other studies.

Three different datasets from the two surveys were used in this report. The first dataset contained a subsample of respondents from the main survey who undertook the financial variant and included information on costs and income. The second dataset contained a subsample of respondents from the main survey who undertook the fees variants and all respondents to the additional short survey and included information on hourly parent-paid fees and additional charges. The third dataset contained a subsample of respondents from the main survey who undertook the staffing variant and included information on staff hourly pay.<sup>14</sup>

All statistics and regression analysis were weighted using specific weights designed for each dataset to help ensure that the findings were nationally representative of group-based providers and childminders registered with Ofsted as of July 2020 and school-based providers in the January 2020 Schools Census.<sup>15</sup>

More information about the survey and the information contained in each survey variant is available in the technical reports for 2018 (Marshall et al 2018), 2019 (Marshall et al 2019) and 2021 (Butt et al 2021).

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<sup>14</sup> In order to reduce the response burden on providers, some sets of questions were only asked of some providers. In addition to a set of core questions, each respondent was asked a subset of questions from three variants for group-based providers, from two variants for school-based providers and from two variants for childminders. Variant 3 for group-based providers and variant 2 for school-based providers and childminders included questions on cost, income, parent-paid hourly fees and free entitlement funding rates (the financial variants). Information on parent-paid hourly fees and free entitlement funding rates was also collected in variant 1 for group-based providers and variant 2 for school-based providers. Variant 2 for group-based providers and variant 1 for school-based providers and childminders included staff-level questions on hourly pay (the staffing variants).

<sup>15</sup> The Ofsted register and Schools Census were used as the sampling frame for the survey, and the weights were designed to match the sampling frames.

## 2.2 The COVID-19 pandemic and data collection in 2021

Fieldwork for the 2021 survey took place between March and July 2021 when early years settings were still experiencing some disruption as a result of the COVID-19 pandemic which began in early 2020. Although the majority of settings will have been open and operating as usual by March 2021 (following a period of enforced restrictions between March and June 2020), settings' operations may still have been affected. Some settings may have been experiencing temporary closure as a result of COVID infection, while others may have had children or staff members who were having to self-isolate as a result of infection or being a close contact of someone who was infected or had members of staff on furlough as part of the government's Coronavirus Job Retention Scheme which ran until 30 September 2021.

In order to obtain the most accurate possible picture of available childcare provision, providers were invited to complete the 2021 survey if they had been open and offering relevant childcare in the last 30 days, even if their setting was temporarily closed at the time of interview. Settings that were open were asked to think about their current situation while settings temporarily closed at the time of interview were asked to answer with reference to the last term-time day on which they were open. Only 1 percent of settings were temporarily closed at the time of interview. Further details of the proportion of providers affected by staff or children self-isolating, or operating with restricted opening because of the pandemic, can be found in the 2021 Technical Report (Butt et al 2021).

This report highlights some instances of significant change between 2019 (before the start of the pandemic) and 2021. However, it is not possible using this data alone to determine the cause of these changes or to say to what extent, if any, the observed changes are the result of the COVID-19 pandemic or other factors.

## 2.3 Description of provider types

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

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

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

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

Because childminders constitute a high proportion of all providers (50 percent in 2021) but deliver a small proportion of places (12 percent in 2021) (Department for Education 2021a), statistics are presented for all providers and for all providers excluding childminders.

## 2.4 Description of child age groups

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

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

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

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

## 2.5 Reporting of statistical significance

Comparisons across provider types and across years were tested for statistical significance at the 95 percent confidence level. Finding statistical significance indicates that there is at least a 95 percent chance that the two means being compared are different from each other. However, differences in means are less likely to be significant the lower the sample sizes and the greater the variance around the mean, all else equal.

Because the sample sizes used here are not large and the financial measures contain a high degree of variation, comparisons across types and changes over time are described regardless of statistical significance, with statistical significance findings also reported.

### 3. Total cost and total income

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

The key findings for 2021 are:

- The mean total weekly cost for all providers was £2,239 (and £4,609 for all providers excluding childminders). This was highest for MNS (£11,644) and lowest for childminders (£466), but there was little difference in the mean between private providers (£5,129) and voluntary providers (£4,506), with the mean for nursery classes (£2,841) slightly lower. This pattern was similar to that for 2019. (Section 3.2)
- The mean total weekly cost was higher in the 2021 survey than in the 2019 survey for voluntary providers and childminders (driving a higher mean total weekly cost for all providers and for all providers excluding childminders), but was lower for private providers, nursery classes and MNS. However, none of the differences between the two years were statistically significant. (Section 3.2)
- On average, for all providers, just under three-quarters (74 percent) of the total cost was for staff, with 3 percent for mortgage or rent payments, 7 percent for food, 4 percent for materials and 1 percent for training. These proportions were almost identical to those for 2019. (Section 3.3)
- The mean total weekly income for all providers was £2,504 (and £5,125 for all providers excluding childminders). This was highest for MNS (£10,838) and private providers (£7,005) and lowest for childminders (£448), but there was little difference in the mean between voluntary providers (£3,598) and nursery classes (£2,902). This pattern was similar to that for 2019. (Section 3.4)
- The mean total weekly income was higher in the 2021 survey than in the 2019 survey for nursery classes and childminders, but was lower for private providers, voluntary providers and MNS (driving a lower mean total weekly income for all providers and for all providers excluding childminders). However, the only difference that was statistically significant was the increase in the mean total weekly income for childminders. (Section 3.4)
- On average, for all providers, 55 percent of income came from parent-paid fees, 33 percent from free entitlement funding and 12 percent from other sources. For all providers excluding childminders, an average of 32 percent of income was

received from parent-paid fees, while 55 percent came from free entitlement funding and 12 percent from other sources. (Section 3.5)

- The mean proportion received from parent-paid fees was statistically significantly lower in 2021 than in 2019 for all providers (55 percent compared to 59 percent in 2019) and the mean proportion received from free entitlement funding was correspondingly higher (33 percent in 2021 compared to 29 percent in 2019). This was driven by a decrease in the proportion from parent-paid fees (from 75 percent to 69 percent) and corresponding increase in the proportion from free entitlement funding (from 13 percent to 18 percent) for childminders. (Section 3.5)
- The mean income-to-cost ratio for all providers was 1.25 (and 1.35 for all providers excluding childminders). The ratio was highest for private providers (1.49) and lowest for MNS (1.07), but there was little difference in the mean ratio between voluntary providers (1.25), nursery classes (1.23) and childminders (1.18). The only change from the pattern in 2019 was that childminders had a notably lower income-to-cost ratio in 2021. (Section 3.6)
- The mean income-to-cost ratio was higher in the 2021 survey than in the 2019 survey for nursery classes and MNS but was lower in the 2021 survey than in the 2019 survey for private providers, voluntary providers and childminders (driving a lower mean income-to-cost ratio for all providers and for all providers excluding childminders). However, none of the differences were statistically significant. (Section 3.6)

### 3.1 Descriptions of the 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>16</sup> total costs including staffing, premises, materials, administration costs and so on, all of your outgoings”. Providers also reported the period covered by the amount reported and weekly cost was derived by dividing the reported amount by the weeks it covered.<sup>17</sup>

The collection of information and calculation of the total cost differed for childminders in two ways. First, the question asking for the total cost for childminders specifically omitted rent and mortgage costs and asked for their “current costs including staffing, materials,

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<sup>16</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.

<sup>17</sup> In 2021, the total cost was trimmed (set to missing) for one provider which reported a monthly total cost of £7.4 million.

administration costs but excluding rent and mortgage payments”. Second, 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 to the owner of the venue or the opportunity cost of not being able to use the property for some other purpose.
- It is not clear to what extent providers included the costs of capital for investments (such as the payment of interest on loans or the payment of dividends or profits return for direct investment) in their report of their total cost.
- Because childminders were asked to exclude rent or mortgage payments from their total costs and were not asked to report these amounts separately, the costs for childminders do not include any payments that childminders may have explicitly paid in rent or mortgage for the business or the opportunity cost of using space in their home for childminding.
- The use of the response to the question on childminding income as a proxy for childminders’ pay to themselves will lead to some overstatement of total cost in cases where childminders also included the implicit payment to themselves in their report of total cost. It is also likely that this measure will include any returns to the investments in the business, which may overstate the cost for childminders relative to other types of providers who 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. Other work has estimated that the costs for these services only constitute 3 percent of all costs, although the average proportion is higher for some provider types (6 percent for nursery classes and 8 percent for MNS reported in figure 4 in Paull & Xu (2019)). Hence, some of the

differences in total cost across different types of provider 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”.**

In addition to reporting a total cost, providers were asked for the amounts they currently pay for staff, rent or mortgage, food, materials and training costs. A residual “other” category was calculated as the difference between the total cost reported and the sum of the amounts reported for each of the five cost categories.<sup>18</sup> The breakdown of total cost into the proportions was calculated as the amount for each category divided by the total income. To note:

- Staff costs include the amounts spent on staff salaries, covering all frontline carers and staff in supporting roles. 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), and the sum of these two elements was used to measure staff costs for childminders.
- In line with the information collected for total cost, childminders were not asked about the amounts they pay for rent or mortgage.
- Food costs include meals, snacks and refreshments.
- Materials costs include items such as books, toys or equipment or art materials.
- Training costs include items such as paying for classes, courses or materials.

It should be noted that the cost breakdowns for childminders are not directly comparable to other providers because rent or mortgage payments were not reported. In addition, a high proportion of nursery classes (91 percent) and MNS (84 percent) reported that they did not pay anything for rent or mortgage, while smaller proportions of private providers (11 percent) and voluntary providers (20 percent) reported that they made no such

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<sup>18</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 and 2021 for consistency. Other costs may include other venue costs (such as for utilities, business rates and cleaning) and other administrative costs (such as for telephone and internet services, IT support, marketing, insurance, professional fees and licences).



payments.<sup>19</sup> This means that the proportions spent on rent or mortgage will be lower (and the proportions spent on other items correspondingly higher) for nursery classes, MNS and childminders than for private and voluntary providers due to the higher prevalence of not having to make rent or mortgage payments.

In the 2021 survey, 2,378 providers reported a total cost and 1,931 provided sufficient information to decompose costs into the subcategories by reporting amounts for all subcategories (excluding rent for childminders) and including a positive amount for staff costs.<sup>20</sup>

**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 fees, funding from the free entitlement, any additional charges paid by parents, fundraising and any other sources. Providers also reported the period covered by the amount reported and weekly income was derived by dividing the reported amount by the weeks it covered.

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

Providers were asked to report the amount of income they received from parent-paid fees and free entitlement funding (both by age group of child), additional charges for parents and charitable donations. A residual “other” category was calculated as the sum of the amounts reported for additional charges and for charitable donations added to the difference between the total income reported and the sum of the amounts reported for each of the income sources<sup>21</sup>. The breakdown of total income into the proportions was calculated as the amount for each source divided by the total income. To note:

- Additional charges for parents included charges for meals, snacks, nappies, music lessons, outings, as well as registration and other administrative charges.
- Charitable donations included income received from fundraising activities or charitable donations.

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<sup>19</sup> For private providers reporting that they paid no rent, 65.5 percent did so because they owned the venue outright without a mortgage and 34.5 percent did so because the owner of the venue let them use it for free. For voluntary providers reporting that they paid no rent, 33 percent did so because they owned the venue outright without a mortgage and 67 percent did so because the owner of the venue let them use it for free. School nurseries and MNS were not asked to give the reason why they paid no rent.

<sup>20</sup> Most providers not reporting amounts for all subcategories did not report costs for only one or two of the subcategories, with an even distribution of omitted information across the categories. Only 58 providers (3 private providers, 4 voluntary providers and 51 childminders) reported a zero amount for the staff cost.

<sup>21</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 and 2021 for consistency. Other income may include government grants or local authority support for specific items.

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

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

The ratio of total income to total cost captures a measure akin to the rate of profit and loss for for-profit providers (including private and independent providers and childminders) or the rate of surplus or deficit for non-profit providers (including voluntary providers, nursery classes and MNS). However, it should be noted that for-profit providers may not have included repayments for investments in the business (including repayment of bank loans or payment of dividends) or funds used for future investment as part of their costs, even if such payments or funds need to be covered by income for the business to be sustainable.<sup>22</sup> Hence, an excess of total income over total cost may be required for financial sustainability.

## **3.2 Total cost**

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

The mean total weekly cost for all providers was £2,239 (and £4,609 for all providers excluding childminders) (table 6). This was highest for MNS (£11,644) and lowest for childminders (£466), but there was little difference in the mean between private providers (£5,129) and voluntary providers (£4,506) and the mean for nursery classes (£2,841) was slightly lower. This pattern was similar to that for 2019.<sup>23</sup>

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<sup>22</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.

<sup>23</sup> The differences were statistically significant for all pairwise comparisons across the five provider types except for voluntary providers and nursery classes in all three years and for private providers and nursery classes in 2018 and 2021. See section 2.4 for an explanation of the use of the tests of statistical significance.

**Table 6: Total weekly cost**

<b>Provider type</b>	<b>Mean total weekly cost</b>	<b>Median total weekly cost</b>	<b>Number of providers</b>
Private providers			
2018	£4,686	£2,791	495
2019	£5,584	£2,885	650
2021	£5,129	£3,023	739
Voluntary providers			
2018	£3,017	£1,759	468
2019	£3,560	£1,739	567
2021	£4,506	£2,096	576
Nursery classes			
2018	£3,329	£1,923	144
2019	£2,851	£2,007	436
2021	£2,841	£1,926	426
MNS			
2018	£12,224	£9,733	106
2019	£12,909	£11,692	89
2021	£11,644	£10,015	93
Childminders			
2018	£447	£387	332
2019	£454	£356	456
2021	£466	£381	511
All providers			
2018	£1,759	£573	1,574
2019	£2,141	£647	2,235
2021	£2,239	£698	2,377
All providers except childminders			
2018	£4,048	£2,071	1,242
2019	£4,499	£2,209	1,779
2021	£4,609	£2,337	1,866

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

Note: The sample consists of all providers with at least one preschool child. Independent (private school) providers are included in the private category. All statistics were weighted to be nationally representative. All providers included 29, 37 and 32 other group-based providers for 2018, 2019 and 2021 respectively. The figures for 2018 were revised from those in the 2018 report (Cattoretti et al 2019) due to the removal of 14 providers who reported zero total cost (see section 2.2 in Paull & Wilson (2020)).

Variation in total cost may reflect both differences in provider size and in the amount spent per hour of care for each child. For some providers, the total cost will include the

cost of delivering additional and specialist services which are outside the core delivery of childcare and early education and cover a range of specialist support for children, family support and system leadership. Specific examples include specialist SEND child support, other specialist child support (such as English as an additional language), meetings with support professionals about children, specialist family support, general family support, family bonding, working groups and networking, and training and career professional development delivery. Other work has estimated that the costs for these services only constitute 3 percent of all costs, although the average proportion is higher for some provider types (6 percent for nursery classes and 8 percent for MNS reported in figure 4 in Paull & Xu (2019)). Hence, some of the differences in total cost across different types of provider may reflect variation in the scope of services that they deliver.

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

The mean total weekly cost was higher in the 2021 survey than in the 2019 survey for voluntary providers and childminders (driving a higher mean total weekly cost for all providers and for all providers excluding childminders), but was lower for private providers, nursery classes and MNS. However, none of the differences between the two years were statistically significant.<sup>24</sup>

### 3.3 Cost decomposition

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

For all providers, just under three-quarters (74 percent) of the total cost in 2021 was for staff, with 3 percent for mortgage or rent payments, 7 percent for food, 4 percent for materials and 1 percent for training (table 7). For providers excluding childminders, the proportion spent on staff was also 74 percent, but the proportion spent on rent and mortgage was higher (8 percent), reflecting that rent and mortgage costs were not collected for childminders and the proportions spent on food (3 percent), materials (3 percent) and training (1 percent) were correspondingly lower. The proportions for all providers and for each provider type were almost identical to those for 2019.<sup>25</sup>

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<sup>24</sup> See section 2.4 for an explanation of the use of the tests of statistical significance.

<sup>25</sup> The only statistically significant differences between 2019 and 2021 were for voluntary providers, with the proportion spent on materials lower in 2021 (2.6 percent compared to 3.5 percent in 2019) and the proportion spent on training lower in 2021 (0.9 percent compared to 1.7 percent in 2019). The amount

**Table 7: Breakdown of costs in 2021**

Proportion of costs in category	Private	Voluntary	Nursery class	MNS	Child-minders	All providers	All providers except child-minders
Staff	69%	77%	81%	79%	74%	74%	74%
Rent/mortgage	12%	7%	1%	1%	n/a	3%	8%
Food	4%	2%	2%	1%	10%	7%	3%
Materials	3%	3%	4%	2%	5%	4%	3%
Training	1%	1%	1%	1%	2%	1%	1%
Other	11%	11%	11%	16%	10%	10%	11%
Total	100%	100%	100%	100%	100%	100%	100%
Number of providers	656	481	292	83	393	1930	1,537

Source: Survey of Childcare and Early Years Providers, 2021

Note: Rent or mortgage costs were not collected for childminders. Columns may not sum to 100 due to rounding. All providers included 25 other group-based providers.

There were several differences in the breakdown of costs across the five provider types:<sup>26</sup>

- The higher proportions spent on staff for nursery classes and MNS largely reflect the absence of explicit payments for rent or mortgage for a high proportion of these types of providers. The higher proportion spent on rent or mortgage for private providers (12 percent) than voluntary providers (7 percent) reflects a higher proportion of voluntary providers making no explicit rent or mortgage payment.

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spent on training was statistically significantly lower for all providers excluding childminders in 2021 (1.2 percent compared to 1.5 percent in 2019).

<sup>26</sup> The proportion spent on staff was statistically significantly different for all pairwise comparisons across the five provider types except for voluntary providers and MNS and for nursery classes and MNS. The proportion spent on rent/mortgage was statistically significantly different for all pairwise comparisons across the five provider types except for nursery classes and MNS and for MNS and childminders. The proportion spent on food was statistically significantly different for all pairwise comparisons across the five provider types except for voluntary providers and nursery classes. The proportion spent on materials was statistically significantly different for all pairwise comparisons across the five provider types except for nursery classes and childminders. The proportion spent on training was statistically significantly different between MNS and each of the four other types and between voluntary providers and each of the four other types. The proportion spent on other items was statistically significantly different between MNS and each of the four other types.

- Childminders spent a higher proportion on food than other provider types, potentially reflecting a higher cost per child due to the smaller number of children. Voluntary providers, nursery classes and MNS spent the lowest proportions on food, possibly reflecting an absence of lunch provision or, in the case of nursery classes and MNS, a lower cost per child due to larger numbers of children.
- The proportion spent on training was lower for MNS than all other provider types and lower for voluntary providers than the remaining three types.<sup>27</sup>
- The proportion spent on other costs was highest for MNS, potentially because the other services they offer require additional administrative resources.

