



Department  
for Education

# **Providers' finances: Evidence from the 2023 Survey of Childcare and Early Years Providers Research Report**

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Social Research

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## Glossary

Further explanations can be found in the Appendix.

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

**Cost decomposition:** division of providers' total cost into, for instance, staffing costs, rent or mortgage, food costs, materials costs, and training costs.

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

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

**Hourly entitlement funding rate:** the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the early years entitlement.

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

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

**Staff hourly pay:** staff earnings per hour before tax and National Insurance are deducted.

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

## Provider types

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

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

“All providers” includes a small group of “other” group-based providers (e.g., “private not-for-profit” providers) that do not fall into either the “private” or “voluntary” categories.

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

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

## Executive summary

This report presents an analysis of childcare providers' finances based on a survey carried out in 2023, during the period leading up to significant reforms in the funding of childcare in England. In the 2023 Spring Budget, the government announced that, from April 2024, government-funded childcare would be expanded to younger children, and that, from September 2025, all pre-school children from eligible working households from the age of 9 months would be entitled to 30 hours of government-funded childcare.

As a result, it is critical to understand the financial health of childcare providers in the face of an anticipated increase in demand for childcare, and to understand the costs – to the government and to childcare providers – associated with providing childcare. This report presents an analysis of the cost of childcare and the finances of providers based on responses to the 2023 Survey of Childcare and Early Years Providers (SCEYP). To recognise differences in the way that childcare is delivered and economic context within which it is delivered, results are broken down between different types of childcare providers, different regions of the country, and different age groups.

### Childcare providers' income-to-cost ratios

- In 2023, the median income-to-cost ratio for all childcare providers (excluding childminders) was 1.05, a slight increase from 1.03 in 2022. In other words, more than half of these providers reported that their income exceeded their costs while the remaining providers said that their costs exceeded their income. The median income-to-cost ratio for childminders was 0.91 in 2023, around the same as the median income-to-cost ratio for childminders in 2022 (0.90).
- There were significant differences, both within and between, different types of providers. Around one in three nursery class childcare settings (32%) had an income-to-cost ratio of less than 0.8, while around two in five (42%) private group-based providers had an income-to-cost ratio greater than 1.2.
- In 2023, the mean income-to-cost ratio for all childcare providers (excluding childminders<sup>1</sup>) was higher than their median income-to-cost ratio (1.12 – around the same as in 2022, 1.13). The mean being higher than the median suggests that some providers achieved income-to-cost ratios much greater than one.
- Private group-based providers had the highest mean income-to-cost ratio (1.22), while maintained nursery schools had the lowest mean income-to-cost ratio (0.88).

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<sup>1</sup> Childminders also had a mean income-to-cost ratio that was higher than their median income-to-cost ratio (0.98, down from 1.03 in 2022).

## **Breakdown of childcare providers' costs and income**

- Staffing costs continued to make up the majority (79%) of providers' costs in 2023. Staffing costs ranged from 73% of total private group-based providers' costs, to 85% of total nursery class childcare settings' costs. Some of the variation in staffing costs (as a proportion of total costs) can be explained by other costs (for example, rent/mortgage make up a much larger proportion of group-based providers' costs than school-based providers).
- Around three-fifths (58%) of providers' income in 2023 came from parent-paid fees, with almost all of the remaining income from entitlement funding (37%).
- This was very similar to 2022, with 59% of providers' income coming from parent-paid fees and 37% coming from entitlement funding.
- The proportion of income from different income sources continued to vary considerably between provider types. Parent-paid fees accounted for 81% of childminders' income in 2023, while 77% of income for nursery class childcare settings came from entitlement funding.

## **Cost of childcare for childcare providers**

- The median unit cost of childcare in 2023, across all providers and all ages of children, was £5.67 per hour. The mean unit cost was a lot higher (£7.15 per hour), suggesting that some providers have significantly higher unit costs than the "typical" provider.
- Median unit costs varied significantly across provider types, from £5.19 per hour for private group-based providers to £9.31 per hour for maintained nursery schools. Median unit costs increased by 6.2% between 2022 and 2023.
- However, increases in unit cost varied significantly across providers. For example, there were larger percentage increases in unit cost among providers with lower unit costs – excluding childminders, the unit cost for the 10<sup>th</sup> percentile provider increased by 11.1% between 2022 and 2023 while the unit cost for the 90<sup>th</sup> percentile provider only increased by 1.1%