### 3.4 Total income

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

The mean total weekly income for all providers was £2,504 in 2021 (and £5,125 for all providers excluding childminders) (table 8). This was highest for MNS (£10,838) and private providers (£7,005) and lowest for childminders (£448), but there was little difference in the mean between voluntary providers (£3,598) and nursery classes (£2,902). This pattern was similar to those in 2018 and 2019.<sup>28</sup> Similarly to total cost, variation in total income may reflect both differences in provider size and in the amount received per hour of care for each child.

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

The mean total weekly income was higher in the 2021 survey than in the 2019 survey for nursery classes and childminders but was lower in the 2021 survey than in the 2019 survey for private providers, voluntary providers and MNS (driving a lower mean total weekly income for all providers and for all providers excluding childminders). However,

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<sup>27</sup> The proportions are all 1 percent except for childminders in table 7, but the unrounded proportions are 1.4 percent for private providers, 0.9 percent for voluntary providers, 1.3 percent for nursery classes, 0.6 percent for MNS and 1.5 percent for childminders.

<sup>28</sup> The mean total weekly income was statistically significantly different for all pairwise comparisons across the five provider types except for private providers and voluntary providers in 2019; private providers and MNS in 2019; and voluntary providers and nursery classes in 2019 and in 2021.

the only difference that was statistically significant was the increase in the mean total weekly income for childminders.

**Table 8: Total weekly income**

Provider type	Mean total weekly income	Median total weekly income	Number of providers
Private providers			
2018	£6,129	£3,865	524
2019	£9,375	£3,846	643
2021	£7,005	£3,538	737
Voluntary providers			
2018	£3,194	£1,846	460
2019	£5,245	£1,923	574
2021	£3,598	£2,093	577
Nursery classes			
2018	£3,181	£1,923	162
2019	£2,515	£2,014	438
2021	£2,902	£1,965	441
MNS			
2018	£10,473	£9,258	104
2019	£11,921	£11,414	86
2021	£10,838	£9,231	92
Childminders			
2018	£429	£349	381
2019	£400	£346	470
2021	£448	£351	495
All providers			
2018	£1,881	£481	1,664
2019	£2,872	£519	2,248
2021	£2,504	£629	2,380
All providers except childminders			
2018	£4,673	£2,327	1,283
2019	£6,387	£2,326	1,778
2021	£5,125	£2,538	1,885

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

Note: All providers included 33, 37 and 38 other group-based providers for 2018, 2019 and 2021 respectively. The figures for 2018 were revised from those in the 2018 report (Cattoretti et al 2019) due to the removal of 22 providers who reported zero total income (see section 2.2 in Paull & Wilson (2020)).

## 3.5 Income decomposition

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

On average, providers received 55 percent of their income from parent-paid fees in 2021, with 33 percent from free entitlement funding and 12 percent from other sources<sup>29</sup> (table 9). However, for all providers excluding childminders, an average of 32 percent of income was received from parent-paid fees, while 55 percent came from free entitlement funding and 12 percent from other sources. This reflected substantial differences in the income breakdown across the five provider types:<sup>30</sup>

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

Overall, while private providers received similar proportions of income from parent-paid fees (47 percent) and free entitlement funding (43 percent), most income came from free entitlement funding for voluntary providers (63 percent), nursery classes (75 percent) and MNS (64 percent), while childminders received, on average, just over two-thirds (69 percent) of their income from parent-paid fees.

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<sup>29</sup> Other sources included 1.7 percent of all income from additional charges and charitable donations for all providers, with the highest proportion for voluntary providers (3.9 percent).

<sup>30</sup> The proportion of income received from parent-paid fees was statistically significantly different at the 95 percent confidence level for all pairwise comparisons across the five provider types except for nursery classes and MNS in all three years. The proportion received from free entitlement funding was statistically significantly different for all pairwise comparisons across the five provider types except for nursery classes and MNS in 2018; for voluntary providers and MNS and for nursery classes and MNS in 2019; and for voluntary providers and MNS in 2021. The proportion received from other sources was statistically significantly different between private providers, voluntary providers and childminders on the one hand and nursery classes and MNS on the other in 2018; and MNS and all other four provider types in 2019 and 2021.



**Table 9: Breakdown of income**

Provider type	Proportion of income from parent-paid fees	Proportion of income from free entitlement funding	Proportion of income from other sources	Number of providers
Private providers				
2018	44%	45%	11%	298
2019	47%	41%	12%	420
2021	47%	43%	11%	535
Voluntary providers				
2018	26%	63%	11%	288
2019	25%	63%	12%	418
2021	25%	63%	13%	454
Nursery classes				
2018	7%	72%	21%	128
2019	12%	74%	14%	201
2021	11%	75%	14%	207
MNS				
2018	8%	71%	20%	83
2019	10%	69%	21%	52
2021	8%	64%	28%	55
Childminders				
2018	77%	12%	11%	288
2019	75%	13%	12%	370
2021	69%	18%	12%	394
All providers				
2018	62%	26%	12%	1,105
2019	59%	29%	12%	1,483
2021	55%	33%	12%	1,669
All providers except childminders				
2018	27%	59%	15%	817
2019	32%	56%	13%	1,113
2021	32%	55%	12%	1,275

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

Note: All providers included 20, 22 and 24 other group-based providers for 2018, 2019 and 2021 respectively. The proportions for parent-paid fees, free entitlement funding and other sources may not sum to 100 due to rounding. The figures for 2018 were revised from those in the 2018 report (Cattoretti et al 2019) due to the inclusion of 43 providers who reported zero income from parent-paid fees for some age groups which had children in attendance (see section 2.2 in Paull & Wilson (2020)).

The mean proportion received from parent-paid fees was statistically significantly lower in 2021 than in 2019 for all providers (55 percent compared to 59 percent in 2019) and the mean proportion received from free entitlement funding was correspondingly higher (33 percent in 2021 compared to 29 percent in 2019). This was driven by a decrease in the proportion from parent-paid fees for childminders (from 75 percent to 69 percent) and a corresponding increase in the proportion from free entitlement funding (from 13 percent to 18 percent) for childminders. There were no statistically significant changes between 2019 and 2021 for any other provider type or for all providers excluding childminders.<sup>31</sup>

### 3.6 Income-to-cost ratio

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

The mean income-to-cost ratio for all providers was 1.25 in 2021 (and 1.35 for all providers excluding childminders) (table 10). This indicates that, on average, total income was higher than total cost and that, on average, providers received £1.25 in income for every £1 they spent on their costs. The ratio was highest for private providers (1.49) and lowest for MNS (1.07), but there was little difference in the mean ratio between voluntary providers (1.25), nursery classes (1.23) and childminders (1.18). The only change from the pattern in 2019 was that childminders had a notably lower income-to-cost ratio in 2021.<sup>32</sup>

The median income-to-cost ratio (the middle observation when providers are ranked from lowest to highest) was considerably lower than the mean for all providers and for most individual provider types (the exception being MNS), indicating a number of providers with unusually high ratios within each type. The median of 0.96 for all providers indicates that half of providers were around or below the breakeven point where total costs equal total income. The median of 1.03 for all providers excluding childminders indicates that half of these providers were above the breakeven point where total costs equal total income.

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<sup>31</sup> The proportion received from parent-paid fees was statistically significantly different between 2018 and 2019 on the one hand and 2021 on the other for all providers and for childminders. This proportion was also statistically significantly different between 2018 on the one hand and 2019 and 2021 on the other for all providers except childminders and for nursery classes. The proportion received from free entitlement funding was statistically significantly different between 2018 and 2019 on the one hand and 2021 on the other for all providers and for childminders. The proportion received from other sources was statistically significantly different between 2018 and 2021 for MNS.

<sup>32</sup> For 2018, the mean income-to-cost ratio was statistically significantly different for private providers and nursery classes; private providers and MNS; private providers and childminders; and voluntary providers and MNS. For 2019, the mean income-to-cost ratio was statistically significantly different for private providers and voluntary providers; private providers and nursery classes; and for MNS and each of the other four provider types. For 2021, the mean income-to-cost ratio was statistically significantly different for private providers and MNS; and for private providers and childminders.

**Table 10: Income-to-cost ratio**

<b>Provider type</b>	<b>Mean income-to-cost ratio</b>	<b>Median income-to-cost ratio</b>	<b>Number of providers</b>
Private providers			
2018	1.70	1.17	423
2019	1.58	1.15	548
2021	1.49	1.10	614
Voluntary providers			
2018	1.34	1.04	411
2019	1.27	1.03	527
2021	1.25	1.01	534
Nursery classes			
2018	1.15	0.99	115
2019	1.21	0.97	373
2021	1.23	1.00	357
MNS			
2018	1.02	1.00	101
2019	0.96	0.97	85
2021	1.07	0.97	88
Childminders			
2018	1.19	0.93	303
2019	1.46	0.92	391
2021	1.18	0.90	427
All providers			
2018	1.27	0.99	1,377
2019	1.42	0.99	1,954
2021	1.25	0.96	2,050
All providers except childminders			
2018	1.43	1.07	1,074
2019	1.37	1.04	1,563
2021	1.35	1.03	1,623

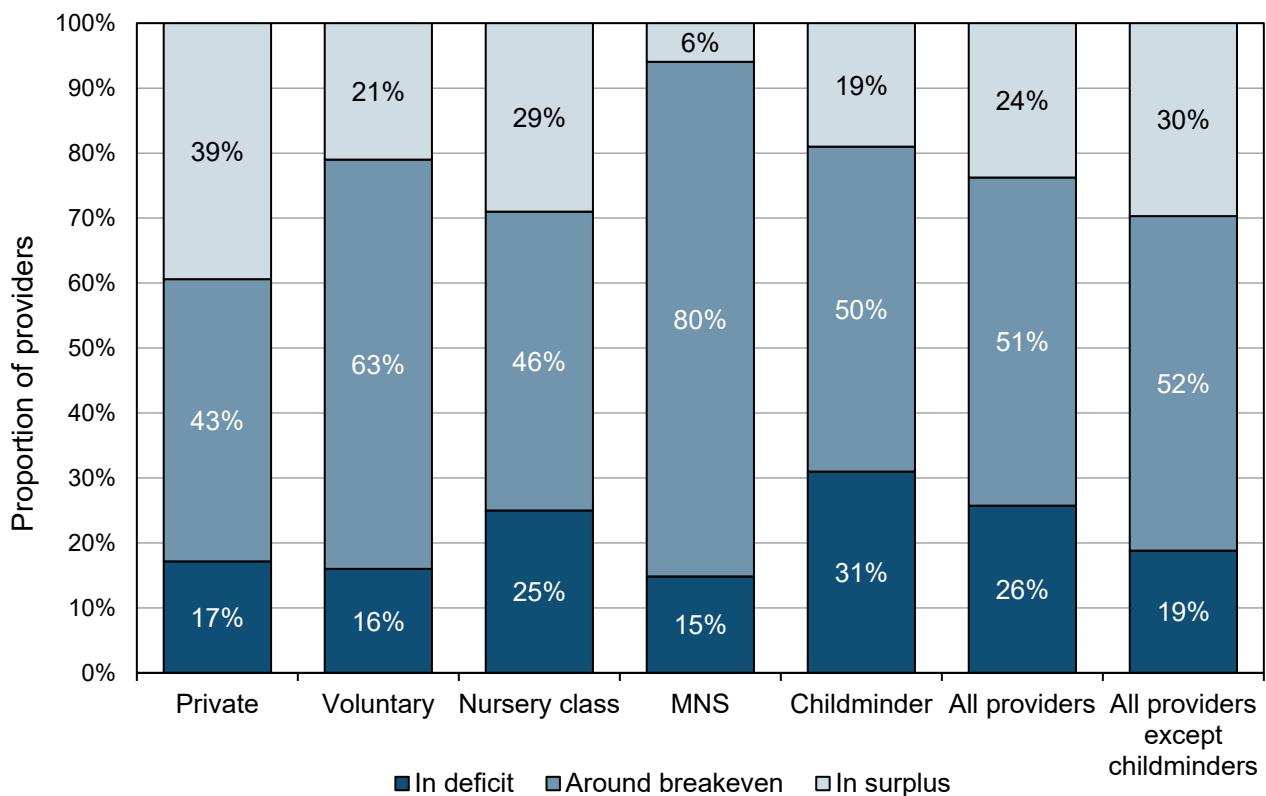
Source: Survey of Childcare and Early Years Providers, 2018, 2019 and 2021

Note: All providers included 24, 30 and 30 other group-based providers for 2018, 2019 and 2021 respectively.

The mean income-to-cost ratio was higher in the 2021 survey than in the 2019 survey for nursery classes and MNS but was lower in the 2021 survey than in the 2019 survey for private providers, voluntary providers and childminders (driving a lower mean income-to-cost ratio for all providers and for all providers excluding childminders). However, none of the differences were statistically significant.

A broader measure capturing the “breakeven” range, defined as ratios of 0.8 to 1.2, indicates that around a half (51 percent) of all providers had roughly equal total income and total cost, while 26 percent had a “deficit” (income less than costs) and 24 percent had a “surplus” (income greater than costs) (figure 3). The proportion in the breakeven range was higher for voluntary providers and MNS than other provider types, but slightly higher proportions of private providers, voluntary providers and nursery classes were in surplus than in deficit and slightly higher proportions of MNS and childminders were in deficit than in surplus. The patterns in 2021 were broadly similar to those in 2018 and 2019.

**Figure 3: Proportions of providers in deficit and in surplus in 2021**



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

Note: The numbers of providers are as in table 10. In deficit is defined as an income-to-cost ratio of less than 0.8, breakeven as a ratio between 0.8 and 1.2 and surplus as a ratio greater than 1.2. Columns may not sum to 100 percent due to rounding.

## 4. Unit cost and staff hourly pay

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

The key findings for 2021 are:

- The mean unit cost per child per hour for all children of all ages in settings with at least one preschool child was £4.51. This was statistically significantly higher in 2021 than in 2019. The difference of £0.49 corresponds to an increase of 12 percent, driven by an increase of 21 percent in the mean unit cost for childminders. (Section 4.2)
- The mean unit cost was highest for MNS and nursery classes, but there was very little difference between the mean unit cost for private providers, voluntary providers and childminders. (Section 4.2)
- Mean hourly pay was £12.50, which was statistically significantly higher than in 2019 when the mean was £11.13. Private providers, voluntary providers and nursery classes had statistically significantly higher mean hourly pay, but the higher mean hourly pay in 2021 for MNS and lower mean hourly pay in 2021 for childminders were not statistically significant. (Section 4.3)
- Within qualification levels, mean hourly pay was generally highest for nursery classes and MNS and lowest for childminders, indicating that the differences in hourly pay across provider types are not entirely explained by differences in staff qualification levels. (Section 4.3)
- Some 26 percent of staff aged 25 and over were paid at or below the statutory minimum of the NLW in 2021, which was unchanged from 2019. The proportion of staff aged 23 and over (the lower age threshold for the NLW introduced in April 2021) paid at or below the statutory minimum of the NLW was 27 percent. (Section 4.4)
- The proportion of staff paid at or below the NLW was statistically significantly higher in 2021 than in 2019 for staff in nursery classes, but there were no statistically significant differences for any other individual provider type, all providers or for all providers except childminders. (Section 4.4)

## 4.1 Descriptions of the financial measures

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

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

The unit cost measure was trimmed to remove unit costs of zero or in excess of £100. For the 2021 data, this removed hourly pay observations for 5.4 percent (129 settings) and 0.5 percent (11 settings) of settings respectively.

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

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

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

information was collected on their precise highest qualification level, age band, average weekly contracted hours (or typical hours in the absence of a contract) and hourly gross pay (that is, before the removal of tax and employee's national insurance).<sup>33</sup>

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 on work as a childminder (including contact hours and other hours spent on administration, preparation or other tasks required to run the business). However, it should be noted that this measure is not directly comparable to hourly pay as it may include broader returns to investments in the business and is not subject to minimum wage legislation.

The derived hourly pay measure was trimmed to remove hourly pay of zero or in excess of £300. For the 2021 data, this removed hourly pay observations for 2.4 percent and 0.4 percent of staff respectively.<sup>34</sup>

**Proportion paid at or below the NLW: This is the proportion of staff aged 25 or over with hourly pay less than or equal to the NLW of £8.72 until April 2021 and £8.91 from April 2021.**

This proportion was calculated as the proportion of staff of eligible age with hourly pay equal to or less than the NLW at the time of the interview. The NLW was £8.72 for staff aged 25 or over for the first part of fieldwork for the study until April 2021 (covering 7 percent of the sample) and £8.91 for staff aged 23 or over from April 2021 (covering the remaining 93 percent of the sample). The proportion of staff aged 25 or over with hourly pay equal to or less than the NLW at the time of interview is reported for the entire period throughout 2021 in order to draw consistent comparisons with 2018 and 2019 when the eligible age was 25 and older. However, the proportions for staff of eligible age during 2021 (aged 25 or over until April and aged 23 or over from April) with hourly pay equal to or less than the NLW were almost identical due to the proportions for those aged 25 or over (due to the small proportion of the sample aged 23 and 24 from April 2021).

For staff other than childminders, pay was not reported as an hourly amount for 66 percent of staff aged 25, which created some imprecision in the measure due to

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<sup>33</sup> In some cases where the respondent could not report the pay amount, a banded hourly pay was reported instead. Banded hourly pay was reported in 11 percent of cases in 2021. For these cases, the midpoint of the band was used in the analysis of the hourly pay. Banded responses recorded in the financial year 2021/2022 (96 percent of the banded responses) were also used in the analysis of the proportion with hourly pay at or below the National Living or Minimum Wage because the hourly pay bands in the survey were designed to match the national minimums for the financial year 2021/2022.

<sup>34</sup> In additional cleaning, 66 observations (0.5 percent) with hourly pay of less than £2 and a reported pay amount in excess of £40 were set to missing and 16 observations (0.1 percent) with hourly pay of less than £2 and a reported pay of less than £40 were set equal to the pay amount.

rounding when converting the reported pay to an implicit hourly rate. For those with an hourly amount reported in 2021, 12 percent had an amount exactly at the NLW and 7 percent had an amount below the NLW (with 2 percent at the NLW for the previous year).

## 4.2 Unit cost

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

The mean unit cost for all providers was £4.51 per child per hour in 2021 (and £4.59 for all providers excluding childminders) (table 11). The mean unit cost was highest for MNS (£5.80) and nursery classes (£4.81), but there was very little difference between the mean unit cost for private providers (£4.46), voluntary providers (£4.49) and childminders (£4.44). The main change in this pattern since 2019 was a relatively lower mean unit cost for MNS and higher mean unit cost for childminders, narrowing the range across provider types.<sup>35</sup>

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

The mean unit cost for all providers was statistically significantly higher in 2021 than in 2019 and the difference of £0.49 corresponds to an increase of 12 percent. However, this increase was not statistically significantly different from the inflation rate between May 2019 and May 2021.<sup>36</sup> In addition, the mean unit cost for all providers excluding childminders changed very little between 2019 and 2021 and was not statistically significantly higher in 2021 or statistically significantly different from the inflation rate. While the average annual rate of increase between 2019 and 2021 was much lower than for 2018 to 2019 for all providers (1 percent compared to 7 percent), the increase was closer to the 2018 to 2019 change for all providers excluding childminders (6 percent compared to 9 percent).

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<sup>35</sup> For both 2019 and 2021, the mean unit cost was statistically significantly higher for MNS on the one hand and private providers, voluntary providers and childminders on the other. For 2019, the differences between voluntary providers and childminders and between nursery classes and childminders were also statistically significant. For 2018, the differences between MNS and each of the other four provider types and between voluntary providers and childminders were statistically significant.

<sup>36</sup> The differences with the Consumer Price Index (CPI) were tested using changes of £0.117 for all providers and £0.130 for all providers excluding childminders, which correspond to a 2.9 percent increase to match the CPI measure.



**Table 11: Unit cost**

<b>Provider type</b>	<b>Mean unit cost</b>	<b>Median unit cost</b>	<b>Number of providers</b>
<b>Private providers</b>			
2018	£3.83	£2.78	483
2019	£4.07	£2.78	619
2021	£4.46	£3.06	707
<b>Voluntary providers</b>			
2018	£4.16	£2.75	462
2019	£4.46	£2.83	528
2021	£4.49	£3.19	555
<b>Nursery classes</b>			
2018	£4.28	£2.57	143
2019	£4.87	£2.78	413
2021	£4.81	£2.71	405
<b>MNS</b>			
2018	£7.23	£4.84	104
2019	£6.49	£4.48	86
2021	£5.80	£4.56	88
<b>Childminders</b>			
2018	£3.42	£2.43	324
2019	£3.67	£2.67	416
2021	£4.44	£3.33	458
<b>All providers</b>			
2018	£3.70	£2.58	1,544
2019	£4.02	£2.76	2,097
2021	£4.51	£3.21	2,241
<b>All providers except childminders</b>			
2018	£4.19	£2.78	1,220
2019	£4.49	£2.84	1,681
2021	£4.59	£3.08	1,783

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

Note: The unit cost is the average cost per child per hour for all children of all ages in the setting, derived as the total weekly cost divided by an estimate of the total number of child hours per week. All providers included 28, 35 and 28 other group-based providers for 2018, 2019 and 2021 respectively. The figures for 2019 were revised from those in the 2019 report (Paull & Wilson 2020) due to additional cleaning of total childcare hours for 22 providers (3 private providers, 2 voluntary providers and 17 nursery providers).

These patterns reflected that the difference between 2019 and 2021 for childminders (£0.77 corresponding to an increase of 21 percent) was substantial and statistically

significant, while there were no statistically significant differences for any other individual provider type. The increase in the unit cost for childminders was driven partly by the 3 percent increase in total weekly cost (see table 6), but mainly by a reduction of 13 percent in the mean number of childcare hours delivered by each childminder between 2019 and 2021.<sup>37</sup>

### 4.3 Staff hourly pay

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

The mean staff hourly pay across all providers was £12.50 in 2021 (and £12.94 for all providers excluding childminders) (table 12). The mean was higher for nursery classes (£18.78) and MNS (£19.38) and lower for childminders (£8.23), but there was no statistically significant difference between the means for private providers (£11.94) and voluntary providers (£11.58).<sup>38</sup>

The mean hourly pay was statistically significantly higher in 2021 than in 2019 for all providers. The difference of £1.37 for all providers corresponds to an increase of 12 percent. The mean hourly pay was also statistically significantly higher in 2021 than 2019 for all providers excluding childminders and the difference of £1.56 corresponds to an increase of 14 percent. However, neither increase is statistically significantly higher than the growth in mean gross hourly earnings over the same period of 8.3 percent for all employees and 8.5 percent for female employees.<sup>39,40</sup> The average annual change between 2019 and 2021 was lower than in 2018 to 2019 both for all providers (6 percent compared to 12 percent) and for all providers excluding childminders (7 percent compared to 10 percent).

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<sup>37</sup> The change in the unit cost cannot be calculated directly from the change in the mean total cost and the change in the mean total hours (because the mean of a ratio of two measures does not equal the ratio of the means of measures).

<sup>38</sup> For all three years, the mean was statistically significantly different for all pairwise comparisons across the five provider types except for the difference between private providers and voluntary providers in all three years and for the difference between nursery classes and MNS in 2018 and 2021.

<sup>39</sup> The difference with the growth in gross hourly earnings for all providers was tested for a change of £0.924, which corresponds to the 8.3 percent increase for all employees and for a change of £0.946, which corresponds to the 8.5 percent increase for women. The difference with the growth in gross hourly earnings for all providers excluding childminders was tested for a change of £0.945, which corresponds to the 8.3 percent increase for all employees and for a change of £0.967, which corresponds to the 8.5 percent increase for women. The growth measures are for Quarter 2 of 2019 to Quarter 2 of 2021.

<sup>40</sup> Female employees made up 97 percent of staff in all provider types except childminders and 99 percent of childminders in 2021 (see table 19 in the accompanying tables to Department for Education (2021a)).

**Table 12: Staff hourly pay**

<b>Provider type</b>	<b>Mean hourly pay</b>	<b>Median hourly pay</b>	<b>Number of staff</b>
<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
<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
<b>Nursery classes</b>			
2018	£16.32	£12.51	698
2019	£16.84	£12.51	1,601
2021	£18.78	£12.92	2,212
<b>MNS</b>			
2018	£15.41	£11.95	370
2019	£14.35	£11.95	284
2021	£19.38	£12.69	359
<b>Childminders</b>			
2018	£7.46	£6.92	434
2019	£8.89	£6.99	605
2021	£8.23	£7.69	637
<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
<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

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

Note: All providers included 226, 205 and 230 staff in other group-based providers for 2018, 2019 and 2021 respectively. Childminders included assistants. The figures for 2018 and 2019 have been revised from the report for 2019 (Paull & Wilson 2020) due to revised weighting.

The overall increase between 2019 and 2021 reflected statistically significantly higher hourly pay for private providers, voluntary providers and nursery classes. The higher

mean hourly pay in 2021 for MNS and lower mean hourly pay in 2021 for childminders were not statistically significant.<sup>41</sup>

For all providers, the 12 percent increase in hourly pay is broadly in line with the 12 percent increase in unit cost. However, this masks some inconsistency in the 7 percent fall in hourly pay and 21 percent increase in unit cost for childminders and the 14 percent increase in hourly pay and 2 percent increase in unit cost for all providers excluding childminders.<sup>42</sup> While hourly staff pay is a major element in the unit cost, it is possible that other factors can drive changes in the unit cost independent of hourly pay, including the cost of other resources; efficiency in the use of staff and mix of types of staff; and child occupancy rates. The divergence between hourly pay and unit cost suggests that these other factors may have changed between 2019 and 2021.

**Table 13: Staff hourly pay by highest qualification**

Mean hourly pay (number of staff)	None or NVQ 1	NVQ 2	NVQ 3	NVQ 4	NVQ 5	NVQ 6 or higher
Private	£10.84 (279)	£10.89 (697)	£11.58 (3,060)	£13.76 (397)	£12.82 (427)	£14.33 (1,099)
Voluntary	£10.36 (188)	£9.92 (340)	£11.32 (1,862)	£11.54 (195)	£14.88 (200)	£14.50 (475)
Nursery class	£13.69 (109)	£14.35 (229)	£15.52 (598)	£15.12 (132)	£15.26 (85)	£26.13 (1,048)
MNS	£9.09 (18)	£12.29 (45)	£18.74 (86)	£18.73 (24)	£28.86 (24)	£27.36 (158)
Childminders	£8.27 (164)	£6.62 (50)	£8.49 (314)	£7.40 (27)	£8.85 (24)	£8.28 (56)
All providers	£10.41 (767)	£10.83 (1,391)	£11.73 (6,035)	£13.08 (796)	£13.48 (773)	£17.95 (2,873)
All providers except childminders	£10.97 (603)	£11.17 (1,341)	£12.04 (5,721)	£13.65 (769)	£13.82 (749)	£18.54 (2,817)

Source: Survey of Childcare and Early Years Providers, 2021

Note: All providers included 230 staff in other group-based providers. Childminders included assistants.

<sup>41</sup> Mean hourly pay was higher in 2019 than in 2018 for private providers, voluntary providers and childminders, but there were no statistically significant differences in mean hourly pay between 2018 and 2019 for nursery classes and MNS.

<sup>42</sup> It should be noted that, holding all else constant, a 14 percent increase in hourly pay would, on average, increase the unit cost by 10 percent as staff costs constitute around 70 percent of all costs.

Table 13 presents the mean hourly pay in 2021 across highest relevant qualification and provider type. For all providers, mean hourly pay was higher for each higher qualification level (£10.41 for level 1 (and none); £10.83 for level 2; £11.73 for level 3; £13.08 for level 4; £13.48 for level 5; and £17.95 for level 6 and higher), but there were no statistically significant differences between levels 1 and 2; levels 2 and 3; and levels 4 and 5.<sup>43</sup>

Within each qualification level, mean hourly pay was highest for nursery classes and MNS (with the exception of level 1) and lowest for childminders. This indicates that the differences in hourly pay across provider types are not entirely explained by differences in staff qualification levels.

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

**This is the proportion of staff aged 25 or over with hourly pay less than or equal to the NLW of £8.72 until April 2021 and £8.91 from April 2021.**

Some 26 percent of all staff aged 25 and over were paid at or below the statutory minimum of the NLW in 2021 (and 21 percent of all staff excluding childminders) (figure 4). This proportion varied considerably across provider types, with only 10 percent of staff in nursery classes and 8 percent of staff in MNS paid at or below the NLW, while the proportions were higher for private providers (24 percent) and voluntary providers (25 percent). The proportion for childminders was even higher (65 percent).<sup>44</sup>

The proportions of staff aged 23 and over paid at or below the statutory minimum of the NLW were identical to those for staff aged 25 and over except that the proportion was 25 percent instead of 24 percent for private providers, 27 percent instead of 26 percent for all providers and 22 percent instead of 21 percent for all providers except childminders.

The proportion of staff aged 25 and over paid at or below the NLW was statistically significantly higher in 2021 than in 2019 for staff in nursery classes. There were no statistically significant differences for any other individual provider type, all providers and for all providers except childminders.<sup>45</sup>

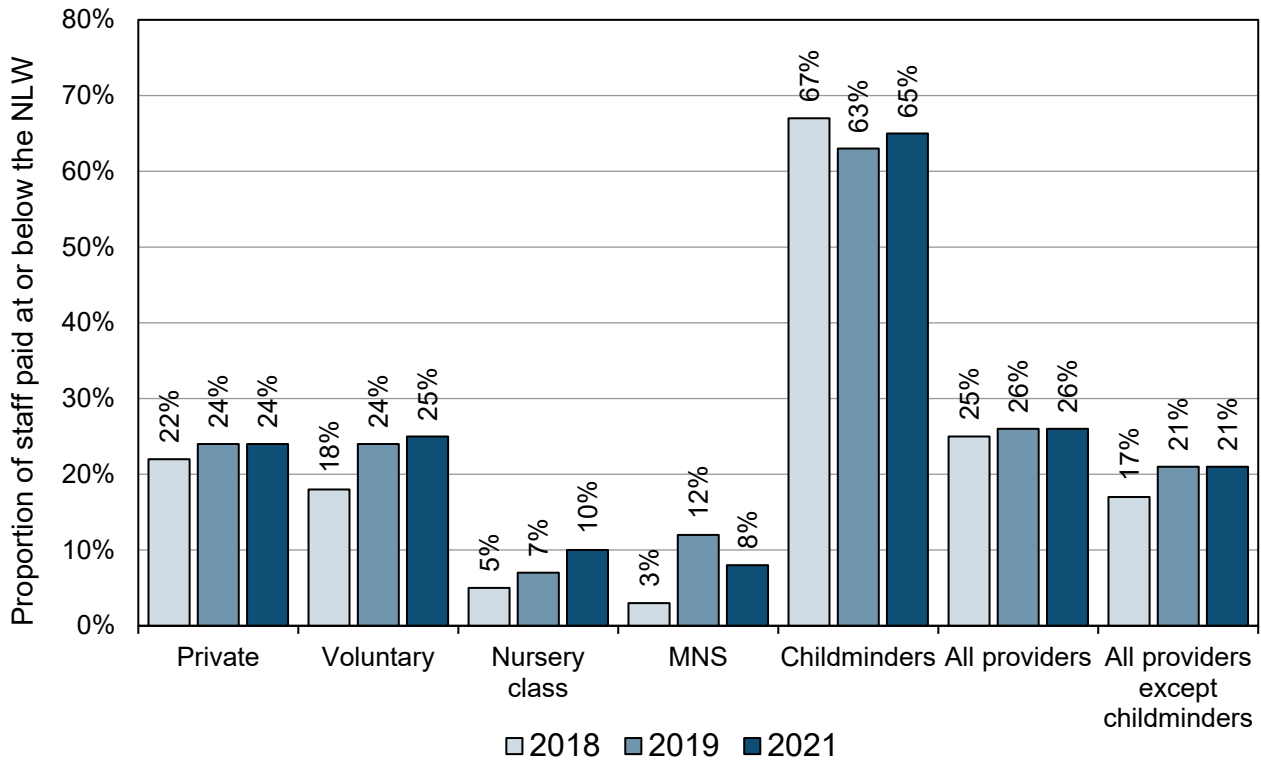
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<sup>43</sup> The pattern was the same in 2018 and 2019 except that the mean hourly pay for level 3 was statistically significantly higher than that for level 2 in both preceding years.

<sup>44</sup> For all three years, the proportion was statistically significantly different for all pairwise comparisons across the five types except for the difference between staff in private and voluntary providers and for the difference between staff in nursery classes and MNS in 2018 and 2019.

<sup>45</sup> The proportion was statistically significantly higher in 2019 than in 2018 for all providers except childminders, voluntary providers and MNS, but the differences between these two years were not statistically significant for all providers, private providers, nursery classes and childminders.

**Figure 4: Proportion of staff aged 25+ paid at or below the NLW**



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

Note: Sample sizes for private, voluntary, nursery class, MNS, childminders, all providers and all providers except childminders were 3,154, 2,513, 605, 345, 414, 7,212 and 6,798 in 2018; 3,803, 3,145, 1,505, 263, 555, 9,449 and 8,894 in 2019; and 4,869, 3,074, 2,082, 334, 599, 11,160 and 10,561 in 2021. The figures for 2018 and 2019 have been revised from the report for 2019 (Paull & Wilson 2020) due to revised weighting. The proportions of staff aged 23 plus for 2021 were identical to those for staff aged 25 plus, except that the proportion was 25 percent instead of 24 percent for private providers, 27 percent instead of 26 percent for all providers and 22 percent instead of 21 percent for all providers except childminders. The sample size for staff aged 23 plus was 11,892 (732 or 7 percent larger than the sample for those aged 25 plus).

## 5. Parent-paid fees and additional charges

This chapter focuses on providers' income. The first section describes the financial measures examined in this chapter. The second section explores the variation in parent-paid hourly fees for different ages of children and the third compares hourly fees to free entitlement funding rates.<sup>46</sup> The final section describes the use of additional charges.

The key findings for 2021 are:

- The mean hourly fee was £5.53 for children under the age of two, £5.53 for two-year-old children and £5.39 for three- and four-year-old preschool children. These were higher than the mean hourly fees in 2019 and correspond to increases of 7.4 percent, 7.2 percent and 6.9 percent for the three age groups respectively. In addition, the differences are statistically significantly higher than the inflation rate of 2.9 percent between the two surveys. (Section 5.2)
- For two-year-old children and three- and four-year-old preschool children, the mean hourly fee was highest for private providers and MNS and lowest for nursery classes and childminders, with the mean hourly fee for voluntary providers in the middle. There was a similar pattern for the hourly fee for children under the age of two, except that the mean hourly fee for voluntary providers was at a similar level to that for private providers and MNS. (Section 5.2)
- For two-year-old children, the mean funding rate for the free entitlement was £0.30 lower than the mean hourly fee. For three- and four-year-old preschool children, the mean funding rate was £0.90 lower than the mean hourly fee. These differences were larger than in 2019. (Section 5.3)
- The proportion of providers with additional charges for parents was lower in 2021 than in 2019 (70 percent in 2021 compared to 75 percent in 2019). The proportion in 2021 was highest for private providers (81 percent), slightly lower for voluntary providers, nursery classes and MNS (72 percent, 75 percent and 77 percent respectively) and notably lower for childminders (63 percent). (Section 5.4)
- The most common types of charges were for unarranged late pickups (40 percent of providers had such charges), one-off activities (34 percent of providers) and meals (29 percent of providers). Less common were charges for snacks (14 percent of providers), regular activities (12 percent of providers), consumables (9 percent of providers) and registration or other administration (11 percent of providers). (Section 5.5)

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<sup>46</sup> Further analysis of hourly parent-paid fees in 2021 at the local authority level can be found in Department for Education (2021b).

## 5.1 Descriptions of the financial measures

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

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

The reported average hourly fees were trimmed to remove average hourly fees of zero or in excess of £40. For the 2021 data, this removed 2.0 percent of fee observations for children under the age of two, 1.0 percent of fee observations for children aged two and 0.8 percent of fee observations for three- and four-year-old preschool children.

### **Free entitlement funding rate: The average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the free early education entitlement.**

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

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

It should be noted that these rates are different from the rates paid 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 and the question asks providers to average over any supplements.

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

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



## 5.2 Hourly parent-paid fees

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

Tables 14 to 16 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.

The mean hourly fee was £5.53 for children under the age of two, £5.53 for two-year-old children and £5.39 for three- and four-year-old preschool children in 2021. For all providers excluding childminders, the mean hourly fee was £6.20 for children under the age of two, £5.94 for two-year-old children and £5.71 for three- and four-year-old preschool children.

For two-year-old children and three- and four-year-old preschool children, the mean hourly fee was highest for private providers and MNS and lowest for nursery classes and childminders, with the mean hourly fee for voluntary providers in the middle.<sup>47</sup> There was a similar pattern for the hourly fee for children under the age of two except that the mean hourly fee for voluntary providers was at a similar level to that for private providers and MNS.<sup>48</sup> These patterns are similar to those for 2018 and 2019.<sup>49</sup> Evidence in the report for 2018 showed that most providers charge the same hourly fees for all ages of children, which partly explains the consistency in this pattern across the three age groups.<sup>50</sup>

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

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<sup>47</sup> The differences across provider types are all statistically significant except for the difference between private providers and MNS and for the difference between nursery classes and childminders.