## **Staff hourly pay**

- The median hourly pay for all providers was £11.30 in 2023, up from £10.00 per hour in 2022. Median hourly pay was lower than mean hourly pay, which was £13.19 in 2023 (up from £11.44 in 2022)<sup>2</sup>.
- The relatively high staff hourly pay for school-based providers (their median hourly pay was £16.38 in 2023) was driven both by their more highly qualified staff as

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<sup>2</sup> Between the 2022 and 2023 surveys there has been a change in the methodology for calculating staff hourly pay. This change is explained in more detail in Section 3.2 and in the Appendix.

well as a greater hourly pay premium for staff with higher-level qualifications based at school-based providers.

- One in ten (10%) childcare staff aged 23 or older were paid below the National Living Wage (NLW)<sup>3</sup>.

### **Parent-paid fees, entitlement funding rates, and additional charges**

- In 2023, the mean hourly parent-paid fee was £6.05 per hour for children under the age of two, £6.07 for two-year-old children, and £5.90 per hour for three- and four-year-old children.
- Mean hourly parent-paid fees were lowest among childminders across all age groups, while they were highest among private group-based providers.
- The mean hourly “entitlement” funding rate paid by government was £5.62 per hour for two-year-old children, and £4.83 per hour for three- and four-year-old children. This represented a 4.5% increase compared to 2022 for two-year-old children and a 3.9% increase for three- and four-year old children.
- For two-year-old children, mean hourly entitlement funding rates varied from £5.55 per hour for childminders to £5.88 per hour for maintained nursery schools. Among three- and four-year-old children, mean hourly entitlement funding rates were again highest for maintained nursery schools (£5.68 per hour) and lowest for childminders (£4.74 per hour).
- Across all age groups and provider types, mean hourly funded entitlement funding rates were lower than mean hourly parent-paid fees. For two-year-olds, this difference was highest for private providers (£1.37 per hour) and lowest for childminders (£0.01 per hour). For three- and four-year-olds, the difference was greatest for private providers (£1.90 per hour) and lowest for maintained nursery schools (£0.52 per hour). Across all providers, the gap between mean parent-paid fees and entitlement funding rates increased between 2022 and 2023, from £0.34 to £0.45 per hour for two-year-old children and from £0.95 to £1.07 per hour for three- and four-year-old children.
- Three-quarters of all providers made some form of additional charges for parents in 2023, rising to 83% of providers when excluding childminders. This proportion was highest for private providers (87%) and nursery class childcare settings (82%). However, income from additional charges only made up a small proportion of providers’ overall incomes (1.3% in 2023).

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<sup>3</sup> Staff may be paid under the National Living Wage for a variety of reasons. “Average hourly pay”, for instance, is derived using contracted hours of work per week. As a result, it may be underestimated if the number of hours someone actually works is less than their contracted hours.

## Hourly effective income for providers

- The median hourly effective income for two-year-old children in 2023 was £5.76 per hour. The median hourly effective income was highest for private providers (£6.00 per hour) and maintained nursery schools (£5.85 per hour), and lowest for childminders (£5.15 per hour).
- For three- and four-year-old children, median hourly effective income across all providers was £4.90 per hour. The median hourly effective income was highest for private providers (£5.12 per hour) and maintained nursery schools (£5.05 per hour), and lowest for nursery class childcare settings (£4.59 per hour).
- Median hourly effective income increased by 5.5% for two-year-olds (from £5.46 in 2022) and by 5.6% for three- and four-year olds (from £4.90 in 2022).

## Conclusion

Given the significant government investment in expanding entitlement funding, it is important to understand the financial health of childcare providers in the face of anticipated increases in demand for childcare. It is also important to understand the significant differences between types of providers, given differences in their size and how they operate.

There are challenges facing providers that may impact their ability to provide sufficient places to match increased demand. In 2023, only around half of providers received enough income to cover their costs, while unit costs increased by 6.2% between 2022 and 2023. Previous research<sup>4</sup> suggests that larger providers enjoyed significant economies of scale, which suggests that larger providers may find it easier to accommodate increases in demand for childcare.