<sup>48</sup> For children under age two, the differences across provider types are all statistically significant except for the difference between private providers and voluntary providers; private providers and MNS; voluntary providers and MNS; and nursery classes and childminders.

<sup>49</sup> The patterns of children under age two differ across the three years, possibly due to the small sample sizes for nursery classes and MNS for this age group. This reflects the fact that fewer nursery classes and MNS cater for this youngest age group.

<sup>50</sup> Analysis in the 2018 SCEYP Finance Report (Cattoretti et al 2019) showed that 11 percent of providers had no fees, 8 percent had fees for only one age group and 72 percent had the same average fee for all age groups, while only 9 percent of settings had any variation in the average fee across age groups. The proportion with some variation was slightly higher for childminders (12 percent), potentially reflecting the ability to charge bespoke fees for each child. No nursery classes reported any variation in fees across age groups, reflecting both that only a minority (39 percent) charged any fees and the limited age range of children attending nursery classes.

**Table 14: Hourly parent-paid fees for children under age two**

<b>Provider type</b>	<b>Mean hourly fee</b>	<b>Median hourly fee</b>	<b>Number of providers</b>
Private providers			
2018	£5.71	£5.20	1,651
2019	£5.92	£5.50	2,124
2021	£6.27	£5.80	2,017
Voluntary providers			
2018	£5.11	£4.85	312
2019	£5.39	£5.00	374
2021	£6.06	£5.33	345
Nursery classes			
2018	£5.09	£4.85	24
2019	£5.46	£4.80	41
2021	£4.98	£4.94	36
MNS			
2018	£4.76	£4.50	10
2019	£5.70	£5.53	22
2021	£5.96	£6.00	22
Childminders			
2018	£4.82	£4.50	6,805
2019	£4.92	£4.50	5,391
2021	£5.23	£5.00	4,886
All providers			
2018	£5.02	£4.50	8,899
2019	£5.15	£5.00	8,090
2021	£5.53	£5.00	7,432
All providers except childminders			
2018	£5.61	£5.10	2,094
2019	£5.81	£5.35	2,699
2021	£6.20	£5.70	2,546

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

Note: All providers included 97, 138 and 126 other group-based providers for 2018, 2019 and 2021 respectively.

**Table 15: Hourly parent-paid fees for two-year-old children**

<b>Provider type</b>	<b>Mean hourly fee</b>	<b>Median hourly fee</b>	<b>Number of providers</b>
Private providers			
2018	£5.63	£5.04	2,359
2019	£5.85	£5.30	3,050
2021	£6.21	£5.70	2,973
Voluntary providers			
2018	£4.86	£4.50	1,710
2019	£5.18	£4.75	1,957
2021	£5.56	£5.00	1,750
Nursery classes			
2018	£5.10	£4.75	156
2019	£4.95	£4.66	399
2021	£5.24	£5.00	531
MNS			
2018	£5.43	£5.00	79
2019	£5.57	£5.15	115
2021	£6.15	£6.00	132
Childminders			
2018	£4.78	£4.50	6,838
2019	£4.88	£4.50	5,333
2021	£5.16	£4.50	5,047
All providers			
2018	£5.01	£4.50	11,323
2019	£5.16	£4.95	11,129
2021	£5.53	£4.95	10,649
All providers except childminders			
2018	£5.34	£5.00	4,485
2019	£5.55	£5.00	5,796
2021	£5.94	£5.40	5,602

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

Note: All providers included 181, 275 and 216 other group-based providers for 2018, 2019 and 2021 respectively.

**Table 16: Hourly parent-paid fees for three- and four-year-old preschool children**

Provider type	Mean hourly fee	Median hourly fee	Number of providers
Private providers			
2018	£5.48	£5.00	2,550
2019	£5.72	£5.10	3,376
2021	£6.10	£5.50	3,245
Voluntary providers			
2018	£4.80	£4.40	1,857
2019	£5.03	£4.50	2,141
2021	£5.36	£5.00	1,884
Nursery classes			
2018	£4.82	£4.20	598
2019	£4.67	£4.20	1,259
2021	£5.01	£4.50	1,602
MNS			
2018	£5.09	£5.00	97
2019	£5.30	£5.00	142
2021	£5.92	£5.50	155
Childminders			
2018	£4.73	£4.50	7,203
2019	£4.80	£4.50	5,624
2021	£5.09	£4.80	5,457
All providers			
2018	£4.92	£4.50	12,514
2019	£5.04	£4.67	12,849
2021	£5.39	£5.00	12,583
All providers except childminders			
2018	£5.17	£4.68	5,311
2019	£5.34	£5.00	7,225
2021	£5.71	£5.00	7,126

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

Note: All providers included 209, 307 and 240 other group-based providers for 2018, 2019 and 2021 respectively.

The mean hourly fees for all providers was £0.38 higher in 2021 than in 2019 (£5.53 compared to £5.15) for children under the age of two, £0.37 higher (£5.53 compared to £5.16) for two-year-old children and £0.35 higher (£5.39 compared to £5.04) for three- and four-year-old preschool children. These differences between 2019 and 2021

correspond to increases of 7.4 percent, 7.2 percent and 6.9 percent for the three age groups respectively and are statistically significantly higher than the inflation rate between May 2019 and May 2021.<sup>51</sup> For all providers excluding childminders, the differences between 2019 and 2021 correspond to increases of 6.7 percent, 7.0 percent and 6.9 percent for the three age groups respectively and are statistically significantly higher than the inflation rate. The average annual rates of increase between 2019 and 2021 were similar to those for 2018 to 2019.<sup>52</sup>

The hourly fee was statistically significantly higher in 2021 than in 2019 for all three age groups for all providers excluding childminders and for each provider type, with two exceptions for children under age two for nursery classes and for MNS (although the small sample sizes for these two cases mean these results should be treated with caution).<sup>53</sup>

### 5.3 Hourly parent-paid fees and free entitlement funding rates

**Free entitlement funding rates are the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the free early education entitlement.**

Tables 17 and 18 compare mean hourly parent-paid fees with mean hourly free entitlement funding rates for two-year-old children and for three- and four-year-old preschool children. The funding rates are the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the free early education entitlement (and do not directly correspond with Department for Education published rates). The middle column shows the difference between the two means, with a positive number indicating cases where the mean funding rate was higher

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<sup>51</sup> For all providers, the differences with CPI were tested using changes of £0.149 for children under age two, £0.150 for two-year-olds and of £0.146 for three- and four-year-old preschool children, which correspond to a 2.9 percent increase to match the CPI measure. For all providers excluding childminders, the differences with CPI were tested using changes of £0.168 for children under age two, £0.161 for two-year-olds and of £0.159 for three- and four-year-old preschool children, which correspond to a 2.9 percent increase to match the CPI measure.

<sup>52</sup> For all providers, the average annual increases between 2018 and 2019 and between 2019 and 2021 were 2.6 percent and 3.7 percent for children under age two, 3.0 percent and 3.6 percent for children aged two, and 2.4 percent and 3.5 percent for three- and four-year-old preschool children. For all providers excluding childminders, the average annual increases between 2018 and 2019 and between 2019 and 2021 were 3.6 percent and 3.4 percent for children under age two, 3.9 percent and 3.5 percent for children aged two, and 3.3 percent and 3.5 percent for three- and four-year-old preschool children.

<sup>53</sup> The mean hourly fee was higher in 2019 than in 2018 for all three age groups for private providers and childminders and for the older two age groups for voluntary providers. But there were no statistically significant differences between 2018 and 2019 for nursery classes or MNS (with the exception of children under age two for MNS, but this was based on very small sample sizes and should be treated with caution).

than the mean hourly fee and a negative number indicating cases where the mean funding rate was lower than the mean hourly fee.<sup>54</sup>

For two-year-old children (table 17):<sup>55</sup>

- For all providers, the mean funding rate was higher than the mean hourly parent-paid fees in 2018 (by £0.06). This reversed in 2019, with the mean hourly funding rate being lower than the mean hourly parent-paid fees (by £0.10). In 2021, this gap widened to a mean hourly funding rate which was £0.30 lower than the mean hourly parent-paid fees.
- For all providers excluding childminders, the mean hourly funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £0.23 in 2018 to £0.45 in 2019 and £0.68 in 2021.

Considering each provider type:<sup>56</sup>

- For private providers, the mean funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £0.52 in 2018 to £0.76 in 2019 and £0.99 in 2021.
- For voluntary providers, the mean funding rate was higher than the mean hourly parent-paid fees in 2018 (by £0.23), but there was no statistically significant difference between them in 2019. In 2021, the mean funding rate was lower than the mean hourly parent-paid fees by £0.23.
- For childminders, the mean funding rate was higher than the mean hourly parent-paid fees in both 2018 and 2019, but the difference was smaller in 2019 (£0.21 in

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<sup>54</sup> The statistical significance of differences across years in the gap between the mean funding rate and mean hourly fees within provider types was tested using a regression model. A stacked dataset was used to estimate a regression model with a dependent variable that is a payment rate equal to either the hourly funding rate or hourly parent-paid fee and explanatory variables include an indicator on whether the rate is a funding rate (rather than an hourly fee amount); year dummy variables; and interaction terms combining year and the funding rate indicator. The indicator variables test whether the funding rate is statistically different from the fee rates, all else equal. The statistical significance of differences across provider types in the gap between the mean funding rate and mean hourly fees within 2021 was tested in an analogous manner using provider type dummy variables and interaction terms combining provider type and the funding rate indicator.

<sup>55</sup> For all providers and for all providers except childminders, the differences between the hourly funding rate and hourly parent-paid fees were statistically significant in every year. The changes in these differences were statistically significant for 2018 to 2019 and for 2019 to 2021.

<sup>56</sup> For each provider type in each year, the differences between the hourly funding rate and hourly parent-paid fees were significant except for voluntary providers in 2019, nursery classes in all three years, MNS in 2018 and 2019, and childminders in 2021. Within provider type, the changes in the differences between 2018 and 2019 and between 2019 and 2021 were statistically significant except for both pairs of years for nursery classes and for the 2018 to 2019 change for MNS.

2018 and £0.10 in 2019). There was no statistically significant difference between the mean funding rate and the mean hourly parent-paid fees in 2021.

- There were no statistically significant differences between the mean funding rate and the mean hourly parent-paid fees for nursery classes in any of the three years or for MNS in 2018 or 2019. In 2021, the mean funding rate for MNS was lower than the mean hourly parent-paid fees by £0.73.

For 2021, the negative difference between the mean funding rate and the mean hourly parent-paid fees was greater for private providers and MNS than for voluntary providers, nursery classes and childminders.<sup>57</sup>

For three- and four-year-old preschool children (table 18):<sup>58</sup>

- For all providers, the mean hourly funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £0.62 in 2018 to £0.70 in 2019 and £0.90 in 2021.
- For all providers excluding childminders, the mean hourly funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £0.83 in 2018 to £0.96 in 2019 and £1.16 in 2021.

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<sup>57</sup> The differences between the hourly funding rate and hourly parent-paid fees were statistically significant across all pairwise comparisons between provider types in 2021 except for the difference between private providers and MNS; voluntary providers and nursery classes; and nursery classes and childminders.

<sup>58</sup> For all providers and for all providers except childminders, the differences between the hourly funding rate and hourly parent-paid fees were statistically significant in every year. The changes in these differences were statistically significant for 2018 to 2019 and for 2019 to 2021.

**Table 17: Hourly parent-paid fees and funding rates for two-year-old children**

Provider type	Mean funding rate	Mean hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
Private providers					
2018	£5.11	£5.63	- £0.52	1,892	2,359
2019	£5.09	£5.85	- £0.76	2,453	3,050
2021	£5.22	£6.21	- £0.99	2,350	2,973
Voluntary providers					
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
Nursery classes					
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
MNS					
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
Childminders					
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
All providers					
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
All providers except childminders					
2018	£5.11	£5.34	- £0.23	3,711	4,485
2019	£5.10	£5.55	- £0.45	4,862	5,796
2021	£5.26	£5.94	- £0.68	4,592	5,602

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

Note: All providers included 154, 232 and 168 other group-based providers for the funding rate in 2018, 2019 and 2021 respectively. All providers included 181, 275 and 216 other group-based providers for the hourly fee in 2018, 2019 and 2021 respectively.



**Table 18: Hourly parent-paid fees and funding rates for three- and four-year-old preschool children**

Provider type	Mean funding rate	Mean hourly fee	Difference: funding rate minus hourly fee	Number of providers for funding rate	Number of providers for hourly fee
Private providers					
2018	£4.33	£5.48	- £1.15	2,273	2,550
2019	£4.36	£5.72	- £1.36	3,014	3,376
2021	£4.52	£6.10	- £1.58	2,941	3,245
Voluntary providers					
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
Nursery classes					
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
MNS					
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
Childminders					
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
All providers					
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
All providers except childminders					
2018	£4.34	£5.17	- £0.83	5,053	5,311
2019	£4.38	£5.34	- £0.96	7,250	7,225
2021	£4.55	£5.71	- £1.16	7,241	7,126

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

Note: All providers included 182, 278 and 210 other group-based providers for the funding rate in 2018, 2019 and 2021 respectively. All providers included 209, 307 and 240 other group-based providers for the hourly fee in 2018, 2019 and 2021 respectively.

Considering each provider type:<sup>59</sup>

- For private providers, the mean funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £1.15 in 2018 to £1.36 in 2019 and £1.58 in 2021.
- For voluntary providers, the mean funding rate was lower than the mean hourly parent-paid fees in all three years and the difference increased from £0.55 in 2018 to £0.72 in 2019 and £0.87 in 2021, although the difference between 2019 and 2021 was not statistically significant.
- For nursery classes and childminders, the mean funding rate was lower than the mean hourly parent-paid fees in all three years. The differences were not statistically significantly different between 2018 and 2019 but the differences were greater in 2021 than in 2019 for both provider types.
- For MNS, the differences between the mean funding rate and mean hourly parent-paid fees were not statistically significant in 2018 and 2019, but the mean funding rate was lower than the mean hourly parent-paid fees in 2021.

For 2021, the difference between the mean funding rate and the mean hourly parent-paid fees was greatest for private providers, followed by voluntary providers and childminders, with the smallest difference being for nursery classes. The difference for MNS was smaller than that for private providers but was not statistically different from any other provider type.<sup>60</sup>

## 5.4 Use of additional charges

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

Some 70 percent of all providers had additional charges for parents in 2021 (and 77 percent of all providers excluding childminders had additional charges). This proportion was highest for private providers (81 percent), slightly lower for voluntary providers, nursery classes and MNS (72 percent, 75 percent and 77 percent respectively) and notably lower for childminders (63 percent) (figure 5).

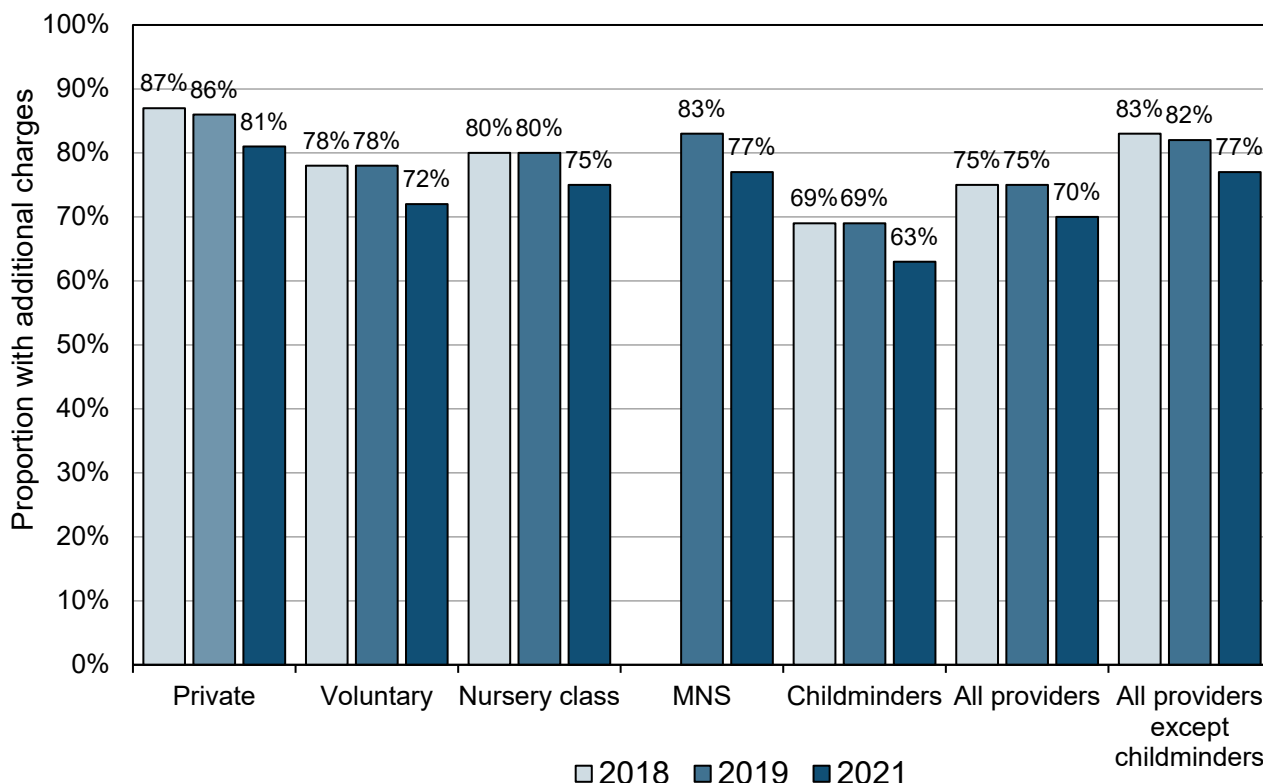
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<sup>59</sup> For each provider type in each year, the differences between the hourly funding rate and hourly parent paid fees were statistically significant except for MNS in 2018 and 2019. Within provider type, the changes in the differences between 2018 and 2019 and between 2019 and 2021 were statistically significant except for the 2018 to 2019 change for nursery classes, MNS and childminders and the 2019 to 2021 change for voluntary providers.

<sup>60</sup> The differences between the hourly funding rate and hourly parent-paid fees were statistically significantly different across all pairwise comparisons between provider types in 2021 except for MNS on the one hand and voluntary providers, nursery classes and childminders on the other.

These proportions were almost identical between 2018 and 2019 but were statistically significantly lower in 2021 than in either 2018 or 2019 for all providers, for all providers excluding childminders and for each provider type except MNS.