Further, the childcare entitlement expansion announced in the Spring 2023 Budget will likely increase the proportion of providers' incomes that is received from entitlement funding from an average of 37% in 2023. The potential impact of the expansion is also likely to differ across provider types, with only 16% of childminders' income coming from entitlement funding in contrast to 77% for nursery class childcare settings. These current differences are largely driven by differences in the ages of children cared for, with nursery class childcare settings providing care for older children who (at the time of the 2023 Survey) were more likely to be eligible for funded entitlements, which may change as the entitlements expansion is rolled out.

Given the increasing importance of entitlement funding, it is important to note the persistent and significant gap in 2023 between hourly entitlement funding rates and hourly parent-paid fees (e.g., £1.07 per hour for three- and four-year-old children). This

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<sup>4</sup> Impact of childcare provider characteristics on the cost of childcare for providers and parents (link [here](#)).

suggests that entitlement funding hours were being cross-subsidised by parent-paid hours. These gaps may have changed since 2023 given significant changes to hourly entitlement funding rates, with a 38% increase in the average hourly entitlement funding rates for two-year-olds and a 11% increase for three- and four-year-olds planned for 2024-25 (compared to the average hourly entitlement funding rate at the time of the 2023 Survey)<sup>5</sup>.

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<sup>5</sup> Funding of childcare providers in England (link [here](#)).

# 1. Introduction

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

The Survey of Childcare and Early Years Providers (SCEYP) is an annual large-scale survey collecting information on a broad range of provision characteristics from private and voluntary group-based childcare providers, school-based providers and childminders in England. The survey is used to monitor and evaluate early years provision, helping to inform the development of government policy in this area. Since 2022, the Department for Education has commissioned IFF Research and London Economics to conduct the survey on its behalf<sup>6</sup>.

This report presents an analysis of early years providers' finances in 2023. Further information about the survey and the methodology can be found in the [technical report](#) for the 2023 Survey of Childcare and Early Years Providers.

### Data limitations

It is important to note caveats associated with the methodology and the data sources, which are discussed in more detail throughout the report and the appendix.

Most importantly, the statistics presented in this report are estimates based on a sub-sample of providers. Different variants of the survey are sent to providers, and each variant has a different set of questions. As a result, some questions (such as those related to hourly parent-paid fees) are asked of more providers than others (such as those related to total cost and income), leading to some estimates being based on different sizes samples.

Only 1,320 providers, for instance, reported sufficient information to be able to calculate their unit costs. This is an important caveat, especially for provider types that make up a smaller proportion of all providers. For example, only 39 maintained nursery schools provided sufficient information to be able to calculate their unit costs.

In contrast, 5,915 providers reported information about their hourly parent-paid fees for children under the age of two, 8,485 for two-year-olds, and 9,778 for three- and four-year-olds<sup>7</sup>. Similar numbers of providers reported information about their hourly entitlement funding rates. As a result, there is greater confidence in estimates of hourly parent-paid fees and entitlement rates than in estimates of providers' incomes and costs.

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<sup>6</sup> The Survey was first carried out in 1998. In some cases, figures for 2022 and 2023 presented in this report are based on a different methodology to figures for 2021 and earlier, presented in this and previous reports.

<sup>7</sup> An additional short survey asks providers about hourly parent-paid fees and hourly entitlement funding rates, which boosts the sample to allow for estimates to be calculated at the Local Authority level.

Further, two important caveats should be highlighted regarding calculations estimating average staff hourly pay.

- The hourly pay of childminders differs from other childcare staff. Childminders are self-employed and “pay” themselves a salary from their business. Unlike other staff, who are directly employed, National Living Wage legislation does not apply to childminders.
- Where staff hourly pay is reported for a timeframe that is not hourly pay, it is derived by dividing gross weekly earnings by the number of contracted weekly hours. If the number of contracted weekly hours is different to the number of hours that someone actually works, this will produce an estimate that is different to their actual hourly pay.

Changes have been made for the 2024 Survey of Childcare and Early Years Providers to improve the quality of the information gathered, such as the inclusion of cost and income questions in the core survey (as opposed to only being included in certain “variants” of the survey) and additional validation of salary data.

## 2. Providers' costs and income

### 2.1 Income-to-cost ratio

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

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

Mean and median income-to-cost ratios for all providers except childminders in 2023 were 1.12 and 1.05, respectively (Table 1). This implies that the median provider received £1.05 in income for every £1 that they incurred in costs. Mean and median income-to-cost ratios were lower for childminders (0.98 and 0.91, respectively).