**Figure 5: Proportion of providers with additional charges**



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

Note: Sample sizes for private, voluntary, nursery class, MNS, childminders, all providers and all providers except childminders were 1,685, 1,161, 1,111, 0, 8,258, 12,383 and 4,125 in 2018; 3,737, 2,235, 2,929, 208, 6,870, 16,318 and 9,448 in 2019; and 3,661, 1,953, 3,465, 218, 6,760, 16,315 and 9,555 in 2021. The all providers column also included 168, 339 and 258 other group-based providers for 2018, 2019 and 2021 respectively. Data is only used from the short survey for 2018 which contained no MNS. The figures for 2018 were revised from those in the 2018 report due to corrected weighting (see section 2.2 in Cattoretti et al (2019)). Some minor revisions have been made to the figures for 2019 (proportion for nursery class adjusted from 79 percent to 80 percent and for MNS from 80 percent to 83 percent) to remove recategorization of “other” types of charges made to the main survey data in error. For 2021, the proportion was statistically significantly different for all pairwise comparisons across the five types except for private providers and MNS and for nursery classes and MNS. There were no statistically significant differences between 2018 and for 2019, but the proportions in 2021 were statistically significantly lower in 2021 than in either 2018 or 2019 for all providers, for all providers excluding childminders and for each provider type except MNS.

## 5.5 Use of different kinds of additional charges

In 2021, the most common types of charges were for unarranged late pickups (40 percent of providers had such charges), one-off activities (34 percent of providers) and meals (29 percent of providers) (table 19). Less common were charges for snacks (14 percent of providers), regular activities (12 percent of providers), consumables (9 percent of providers) and registration or other administration (11 percent of providers).

**Table 19: Use of different kinds of additional charges**

Proportion with additional charges for	Year	Private	Voluntary	Nursery class	MNS	Child-minders	All providers	All providers except child-minders
Meals	2018	45%	18%	43%	n/a	26%	31%	37%
	2019	41%	20%	47%	47%	26%	31%	37%
	2021	39%	19%	47%	46%	22%	29%	37%
Snacks	2018	22%	19%	16%	n/a	8%	13%	19%
	2019	22%	22%	14%	24%	9%	14%	20%
	2021	23%	21%	12%	22%	8%	14%	19%
Consumables	2018	14%	7%	2%	n/a	11%	10%	9%
	2019	13%	8%	2%	5%	10%	10%	9%
	2021	13%	8%	2%	5%	9%	9%	9%
Regular activities	2018	24%	7%	3%	n/a	14%	14%	14%
	2019	23%	10%	8%	5%	15%	15%	15%
	2021	16%	8%	6%	4%	12%	12%	11%
One-off activities	2018	41%	42%	56%	n/a	39%	42%	45%
	2019	38%	39%	58%	44%	38%	40%	43%
	2021	30%	28%	48%	40%	34%	34%	34%
Unarranged late pickups	2018	61%	41%	10%	n/a	45%	44%	42%
	2019	61%	44%	15%	37%	44%	44%	45%
	2021	55%	40%	14%	36%	40%	40%	40%
Registration or other administration	2018	32%	21%	1%	n/a	2%	10%	21%
	2019	35%	18%	2%	4%	3%	11%	21%
	2021	33%	18%	2%	4%	3%	11%	20%
Other items	2018	7%	8%	10%	n/a	4%	6%	8%
	2019	8%	10%	8%	15%	5%	6%	9%
	2021	8%	9%	9%	13%	4%	6%	8%
Number of providers	2018	1,685	1,161	1,111	0	8,258	12,383	4,125
	2019	3,737	2,235	2,929	208	6,870	16,318	9,448
	2021	3,661	1,953	3,465	218	6,760	16,315	9,555

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

Note: The all providers column also included 168, 339 and 258 other group-based providers for 2018, 2019 and 2021 respectively. Data is only used from the short survey for 2018, which contained no MNS. Exclusion of MNS from the all providers column in 2018 did not have a substantial impact because of the low number of MNS. The figures for 2018 were revised from those in the 2018 report due to corrected weighting (see section 2.2 in Cattoretti et al (2019)). Some minor revisions have been made to the figures for 2019 (primarily affecting the proportion of “other” types of additional charges) to remove recategorization of “other” types of charges made to the main survey data in error.

Almost all of the differences in the proportions across provider types in 2021 were statistically significant<sup>61</sup> but the greatest differences of note are:

- Voluntary providers and childminders were less likely to have charges for meals than other provider types, possibly because voluntary providers were less likely to provide meals and possibly because childminders prefer to use an all-inclusive fee.
- Nursery schools and childminders were less likely to charge for snacks, possibly because nursery schools may offer fewer snacks as they tend to only cater for older preschool children and possibly because childminders prefer to use an all-inclusive fee.
- Nursery classes were less likely to charge for unarranged late pickups than other provider types, possibly because school closing hours may make these pickups infeasible.
- Private and voluntary providers were more likely to have charges for registration or other administration than other provider types.

There were some statistically significant differences in the proportions between 2019 and 2021:<sup>62</sup>

- The proportions of providers with additional charges for regular activities, one-off activities and unarranged pickups were lower in 2021 for all providers, for all providers except childminders and for each provider type (except for MNS and for unarranged late pickups for nursery classes).
- The proportion of all providers with additional charges for meals was lower in 2021, primarily driven by a lower proportion for childminders.

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<sup>61</sup> For 2021, the proportions were statistically significantly different for all pairwise comparisons across the five provider types except for differences between private providers and MNS and for differences between nursery classes and MNS for meals; for private providers, voluntary providers and MNS for snacks; voluntary providers and MNS for consumables; for private providers and voluntary providers and for MNS and childminders for one-off activities; for voluntary providers, MNS and childminders for unarranged late pickups; for MNS and childminders for registration or other administration; and for private providers and voluntary providers, for private providers and nursery classes, for voluntary providers and nursery classes, for voluntary providers and MNS, and for nursery classes and MNS for other items.

<sup>62</sup> For all providers, the proportion in 2021 was statistically significantly lower than in 2018 and 2019 for meals, regular activities, one-off activities and unarranged late pickups; lower than in 2018 for consumables; and higher than in 2018 for registration or other administration. There were no statistically significant differences between 2021 and the other years for snacks and other items.

- The proportion of nursery classes with additional charges for snacks was lower in 2021.

Hence, the lower proportion of providers using any additional charges in 2021 reflected lower use of some kinds of charges, specifically charges for additional activities and late pickups across all provider types and for meals among childminders.

## 6. Patterns of change between 2019 and 2021

This chapter explores how the financial measures changed between 2019 and 2021. Following a summary of the headline changes in the first section, the subsequent sections examine differences across regions, by local deprivation level, across urban and rural areas, and across single-site and multi-site (chain) providers.

It should be noted that fieldwork for the 2021 survey took place between March and July 2021 when early years settings were still experiencing some disruption as a result of the COVID-19 pandemic which began in early 2020. In addition, this chapter focuses on changes between 2019 (before the start of the pandemic) and 2021, but it is not possible using this data alone to determine to what extent, if any, the observed changes are the result of the COVID-19 pandemic or other factors.

Because of the small sample sizes for some categories of the characteristics and the challenge this presents for identifying statistically significant differences in changes between two points in time, no tests of statistical significance are reported in this chapter. Hence, the precise size of changes should be treated with caution and the broad patterns treated as indicative of some areas or types of settings experiencing different degrees of change between 2019 and 2021.

The key findings are:

- The headline findings indicate relatively few major changes between 2019 and 2021: unit costs increased and free entitlement funding became a more important source of funding for childminders, while the gap between the free entitlement funding rate and hourly parent-paid fees increased and the use of additional charges declined for all providers. (Section 6.1)
- There were few strong patterns in the changes in the financial measures across regions. There were some indications that fees increased more in line with higher increases in costs in the North West and West Midlands, while the income-to-cost ratio fell in line with rising costs in the South West. (Section 6.2)
- There were few strong patterns in the changes in the financial measures across deprivation levels. There was some indication that smaller increases in pay and reductions in costs in the most deprived areas were associated with a lower increase in fees than in other areas. (Section 6.3)
- The increases in unit costs and hourly fees and the decline in the income-to-cost ratio were greater in urban areas than rural areas. However, the greater increase in mean hourly staff pay in rural areas was not consistent with these patterns. (Section 6.4)

- The increases in hourly staff pay, unit costs and hourly fees were greater for providers in chains than single-site providers, and the mean income-to-cost ratio increased for providers in chains while it declined for single-site providers. (Section 6.5)

## 6.1 Summary of headline changes

There were relatively few changes in the financial measures between 2019 and 2021:

- There were no statistically significant changes in the mean income-to-cost ratio.
- The mean unit cost was higher in 2021 than in 2019, but this was not different from the inflation rate and was solely driven by a substantial increase for childminders. For all other providers, there was a small and statistically insignificant change which was considerably below the annual rate of increase in 2018 to 2019.
- The mean hourly pay was higher in 2021 than 2019, but the change was not different from average earnings growth and the average annual increase was lower than in 2018 to 2019.
- The mean hourly parent-paid fees were higher in 2021 than 2019 and the rate of change was above the inflation rate. However, the average annual increase was similar to that in 2018 to 2019.
- A greater share of income came from free entitlement funding and a smaller share from parent-paid fees in 2021 than in 2019 for childminders, but there were no changes in the contributions of different income sources for other providers.
- The mean gap between free entitlement funding rates and hourly parent-paid fees continued to widen between 2019 and 2021 for all types of providers. Whereas the widening gap between 2018 and 2019 was due to little change in the funding rate while hourly fees increased, the increasing differences between 2019 and 2021 were due to smaller rises in the funding rate than the rises in hourly fees.
- The proportion of providers using any additional charges for parents (over and above regular hourly fees) fell between 2019 and 2021 in contrast to unchanged use between 2018 and 2019.

## 6.2 Patterns of changes across regions

Figures 6 to 12 present the income-to-cost ratio, unit cost, staff hourly pay, the proportion of staff aged 25 and over with hourly pay at or below the NLW, hourly parent-paid fees for two-year-old children and for three- and four-year-old preschool children, and the

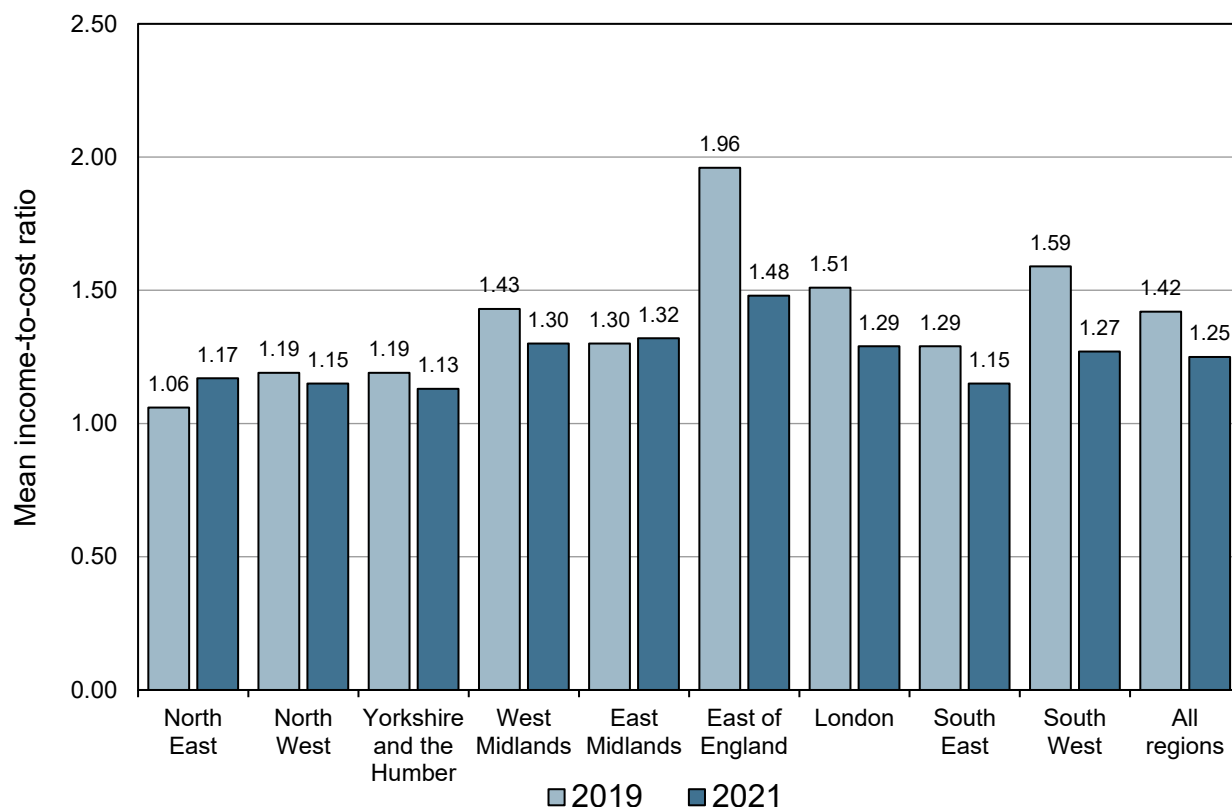


proportion of providers with additional charges for 2019 and 2021 by region.

Corresponding tables 20 to 26 present the change and the percentage change in the mean values or the percentage point change for the proportions between 2019 and 2021 by region. The figures and tables show that:

- The mean income-to-cost ratio was higher in the West Midlands, East of England, London and the South West than the mean value for all regions in both 2019 and 2021. The mean value was lower in 2021 than in 2019 in seven of the nine regions, with the greatest declines in the East of England (24 percent) and the South West (20 percent). The mean income-to-cost ratio was higher in 2021 than in 2019 only in the North East and East Midlands.
- The mean unit cost was lower in the North East, Yorkshire and the Humber, West Midlands and East Midlands than the mean value for all regions in both 2019 and 2021. The mean was higher in 2021 than in 2019 in seven of the nine regions, with the greatest increases in the South West (43 percent), West Midlands (40 percent) and North West (39 percent). The mean unit cost was lower in 2021 than in 2019 in the East of England and the South East.
- The mean staff hourly pay was lower in the West Midlands, East Midlands and the South East than the mean value for all regions in both 2019 and 2021. The mean hourly pay was higher in 2021 than 2019 in all nine regions, with the greatest increases in the South West (26 percent) and the East Midlands (20 percent).
- The proportion of staff aged 25 and older paid at or below the NLW was lower in London and the South East than in all regions in both 2019 and 2021. The change in the proportion between 2019 and 2021 ranged from a decrease of 3 percentage points (in the North East and in Yorkshire and the Humber) to an increase of 5 percentage points (in the East of England), with a fairly even pattern in between.
- The patterns in hourly parent-paid fees were almost identical for two-year-old children and three- and four-year-old preschool children. The mean hourly fees were higher in London and in the South East than the mean value for all regions in both 2019 and 2021. The mean hourly fee was higher in 2021 than in 2019 for both ages of children in all regions. The increase ranged from 5 percent to 11 percent for two-year-old children and from 4 percent to 9 percent for three- and four-year-old preschool children. The smallest increases were in the North East and East Midlands and the largest increases were in the North West, Yorkshire and the Humber and West Midlands.
- The proportion of providers with additional charges was lower in the North East, North West, Yorkshire and the Humber, and London than in all regions in both 2019 and 2021. The proportion was lower in 2021 than in 2019 in all regions, with the smallest decrease in the North West (3 percentage points) and the largest decrease in the North East and the South East (6 percentage points).

**Figure 6: Income-to-cost ratio by region**



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

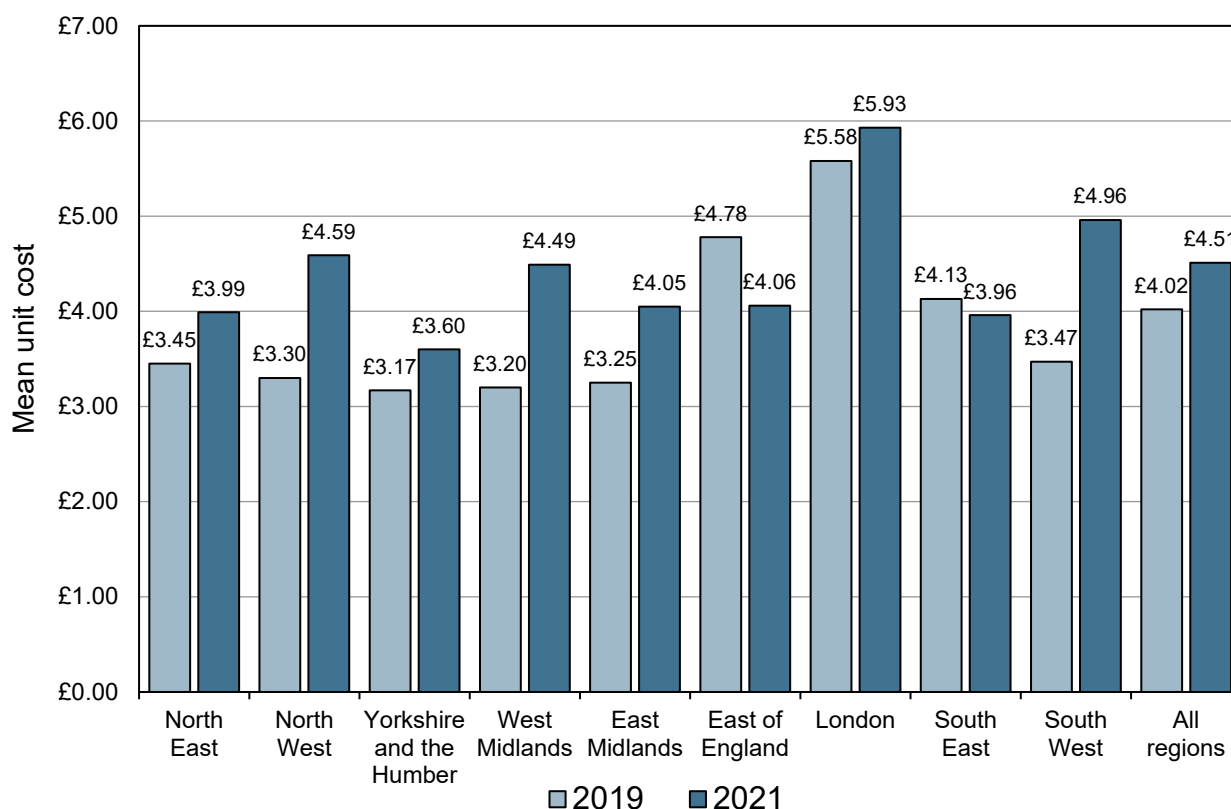
Note: Sample sizes are as shown in table 20.