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

The median income-to-cost ratio for all providers except childminders in 2023 was slightly higher than in 2022 (1.05 compared to 1.03) while the median income-to-cost ratio for childminders remained around the same in 2023 (0.91) as in 2022 (0.90).

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

Private group-based providers had the highest median income-to-cost ratio (1.14) in 2023, indicating that the median private group-based provider earned £1.14 in income for every £1 in costs. Voluntary group-based providers had median income-to-cost ratios slightly above one (1.01), indicating that just over half of these providers had incomes higher than their costs.

The median income-to-cost ratio was below one for nursery class childcare settings (0.97), maintained nursery schools (0.93), and childminders (0.91), indicating that more than half of these providers were not covering their outgoings through current income sources. Income-to-cost ratios of consistently below one for school-based providers may be more generally explained by cross-subsidisation from other areas of the school that they are based in<sup>8</sup>.

Comparisons between income-to-cost ratios across provider types should be treated with caution. For example, if childminders receive greater income than required to cover their

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<sup>8</sup> It is also difficult for nursery class childcare settings, in particular, to accurately report costs associated with their nursery provision separately from costs associated with other parts of their school, especially when these are "overhead" costs that apply to all parts of the school.

expected costs, they may “pay” themselves more. This pay is counted as a business cost so an increase in a childminder’s income may not automatically lead to a higher income-to-cost ratio, even if their running costs remain the same. Conversely, if childminders receive less income than required to cover their expected cost, they may compensate for this by “paying” themselves less, reducing their business costs so that their income-to-cost remains roughly the same. Further, not-for-profit providers’ income-to-cost ratios may, by design, cluster around one (i.e., zero profit).

**Table 1: Income-to-cost ratio by provider type (2022 and 2023)**

<b>Provider type</b>	<b>Mean income to cost ratio</b>	<b>Median income to cost ratio</b>	<b>Number of providers</b>
Private group-based providers			
2022	1.32	1.17	458
2023	1.22	1.14	535
Voluntary group-based providers			
2022	1.06	1.02	408
2023	1.11	1.01	353
Nursery class childcare settings			
2022	0.93	0.90	272
2023	0.99	0.97	361
Maintained nursery schools			
2022	0.98	0.95	61
2023	0.88	0.93	50
Childminders			
2022	1.03	0.90	299
2023	0.98	0.91	292
All providers			
2022	1.08	0.99	1,550
2023	1.05	1.00	1,630
All providers except childminders			
2022	1.13	1.03	1,251
2023	1.12	1.05	1,338

Source: Survey of Childcare and Early Years Providers, 2022 and 2023. Note: ‘All providers’ include 53 and 39 ‘other’ group-based providers for 2022 and 2023, respectively. The methodology used to estimate the 2022 figures in this table is different to the one used in the 2022 report. In particular, childminders were excluded from the analysis if they did not report both the childminding costs that they paid themselves and the other costs associated with their childminding settings (rather than assuming zero costs for the cost component they did not report, as in the 2022 report). As a result, the average childminder’s cost in 2022 is higher, and their income-to-cost ratio lower, than that previously estimated. In the 2022 report, for instance, it was estimated that childminders had a mean income-to-cost ratio of 1.16 in 2022. This estimate has been revised to 1.03.

Differences in income-to-cost ratios between provider types may be driven by differences in charging practices. For instance, only around a quarter of childminders (24%) charge for meals (despite generally providing full-day care) compared to over half (54%) of nursery class childcare settings (Table 22). Given that food costs account for 8% of childminders’ costs (Table 3), the use of additional charges (in addition to hourly parent-

paid fees) may be one factor driving differences in income-to-cost ratios between provider types.

Except for nursery class childcare settings, median income-to-cost ratios remained around the same for all provider types between 2022 and 2023, with the median income-to-cost ratio rising from 0.90 to 0.97 between 2022 and 2023 for nursery class childcare settings.

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

Figure 1 presents income-to-cost ratios for the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (median), 75<sup>th</sup>, and 90<sup>th</sup> percentile provider. The 25<sup>th</sup> percentile private group-based provider had an income-to-cost ratio of 1.00, which suggests that three quarters of private group-based providers had weekly income that at least covered their weekly costs. Nursery class childcare settings had the widest interquartile range<sup>9</sup> (0.43) with a quarter of nursery class childcare settings registering an income-to-cost ratio of 0.73 or below. The fact that a significant proportion of nursery class childcare settings have such low income-to-cost ratios could indicate widespread cross-subsidisation from the schools of which these providers are part<sup>10</sup>.