**Table 20: Change in income-to-cost ratio by region**

Region	Change in mean income-to-cost ratio	% change in mean income-to-cost ratio	Number of providers in 2019	Number of providers in 2021
North East	0.11	10%	124	118
North West	- 0.04	- 3%	222	240
Yorkshire and the Humber	- 0.06	- 5%	165	182
West Midlands	- 0.13	- 9%	176	209
East Midlands	0.02	2%	190	182
East of England	- 0.48	- 24%	250	266
London	- 0.22	- 15%	269	280
South East	- 0.14	- 11%	327	345
South West	- 0.32	- 20%	231	228
All regions	- 0.17	- 12%	1,954	2,050

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

**Figure 7: Unit cost by region**



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

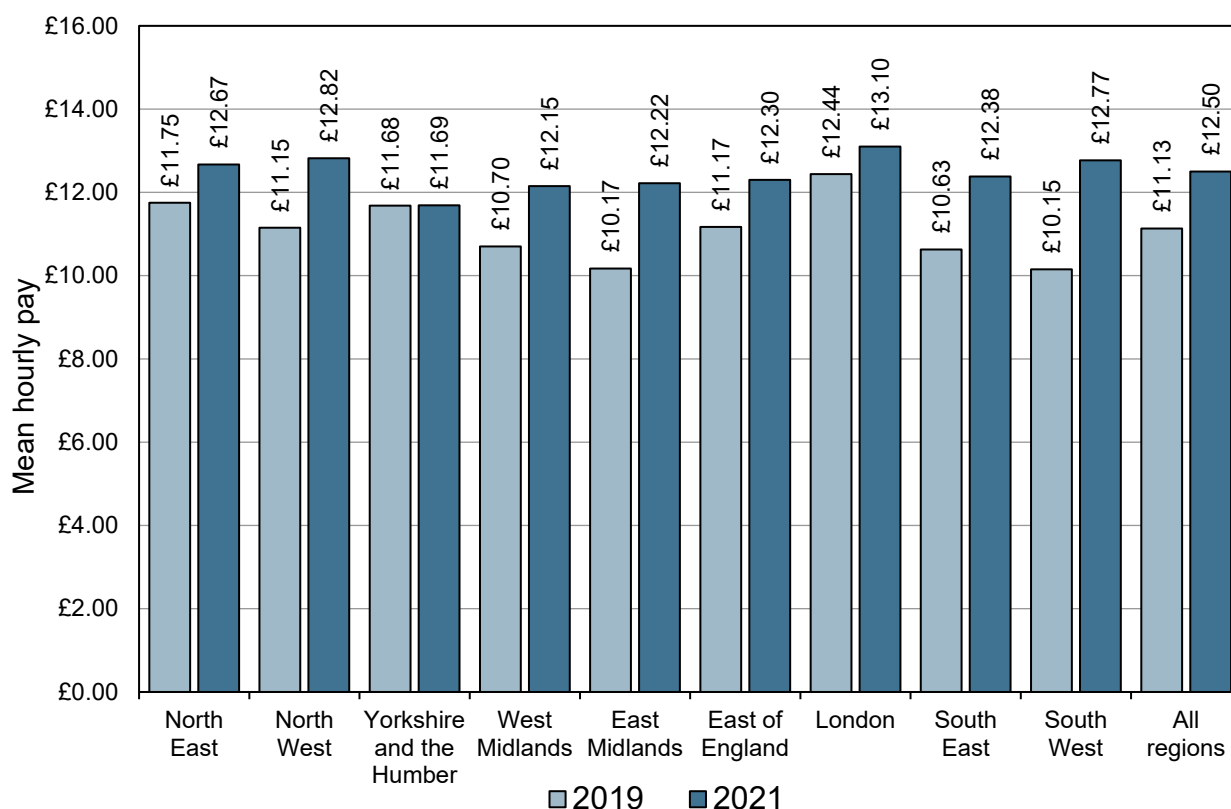
Note: Sample sizes are as shown in table 21.

**Table 21: Change in unit cost by region**

Region	Change in mean unit cost	% change in mean unit cost	Number of providers in 2019	Number of providers in 2021
North East	£0.54	16%	139	138
North West	£1.29	39%	244	270
Yorkshire and the Humber	£0.43	14%	171	192
West Midlands	£1.29	40%	201	214
East Midlands	£0.80	25%	205	198
East of England	- £0.72	- 15%	269	297
London	£0.35	6%	293	311
South East	- £0.17	- 4%	341	370
South West	£1.49	43%	235	251
All regions	£0.49	12%	2,098	2,241

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

**Figure 8: Staff hourly pay by region**



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

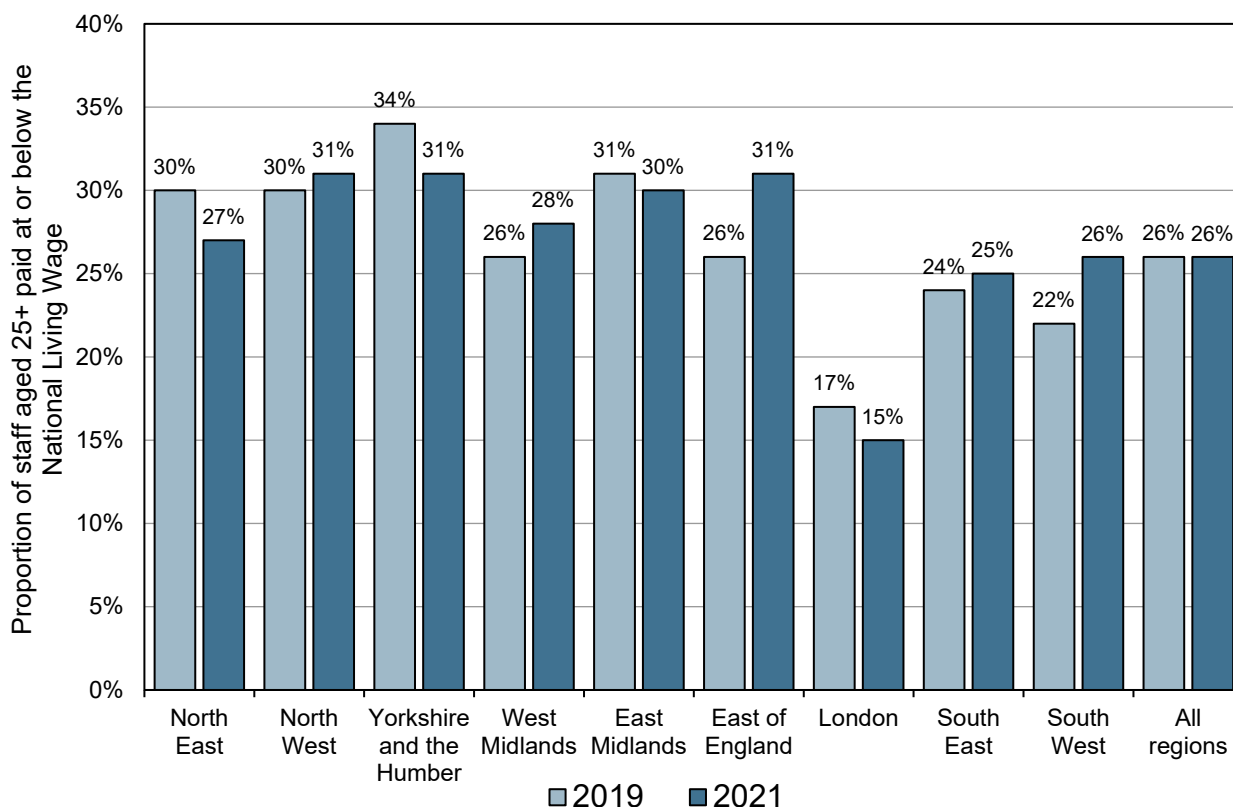
Note: Sample sizes are as shown in table 22.

**Table 22: Change in staff hourly pay by region**

Region	Change in mean staff hourly pay	% change in mean staff hourly pay	Number of staff in 2019	Number of staff in 2021
North East	£0.92	8%	646	706
North West	£1.67	15%	1,438	1,623
Yorkshire and the Humber	£0.01	0%	1,039	1,089
West Midlands	£1.45	14%	1,116	1,330
East Midlands	£2.05	20%	980	1,102
East of England	£1.13	10%	1,322	1,662
London	£0.66	5%	1,536	1,828
South East	£1.75	16%	1,908	2,137
South West	£2.62	26%	1,151	1,382
All regions	£1.37	12%	11,136	12,859

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

**Figure 9: Proportion of staff aged 25+ paid at or below the NLW by region**



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

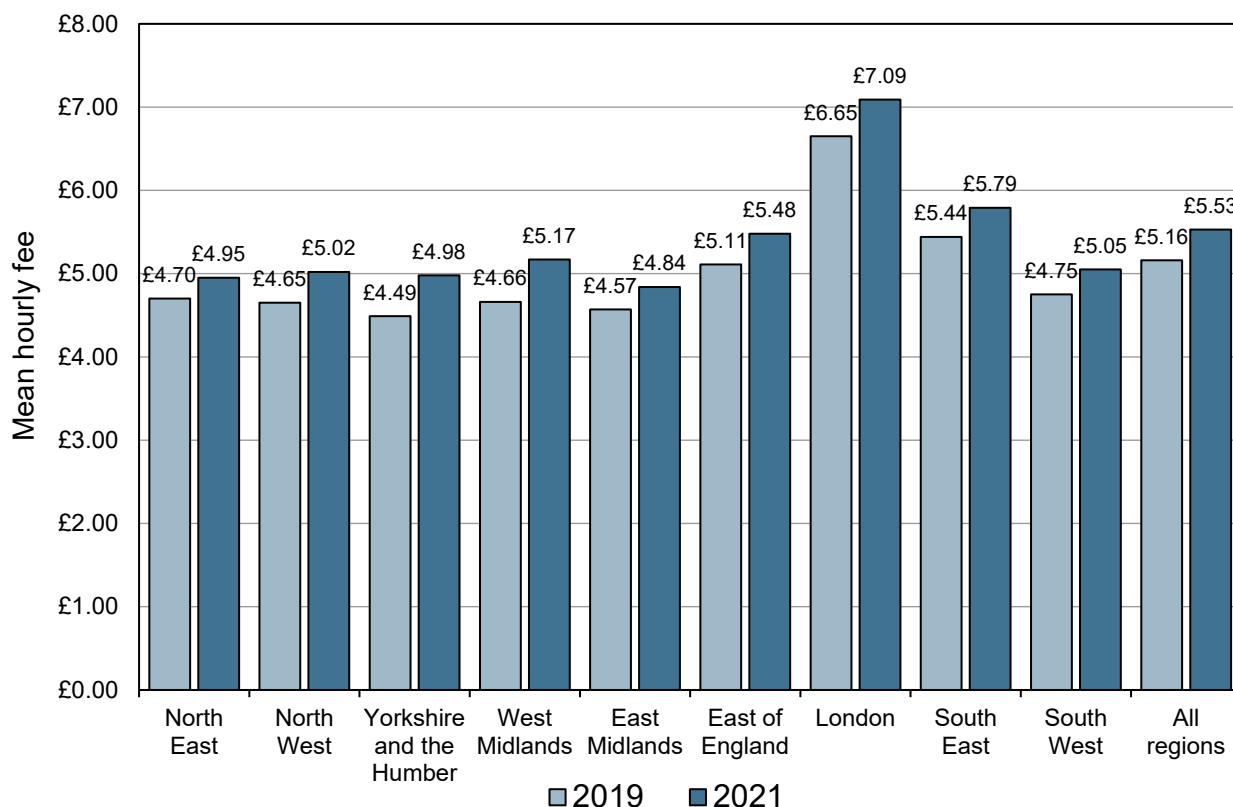
Note: Sample sizes are as shown in table 23.

**Table 23: Change in proportion of staff aged 25+ paid at or below the NLW by region**

Region	Change in proportion of staff paid at or below the NLW (percentage points)	Number of providers in 2019	Number of providers in 2021
North East	- 3 ppt	542	627
North West	1 ppt	1,213	1,408
Yorkshire and the Humber	- 3 ppt	880	905
West Midlands	2 ppt	933	1,154
East Midlands	- 1 ppt	830	960
East of England	5 ppt	1,138	1,416
London	- 2 ppt	1,316	1,627
South East	1 ppt	1,632	1,873
South West	4 ppt	965	1,190
All regions	0 ppt	9,449	11,160

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

**Figure 10: Hourly parent-paid fees for two-year-old children by region**



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

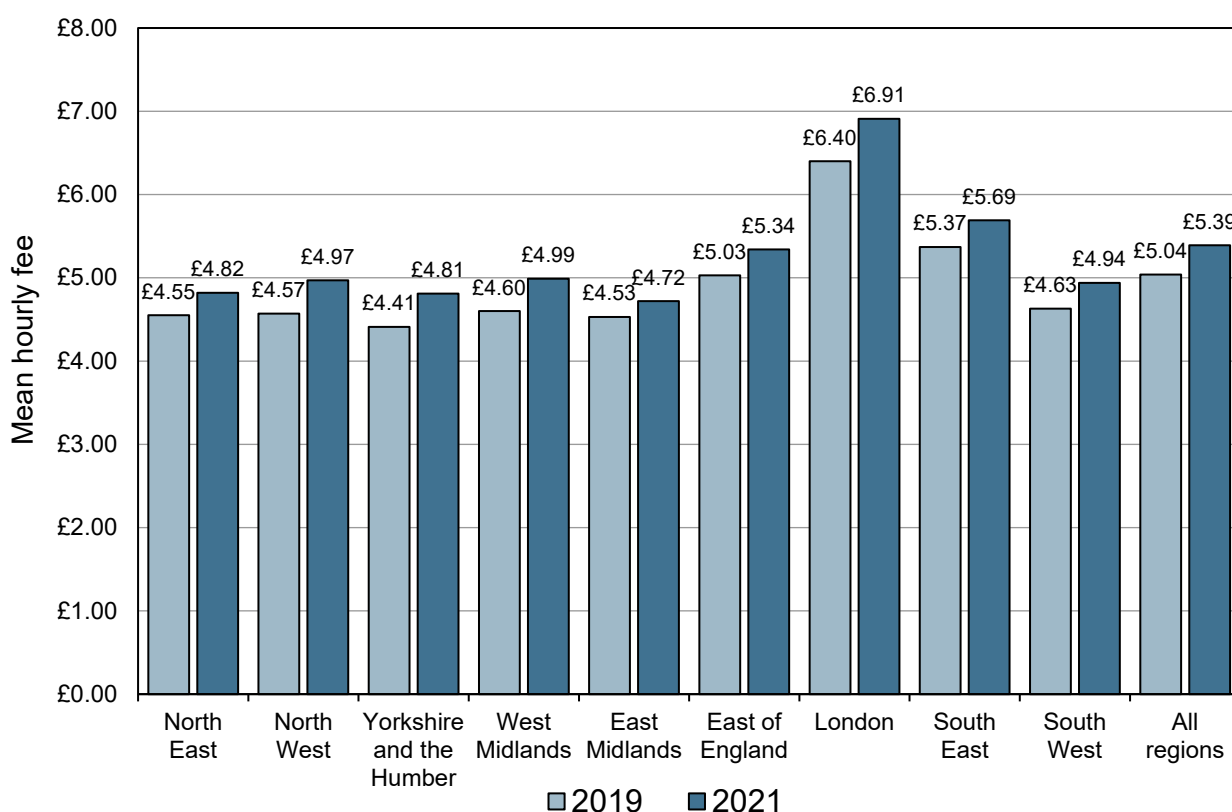
Note: Sample sizes are as shown in table 24.

**Table 24: Change in hourly parent-paid fees for two-year-old children by region**

Region	Change in mean hourly fee	% change in mean hourly fee	Number of providers in 2019	Number of providers in 2021
North East	£0.25	5%	456	365
North West	£0.37	8%	1,307	1,251
Yorkshire and the Humber	£0.49	11%	1,146	1,063
West Midlands	£0.51	11%	1,034	1,025
East Midlands	£0.27	6%	835	885
East of England	£0.37	7%	1,297	1,308
London	£0.44	7%	1,589	1,408
South East	£0.35	6%	1,984	1,932
South West	£0.30	6%	1,481	1,412
All regions	£0.37	7%	11,129	10,649

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

**Figure 11: Hourly parent-paid fees for three- and four-year-old preschool children by region**



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

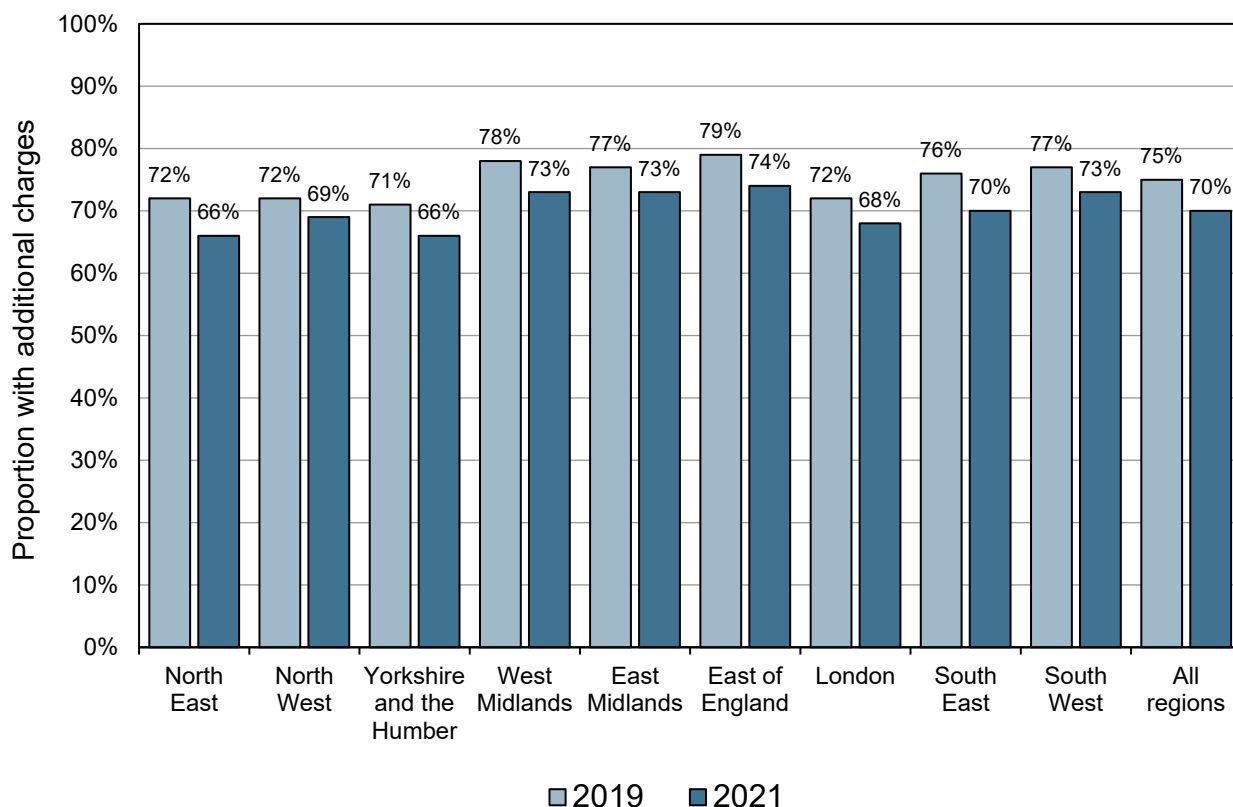
Note: Sample sizes are as shown in table 25.