The next widest interquartile range was among private group-based providers (0.39), followed by childminders (0.34). Voluntary group-based providers and maintained nursery schools had the smallest interquartile ranges (0.19 and 0.18, respectively), although at the lower extreme, the 10<sup>th</sup> percentile-maintained nursery school had an income-to-cost ratio of 0.53, 0.40 below the median for maintained nursery schools (albeit the sample size for maintained nursery schools is by far the smallest among provider types).

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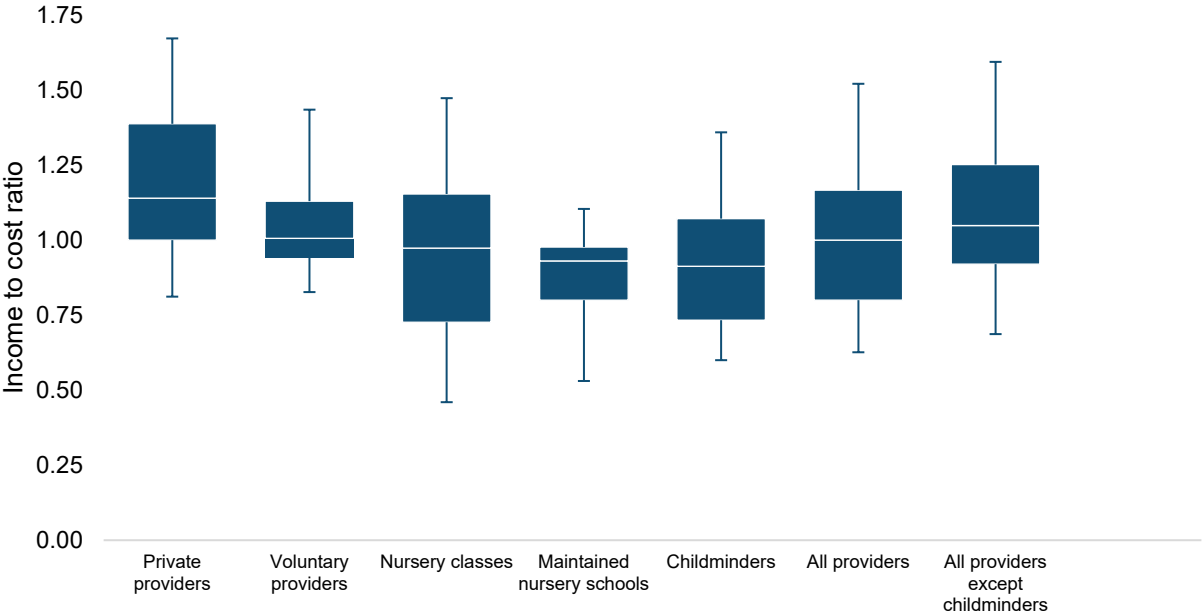
<sup>9</sup> Refer to the note in Figure 1 for an explanation of the interquartile range.

<sup>10</sup> However, there could be issues with the consistency with which these settings are able to report costs that are shared with other parts of their school.

Figure 2 presents the proportion of providers whose income-to-cost ratios were less than 0.8, between 0.8 and 1.2, and greater than 1.2. 42% of private group-based providers had an income-to-cost ratio of over 1.2 (i.e., made a clear profit in 2023), a higher proportion than any other provider type. Almost half of private group-based providers (49%) had income-to-cost ratios of between 0.8 and 1.2 (i.e., were around break-even). Only around 10% of private group-based provider had an income-to-cost ratio of below 0.8 (i.e., made a clear loss).