**Table 25: Change in hourly parent-paid fees for three- and four-year-old preschool children by region**

Region	Change in mean hourly fee	% change in mean hourly fee	Number of providers in 2019	Number of providers in 2021
North East	£0.27	6%	554	469
North West	£0.40	9%	1,609	1,604
Yorkshire and the Humber	£0.40	9%	1,363	1,302
West Midlands	£0.39	8%	1,223	1,229
East Midlands	£0.19	4%	1,000	1,024
East of England	£0.31	6%	1,473	1,533
London	£0.51	8%	1,824	1,685
South East	£0.32	6%	2,164	2,152
South West	£0.31	7%	1,639	1,585
All regions	£0.35	7%	12,849	12,583

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

**Figure 12: Proportion of providers with additional charges by region**



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

Note: Sample sizes are as shown in table 26.

**Table 26: Change in proportion of providers with additional charges by region**

Region	Change in proportion with additional charges (percentage points)	Number of providers in 2019	Number of providers in 2021
North East	- 6 ppt	822	744
North West	- 3 ppt	2,134	2,162
Yorkshire and the Humber	- 5 ppt	1,723	1,701
West Midlands	- 5 ppt	1,600	1,636
East Midlands	- 4 ppt	1,217	1,304
East of England	- 5 ppt	1,792	1,877
London	- 4 ppt	2,637	2,488
South East	- 6 ppt	2,562	2,593
South West	- 4 ppt	1,831	1,810
All regions	- 5 ppt	16,318	16,315

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



In summary, there were few strong patterns in the changes in the range of financial measures across regions. In the North West and West Midlands, the increase in the mean unit cost and the increase in the hourly parent-paid fees were both higher than in most other regions, suggesting that fees increased more in line with higher increases in costs. In the South West, the mean increase in staff hourly pay and the increase in the mean unit cost was higher than in other regions while the decline in the income-to-cost ratio was greater than in most other regions, suggesting that the income-to-cost ratio fell in line with rising costs. However, the relatively small sample sizes and substantial variation in the financial measures mean that strong conclusions cannot be drawn from these patterns.

### 6.3 Patterns of changes across area deprivation

Figures 13 to 19 present the financial measures for 2019 and 2021 by local area deprivation level. Corresponding tables 27 to 33 present the change and the percentage change in the mean values or the percentage point change for the proportions between 2019 and 2021 by local area deprivation.

The figures and tables show that:

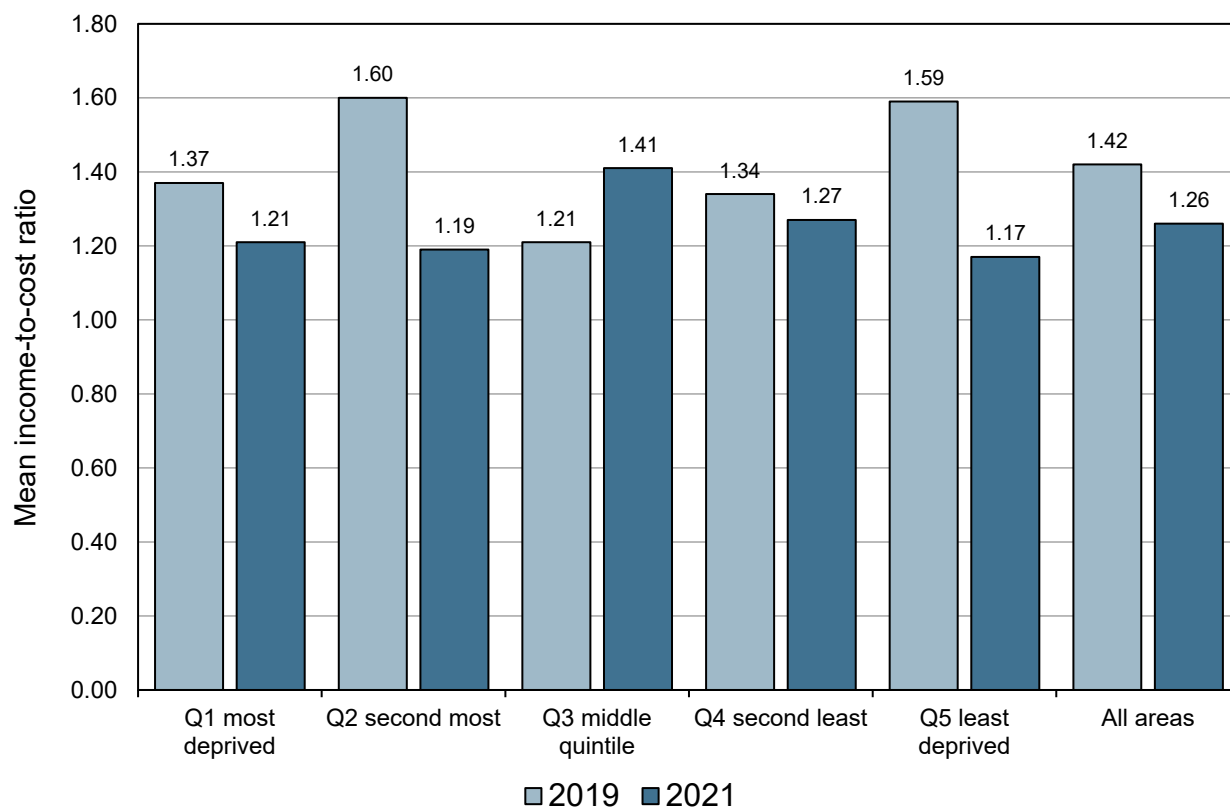
- The mean income-to-cost ratio was lower in the most deprived areas than in all areas in both 2019 and 2021. The mean value was lower in 2021 than in 2019 in four of the five levels of deprivation, with the greatest declines in the second most deprived and least deprived areas (26 percent). The mean income-to-cost ratio was higher in 2021 than in 2019 (by 17 percent) in areas with the middle quintile (average) level of deprivation.
- The mean unit cost was lower in the second least and least deprived areas than the mean value for all areas in both 2019 and 2021. The mean was higher in 2021 than in 2019 in four of the five levels of deprivation, with the greatest increase in the middle quintile (average deprivation) (34 percent). The mean unit cost was lower in 2021 than in 2019 in the most deprived areas (by 21 percent).
- The mean staff hourly pay was higher for the most deprived and second most deprived areas than the mean value for all areas in both 2019 and 2021. The mean hourly pay was higher in 2021 than 2019 in all areas, with the greatest increase in the second most deprived areas (19 percent) and the smallest increases in the most deprived areas (8 percent) and the middle quintile of deprived areas (7 percent).
- The proportion of staff aged 25 and older paid at or below the NLW was higher in the middle quintile (average deprivation) than in all areas in both 2019 and 2021. The proportion decreased between 2019 and 2021 for two deprivation levels (the

middle quintile and the second least deprived) and increased for the other three levels.

- The patterns in hourly parent-paid fees were almost identical for two-year-old children and three- and four-year-old preschool children. The mean hourly fees were higher in the least deprived areas than for all areas in both 2019 and 2021. The mean hourly fee was higher in 2021 than in 2019 for both ages of children for all levels of deprivation, but the increases were smaller in the most deprived areas.
- The proportion of providers with additional charges was slightly lower in the most deprived and second most deprived areas than in all areas in both 2019 and 2021. The proportion was lower in 2021 than in 2019 for all levels of deprivation, with the decrease slightly greater in the most deprived areas than in other areas.

In summary, there were few strong patterns in the changes in the financial measures across deprivation levels. In the most deprived areas, there was a decrease in unit cost and smaller increases in staff hourly pay and parent-paid hourly fees than in other areas, suggesting that smaller increases in pay and reductions in costs were associated with a lower increase in fees than in other areas.

**Figure 13: Income-to-cost ratio by local deprivation**



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

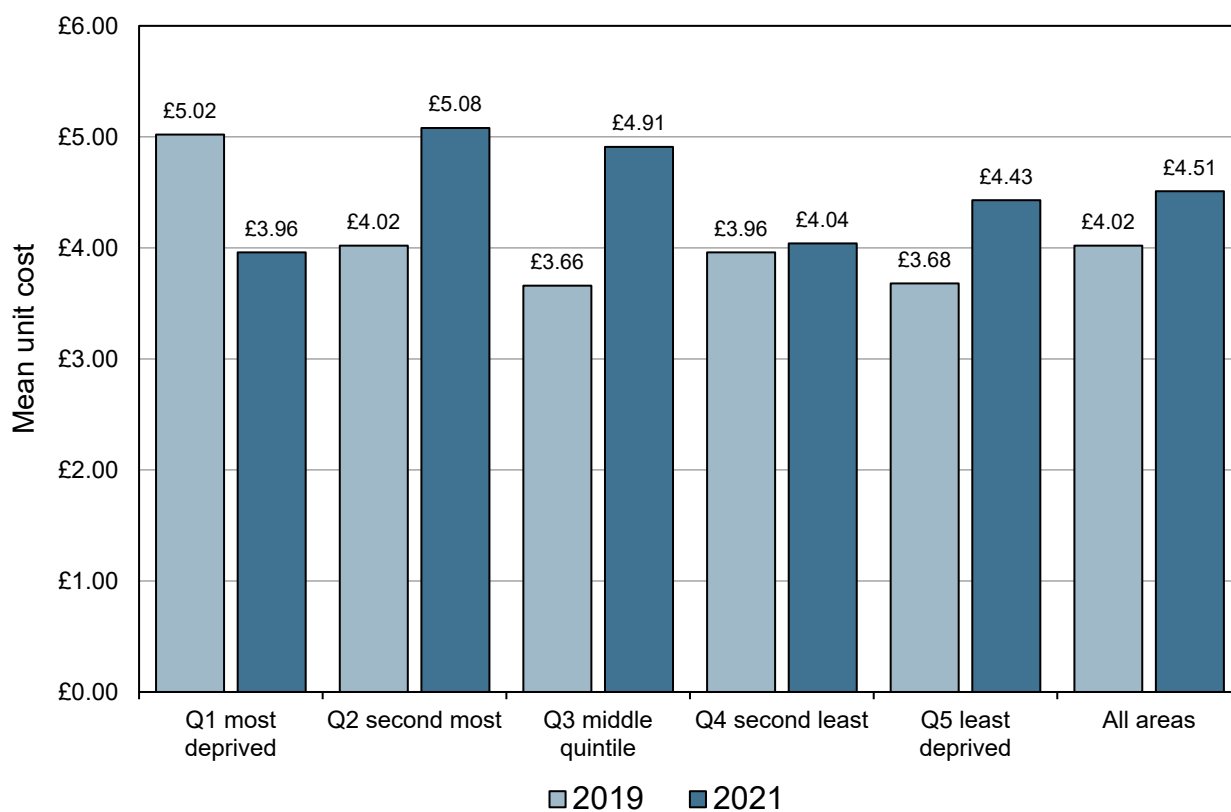
Note: Sample sizes are as shown in table 27.

**Table 27: Change in income-to-cost ratio by local deprivation**

Local deprivation	Change in mean income-to-cost ratio	% change in mean income-to-cost ratio	Number of providers in 2019	Number of providers in 2021
Q1 most deprived	- 0.16	- 12%	345	369
Q2 second most	- 0.41	- 26%	368	383
Q3 middle quintile	0.20	17%	392	449
Q4 second least	- 0.07	- 5%	435	443
Q5 least deprived	- 0.42	- 26%	413	404
All areas	- 0.16	- 11%	1,953	2,048

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

**Figure 14: Unit cost by local deprivation**



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

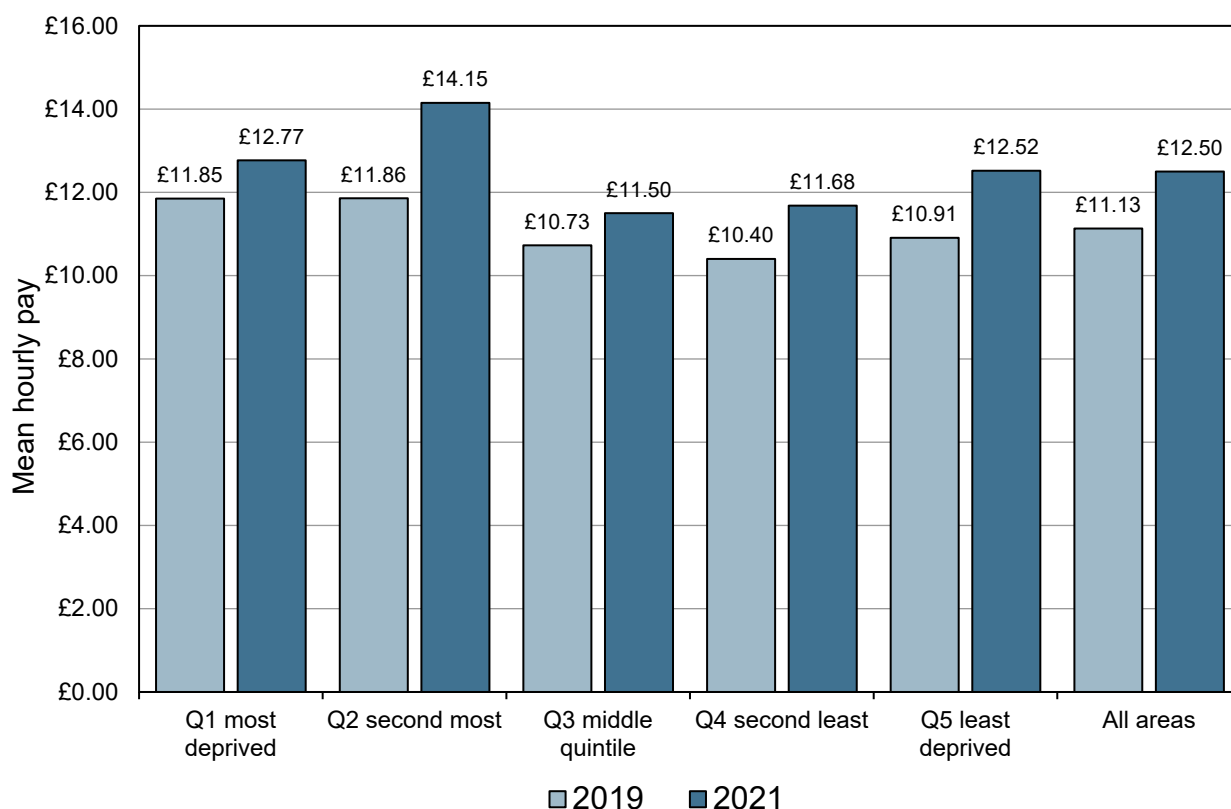
Note: Sample sizes are as shown in table 28.

**Table 28: Change in unit cost by local deprivation**

Local deprivation	Change in mean unit cost	% change in mean unit cost	Number of providers in 2019	Number of providers in 2021
Q1 most deprived	- £1.06	- 21%	390	391
Q2 second most	£1.06	26%	398	420
Q3 middle quintile	£1.25	34%	412	500
Q4 second least	£0.08	2%	471	475
Q5 least deprived	£0.75	20%	426	453
All areas	£0.49	12%	2,097	2,239

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

**Figure 15: Staff hourly pay by local deprivation**



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

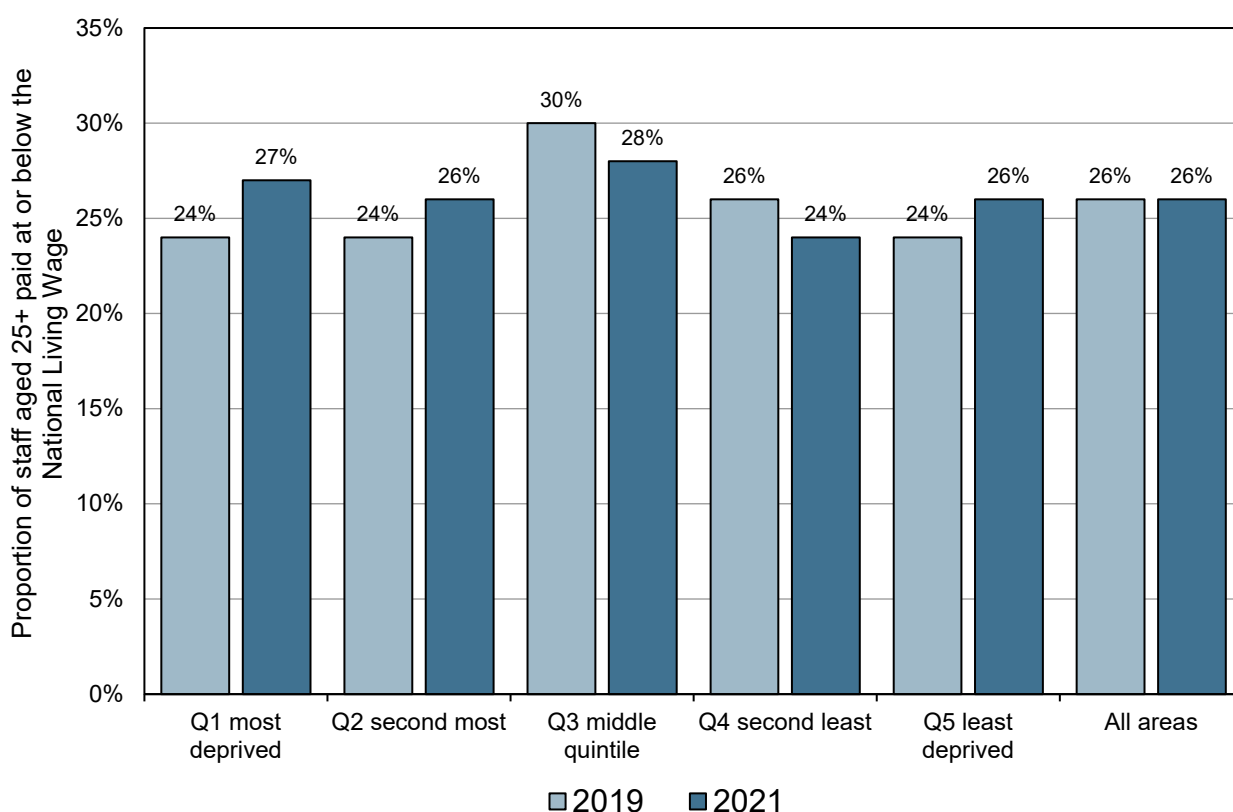
Note: Sample sizes are as shown in table 29.