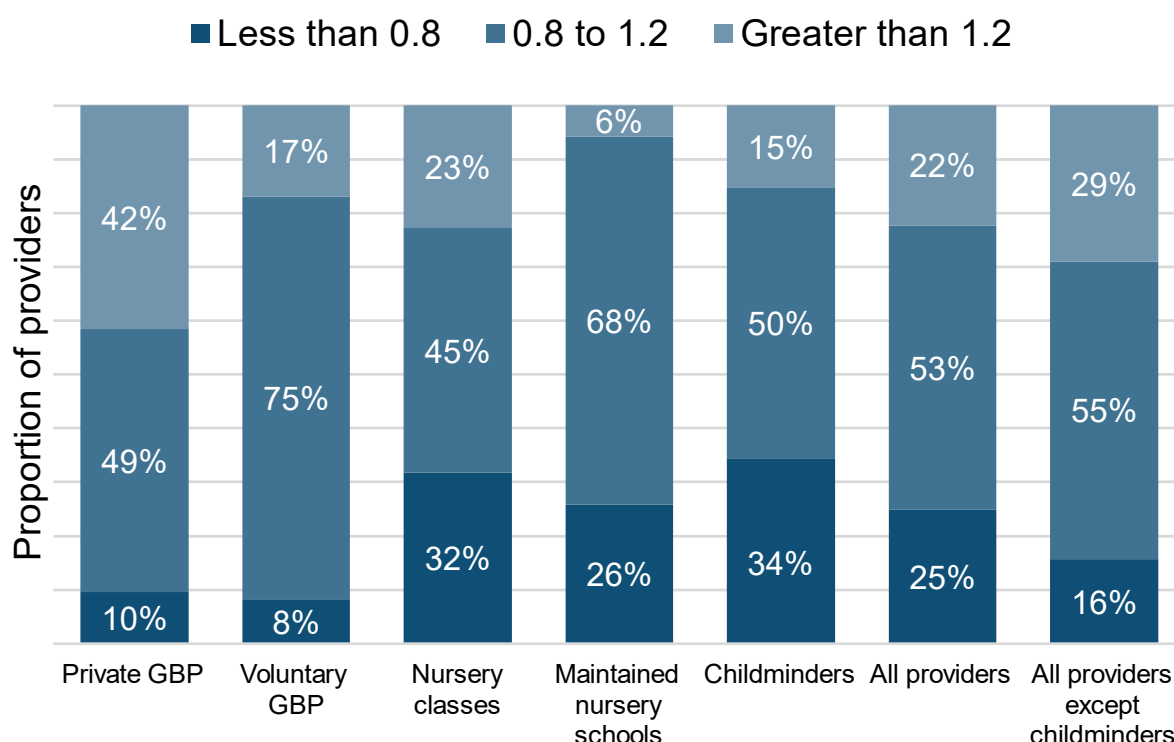
Nursery class childcare settings were the provider type with the second-highest proportion of providers with income-to-cost ratios above 1.2 (23%). However, around one in three (32%) nursery class childcare settings' income-to-cost ratios were below 0.8 – a higher proportion than maintained nursery schools (26%) and voluntary group-based providers (8%). Childminders were the provider type with the highest proportion of income-to-cost ratios below 0.8 (34%).

**Figure 1: Distribution of income-to-cost ratios by provider type (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Note: The bottom whisker reports the 10<sup>th</sup> percentile for the provider type, where the providers have been ranked by income-to-cost ratio, while the top whisker reports the 90<sup>th</sup> percentile. The bottom of the box presents the 25<sup>th</sup> percentile, the middle line within the box the 50<sup>th</sup> percentile (the median), and the top of the box the 75<sup>th</sup> percentile. The interquartile range is the distance between the top and bottom of the box.

**Figure 2: Distribution of providers by income-to-cost ratio band (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Note: Number of respondents are as reported in Table 1.

## 2.2 Regional differences in income-to-cost ratio

Table 2 presents the regional distribution of median income-to-cost ratios for all providers and for all providers excluding childminders. When including childminders, there is very little variation in the median income-to-cost ratios across regions (except in the North East which has a median income-to-cost ratio of 0.82)<sup>11</sup>, as the median income-to-cost ratio of all regions bar one was between 0.98 (the East Midlands and Yorkshire and the Humber) and 1.00.

When childminders are excluded, there is a little more variation in income-to-cost ratios but these ratios all still lie between 1.00 (North East) and 1.09 (London). Notably, when childminders are excluded the income-to-cost ratio for the North East increases to 1.00.

<sup>11</sup> It should be noted that the median income-to-cost ratio for the North East was estimated using data from only 82 providers (72 when excluding childminders), which is considerably fewer than other regions.