**Table 29: Change in staff hourly pay by local deprivation**

Local deprivation	Change in mean staff hourly pay	% change in mean staff hourly pay	Number of staff in 2019	Number of staff in 2021
Q1 most deprived	£0.92	8%	2,022	2,239
Q2 second most	£2.29	19%	2,202	2,400
Q3 middle quintile	£0.77	7%	2,120	2,721
Q4 second least	£1.28	12%	2,454	2,791
Q5 least deprived	£1.61	15%	2,330	2,706
All areas	£1.37	12%	11,128	12,857

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

**Figure 16: Proportion of staff aged 25+ paid at or below the NLW by local deprivation**



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

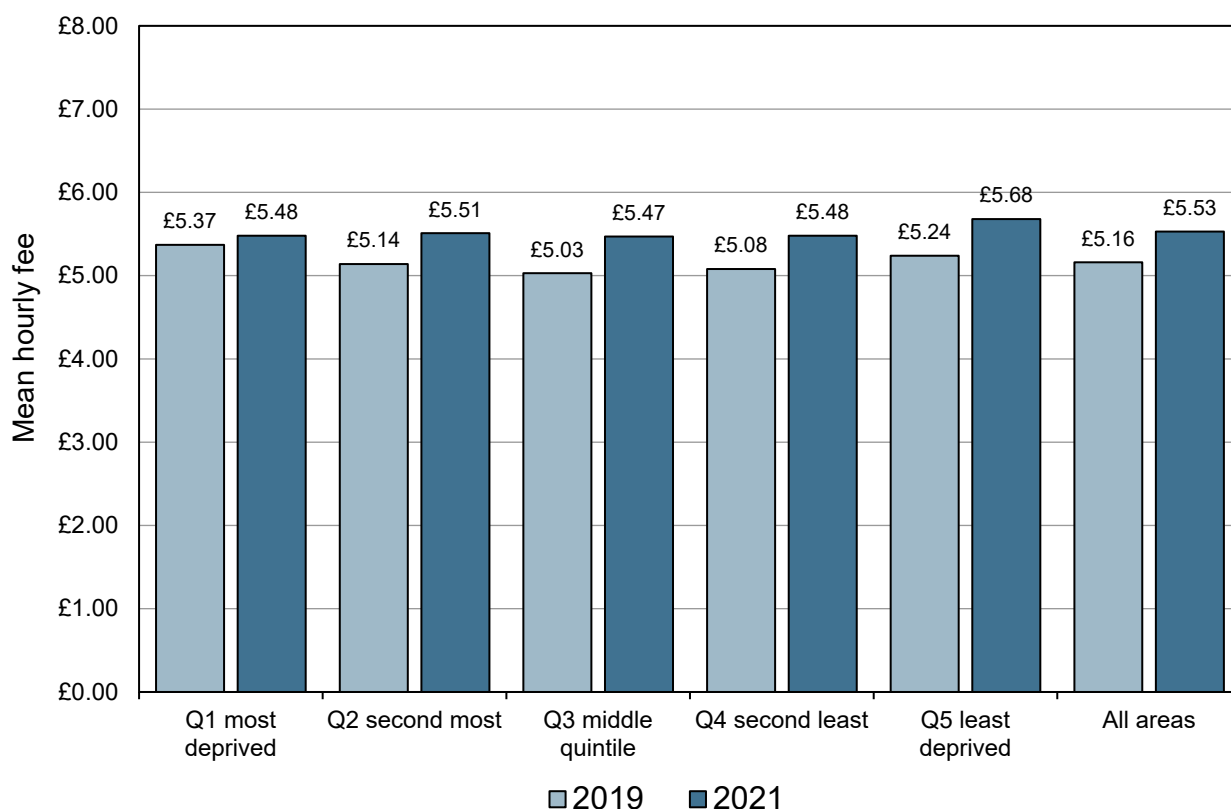
Note: Sample sizes are as shown in table 30.

**Table 30: Change in proportion of staff aged 25+ paid at or below the NLW by local deprivation**

Local deprivation	Change in proportion of staff paid at or below the NLW (percentage points)	Number of staff in 2019	Number of staff in 2021
Q1 most deprived	3 ppt	1,706	1,939
Q2 second most	2 ppt	1,865	2,047
Q3 middle quintile	- 2 ppt	1,805	2,377
Q4 second least	- 2 ppt	2,060	2,420
Q5 least deprived	2 ppt	2,008	2,375
All areas	0 ppt	9,444	11,158

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

**Figure 17: Hourly parent-paid fees for two-year-old children by local deprivation**



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

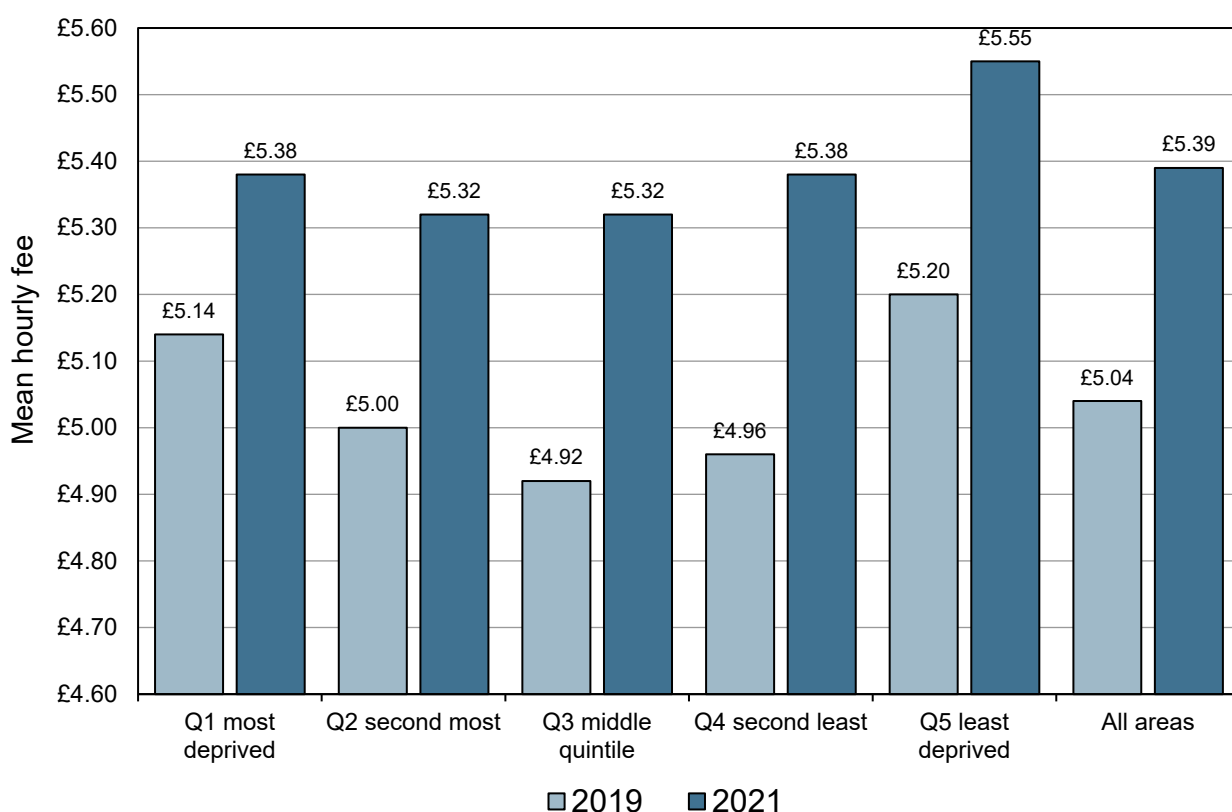
Note: Sample sizes are as shown in table 31.

**Table 31: Change in hourly parent-paid fees for two-year-old children by local deprivation**

Local deprivation	Change in mean hourly fee	% change in mean hourly fee	Number of providers in 2019	Number of providers in 2021
Q1 most deprived	£0.11	2%	1,603	1,495
Q2 second most	£0.37	7%	2,148	1,960
Q3 middle quintile	£0.44	9%	2,385	2,349
Q4 second least	£0.40	8%	2,583	2,498
Q5 least deprived	£0.44	8%	2,404	2,346
All areas	£0.37	7%	11,123	10,648

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

**Figure 18: Hourly parent-paid fees for three- and four-year-old preschool children by local deprivation**



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

Note: Sample sizes are as shown in table 32.

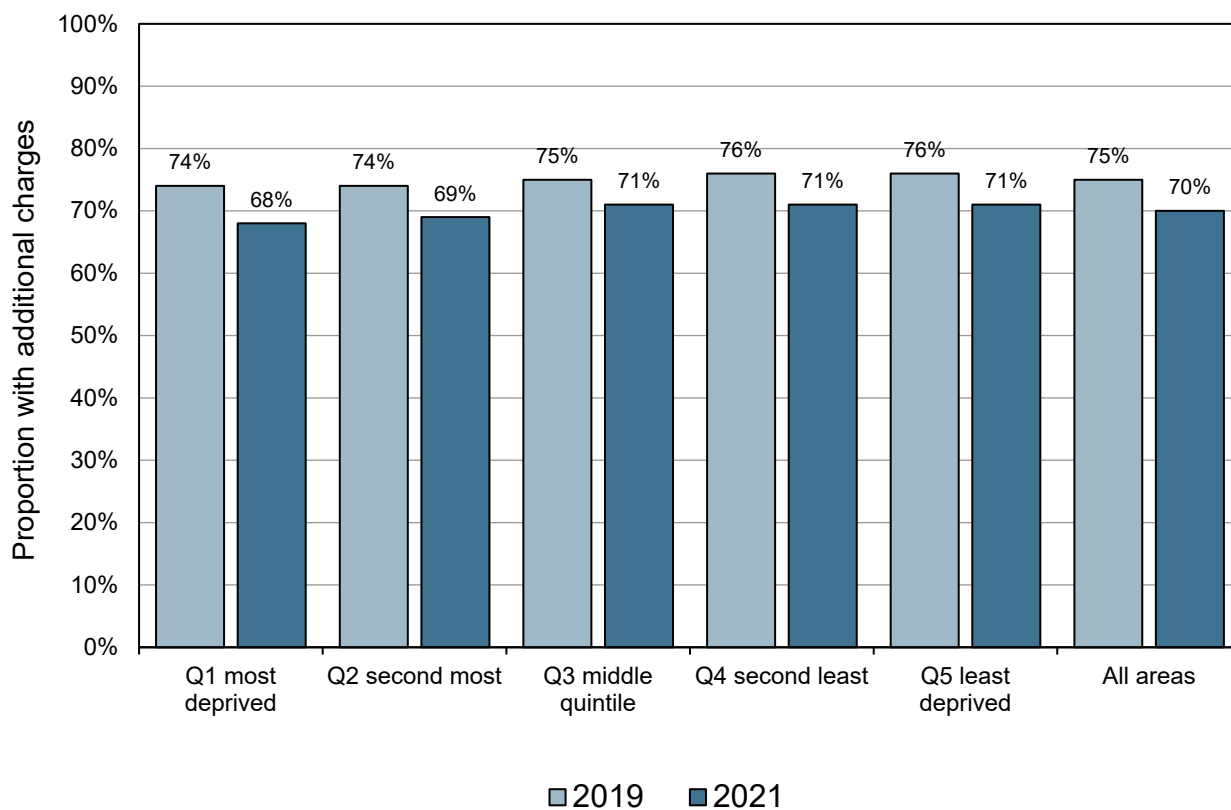
**Table 32: Change in hourly parent-paid fees for three- and four-year-old preschool children by local deprivation**

Local deprivation	Change in mean hourly fee	% change in mean hourly fee	Number of providers in 2019	Number of providers in 2021
Q1 most deprived	£0.24	5%	1,828	1,803
Q2 second most	£0.32	6%	2,426	2,309
Q3 middle quintile	£0.40	8%	2,763	2,745
Q4 second least	£0.42	8%	2,978	2,881
Q5 least deprived	£0.35	7%	2,847	2,843
All areas	£0.35	7%	12,842	12,581

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



**Figure 19: Proportion of providers with additional charges by local deprivation**



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

Note: Sample sizes are as shown in table 33.

**Table 33: Change in proportion of providers with additional charges by local deprivation**

Local deprivation	Change in proportion with additional charges (percentage points)	Number of providers in 2019	Number of providers in 2021
Q1 most deprived	- 6 ppt	2,796	2,711
Q2 second most	- 5 ppt	3,251	3,145
Q3 middle quintile	- 4 ppt	3,406	3,510
Q4 second least	- 5 ppt	3,511	3,548
Q5 least deprived	- 5 ppt	3,347	3,397
All areas	- 5 ppt	16,311	16,311

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

## 6.4 Patterns of changes across urban and rural areas

Table 34 presents the financial measures for 2019 and 2021 by local area rurality, together with the change and the percentage change in the mean values or the percentage point change for the proportions between 2019 and 2021 by rurality.

**Table 34: Patterns of change across urban and rural areas**

Financial measure	Rurality	Mean in 2019	Mean in 2021	Change	% change	Number of providers / staff in 2019	Number of providers / staff in 2021
Income-to cost ratio	Urban	1.40	1.19	- 0.21	- 15%	1,518	1,542
	Rural	1.55	1.48	- 0.07	- 5%	435	506
Unit cost	Urban	£4.07	£4.67	£0.60	15%	1,641	1,702
	Rural	£3.77	£3.89	£0.12	3%	456	537
Hourly staff pay	Urban	£11.39	£12.28	£0.89	8%	8,517	9,934
	Rural	£10.02	£13.43	£3.41	34%	2,611	2,923
Proportion of staff aged 25+ paid at or below the NLW	Urban	26%	26%	0 ppt	n/a	7,179	8,572
	Rural	26%	27%	1 ppt		2,265	2,586
Hourly parent-paid fees for two-year-old children	Urban	£5.22	£5.63	£0.41	8%	8,724	8,217
	Rural	£4.92	£5.16	£0.24	5%	2,399	2,431
Hourly parent-paid fees for three- and four-year-old preschool children	Urban	£5.10	£5.50	£0.40	8%	10,025	9,686
	Rural	£4.82	£5.01	£0.19	4%	2,817	2,895
Proportion of providers with additional charges	Urban	74%	69%	- 5 ppt	n/a	13,133	12,938
	Rural	79%	74%	- 5 ppt		3,178	3,373

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

Note: ppt denotes percentage points. n/a indicates where the percentage change is not useful for changes in proportions.

Table 34 shows that:

- The mean unit cost and hourly parent-paid fees were higher for urban areas than rural areas in both 2019 and 2021, while the mean income-to-cost ratio and proportion of providers with additional charges was lower in urban areas than in rural areas in both years. The mean hourly staff pay was higher in urban areas than rural areas in 2019, but was lower in urban areas than rural areas in 2021.

- The mean income-to-cost ratio was lower in 2021 than in 2019 in both urban areas and rural areas, but the decrease was greater in urban areas.
- The mean unit cost was higher in 2021 than in 2019 in both urban areas and rural areas, but the increase was greater in urban areas.
- The mean hourly pay was higher in 2021 than in 2019 in both urban areas and rural areas, but the increase was greater in rural areas.
- The mean hourly parent-paid fees were higher in 2021 than in 2019 in both urban areas and rural areas, but the increases were greater in urban areas.
- The proportion of providers with additional charges was lower in 2021 than in 2019 in both urban areas and rural areas and the size of the change was identical.

In summary, the increases in unit costs and hourly fees and the decline in the income-to-cost ratio were greater in urban areas than rural areas. However, the greater increase in mean hourly staff pay in rural areas was not consistent with these patterns.<sup>63</sup>

## 6.5 Patterns of changes across single-site and multi-site (chain) providers

This section focuses only on group-based providers (that is, private, voluntary and other types of providers who are not school-based providers or childminders) and compares single-site group-based providers and chains defined in the following ways:

- Single-site group-based providers operate on a single site as an independent setting.
- Multi-site (chain) providers are part of a larger organisation operating multiple settings across different sites.

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.

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<sup>63</sup> This may have arisen from the fact that the hourly pay data was collected in a different survey variant from the other financial measures in both years, meaning that the pay statistics are effectively from a different sample of providers than the other financial measures. In combination with the relatively small subsample sizes for rural providers, this may explain the divergence in patterns between hourly pay and the other measures.

Table 35 presents the financial measures for 2019 and 2021 for single-site and multi-site chain providers, together with the change and the percentage change in the mean values or the percentage point change for the proportions between 2019 and 2021.

**Table: Patterns of change across single-site and multi-site (chain) providers**

Financial measure	Single- or multi-site (chain)	Mean in 2019	Mean in 2021	Change	% change	Number of providers / staff in 2019	Number of providers / staff in 2021
Income-to cost ratio	Single	1.39	1.31	- 0.08	- 6%	913	956
	Chain	1.69	1.80	0.11	7%	164	185
Unit cost	Single	£4.31	£4.26	- £0.05	- 1%	961	1,040
	Chain	£3.69	£5.32	£1.63	44%	188	206
Hourly staff pay	Single	£10.37	£11.47	£1.10	11%	6,483	6,837
	Chain	£10.49	£12.43	£1.94	18%	1,935	2,487
Proportion of staff aged 25+ paid at or below the NLW	Single	25%	26%	1 ppt	n/a	5,553	5,954
	Chain	20%	20%	0 ppt		1,367	1,897
Hourly parent-paid fees for two-year-old children	Single	£5.45	£5.80	£0.35	6%	4,064	3,762
	Chain	£5.91	£6.46	£0.55	9%	1,091	1,052
Hourly parent-paid fees for three- and four-year-old preschool children	Single	£5.24	£5.61	£0.37	7%	4,388	3,988
	Chain	£5.70	£6.27	£0.57	10%	1,151	1,105
Proportion of providers with additional charges	Single	81%	76%	- 5 ppt	n/a	4,628	4,228
	Chain	88%	82%	- 6 ppt		1,321	1,263

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

Note: ppt denotes percentage points. n/a indicates where the percentage change is not useful for changes in proportions.

Table 35 shows that:

- The mean income-to-cost ratio, hourly staff pay and hourly parent-paid fees<sup>64</sup> and the proportion of providers with additional charges were higher for chains than single-site providers in both 2019 and 2021.
- The mean income-to-cost ratio was lower in 2021 than in 2019 for single-site providers and higher for chains.
- The mean unit cost changed very little between 2019 and 2021 for single-site providers but was higher in 2021 than in 2019 for chains.
- The mean hourly pay was higher in 2021 than in 2019 for both single-site providers and chains, but the increase was greater for chains.
- The mean hourly parent-paid fees were higher in 2021 than in 2019 for both single-site providers and chains, but the increases were slightly greater for chains.
- The proportion of providers with additional charges was lower in 2021 than in 2019 for both single-site providers and chains, and the size of change was very similar.

In summary, the increases in hourly staff pay, unit costs and hourly fees were greater for providers in chains than single-site providers and the mean income-to-cost ratio increased for providers in chains while it declined for single-site providers.

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<sup>64</sup> The proportion of staff aged 25 and older paid at or below the NLW was correspondingly lower for chains than for single-site providers.

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