**Table 2: Median income-to-cost ratios, by region (2023)**

Region	All providers	All providers except childminders	Total number of providers	Total number of providers except childminders
East Midlands	0.98	1.02	142	122
East of England	1.00	1.03	208	167
London	1.00	1.09	239	187
<i>North East</i>	<i>0.82</i>	<i>1.00</i>	<i>82</i>	<i>72</i>
North West	1.00	1.02	173	143
South East	1.00	1.07	273	216
South West	1.00	1.03	177	153
West Midlands	1.00	1.04	184	149
Yorkshire and the Humber	0.98	1.06	152	129
All regions	1.00	1.05	1,630	1,338

Source: Survey of Childcare and Early Years Providers 2023. Note: All regions' figures are reported in Table 1. Statistics for the North East are italicised to highlight the small sample size, which is much smaller than for other regions. Results for the North East should therefore be treated with caution.

## 2.3 Breakdown of cost

This section considers the division of providers' total costs into staff costs, rent or mortgage, food costs, materials costs, training costs, business rates payments, energy bills, costs of recruiting staff and a residual "other" category.

Unlike previous surveys, the 2023 survey asked providers to estimate their costs attributable to business rates payments, energy bills, and the costs of recruiting staff separately. As a result, the decomposition of providers' costs in the 2023 survey may not be directly comparable to the decomposition of providers' costs in the 2022 survey.<sup>12</sup>

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

1. **Business rates payments** are not paid by childminders, while they are not included for school-based providers as it may be difficult for nursery class childcare settings to estimate what proportion of business rates payments are attributable to nursery classes rather than other parts of the school.

<sup>12</sup> In previous years, components of providers costs that were shown in "other costs" are now shown separately. This may be a reason why "other" costs have fallen in 2023.

2. **Energy bills** are not included in costs for childminders (as they would have to pay some of the costs irrespective of their childminding activities) or for school-based providers (as it is difficult for nursery class childcare settings to estimate what proportion of energy bills are attributable to nursery classes rather than other parts of the school).
3. **Rent/mortgages** were not included in childminders costs (childminders work from home so would have had these costs even if they had not been childminders).
4. **Childminder staffing costs** includes amounts that they pay themselves; and
5. Childminders spent a greater proportion of their annual outgoings on food, which reflects the all-day care childminders typically provide compared to morning or afternoon session provision that other childcare providers often offer.

With this in mind, Table 3 reports the breakdown of costs across provider types in 2023. The large majority of providers' costs were staff costs, which accounted for an average of around four-fifths (79%) of total costs across all providers. This proportion remained around the same when excluding childminders (78%).

**Table 3: Breakdown of costs by provider type (2023)**

Proportion of costs in category	Private group-based providers	Voluntary group-based providers	Nursery class childcare settings	Maintained nursery schools	Childminders	All providers	All providers except childminders
Staff	73%	79%	85%	82%	79%	79%	78%
Rent/mortgage	10%	7%	2%	1%	-	6%	6%
Food	4%	2%	2%	1%	8%	6%	3%
Materials	3%	3%	4%	2%	5%	4%	3%
Training	1%	1%	1%	1%	2%	1%	1%
Business rates	2%	0%	-	-	-	1%	1%
Energy bills	2%	1%	-	-	-	2%	2%
Recruitment costs	1%	0%	0%	0%	0%	0%	0%
Other costs	5%	5%	5%	13%	6%	6%	5%
Number of providers	475	326	382	41	309	1,565	1,256

Source: Survey of Childcare and Early Years Providers 2023. Note: Rent or mortgage costs were not collected for childminders. Business rates payments and energy bills costs were not collected for school-based providers or childminders. All providers include 32 'other' group-based providers. The estimates presented are rounded to the nearest 1%, so the total of the rounded estimates may not be equal to 100%. The estimates presented here may differ from those published in the Survey of Childcare and Early Years Providers 2023 ([link here](#)) due to methodological changes including the omission of providers where they state they 'don't know' certain cost components and the omission of childminders who do not know their total costs (excluding childminding incomes).

Staff costs as a proportion of total costs were highest for school-based providers (85% for nursery class childcare settings and 82% for maintained nursery schools), followed by voluntary group-based providers (79%) and childminders (79%). Childminders' staff costs include their own childminding income and the cost of employing childminding assistants. Private group-based providers staff costs made up the smallest proportion of total costs of all providers (73%).

The next most significant costs for all providers were rent/mortgage payments, food, and 'other' costs<sup>13</sup>, with those three components each making up an average of 6% of total costs across all providers.

Rent/mortgage payments made up 10% and 7% of private group-based and voluntary group-based providers' costs, while they accounted for only 2% of school-based providers' costs<sup>14</sup>. The low premises-related costs for school-based providers help to explain the higher percentage of costs accounted for by staff wages. 'Other' costs accounted for between 5% (for voluntary group-based providers and private group-based providers) and 13% (for maintained nursery schools) of providers' total costs.

## 2.4 Breakdown of income

*The proportion of income received from parent-paid fees, entitlement funding, and other sources. Entitlement funding is received from local authorities in payment for hours delivered as part of the early years entitlement.*

As presented in Table 4, around three fifths of providers' total income in 2023 came from parent-paid fees. A little under two fifths of providers' income came from entitlement funding, with the remaining 6% coming from "other" sources, such as additional charges to parents, charitable donations, government grants or local authority support for specific activities.

The proportion of income from different sources (when considering all providers together) is almost exactly the same in 2023 as in 2022, although in the coming years there is likely to be a shift from parent-paid fees to entitlement funding with the expansion of entitlement hours to younger children from April 2024.

School-based providers derive the large majority of their income from entitlement funding, which in 2023 contributed approximately 77% of nursery class childcare settings' income and 73% of maintained nursery schools' income. The proportion of income from

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<sup>13</sup> These 'other costs' include other associated costs of childcare such as utilities costs (other than energy), and administrative costs such as IT support and marketing.

<sup>14</sup> This may be because most school buildings are either owned by Local Authorities or are run by academy trusts (which are funded directly by central government).

entitlement funding decreased from 84% in 2022 to 77% in 2023 among nursery class childcare settings, with a corresponding increase in the proportion of income from parent-paid fees.

The decomposition of income varies between types of group-based provider. The majority of voluntary group-based providers' income came from entitlement funded hours (65% in 2023), with 28% from parent-paid fees, whereas private group-based providers received 52% of their income from parent-paid fees and 43% from entitlement funded hours. The majority of childminders' income came from parent-paid fees (81% in 2023) compared to 16% from entitlement funded hours, similar to the proportions found in 2022.

There are considerable differences in income decomposition across provider type. This highlights potential differences in how the expansion in childcare (and the proportion of hours paid for using entitlement funding) may impact different childcare providers for a variety of reasons. Some provider types (such as school-based providers) are more likely to already be set up to offer entitlement hours than others (such as childminders). Conversely, some provider types may provide a larger proportion of their childcare to younger children to whom the expanded entitlement funded hours are targeted at, such as childminders and group-based providers.

**Table 4: Breakdown of income by provider type (2022 and 2023)**

<b>Provider type</b>	<b>Proportion of income from parent-paid fees</b>	<b>Proportion of income from entitlement funding</b>	<b>Proportion of income from other sources</b>	<b>Number of providers</b>
Private group-based providers				
2022	52%	45%	3%	403
2023	52%	43%	4%	366
Voluntary group-based providers				
2022	29%	65%	6%	373
2023	28%	65%	7%	284
Nursery class childcare settings				
2022	8%	84%	8%	376
2023	16%	77%	7%	373
Maintained nursery schools				
2022	11%	74%	16%	53
2023	9%	73%	18%	36
Childminders				
2022	80%	17%	3%	338
2023	81%	16%	3%	273
All providers				
2022	59%	37%	4%	1,591
2023	58%	37%	4%	1,363
All providers except childminders				
2022	31%	64%	6%	1,253
2023	33%	61%	6%	1,090

Source: Survey of Childcare and Early Years Providers, 2022 and 2023. Note: All providers include 33, and 32 'other' group-based providers for 2022, and 2023 respectively. The estimates presented are rounded to the nearest 1%, so the total of the rounded estimates may not be equal to 100%. Proportion of income from other sources was calculated differently in the 2023 report than it was in the 2022 report, with the 2022 figures having been recalculated for this report. In the 2022 report a 'residual' income was calculated by subtracting income from parent-paid fees and income from entitlement funding from total income, while in 2023 income from other sources was taken directly from providers' answers to the survey (more details can be found in the Appendix).

## 3. Unit cost and staff hourly pay

### 3.1 Unit cost

*The unit cost is an approximate measure of a childcare provider's average cost per child per hour for all children<sup>15</sup> in the setting.*

#### 3.1.1 Average unit cost by provider type

Table 5 presents mean and median unit costs by provider type. Mean unit costs are more sensitive to extreme values than median unit costs.

The limitations of the unit cost measure should also be noted. There are limitations to the information collected from providers on total cost (such as the difficulty in estimating costs shared with other settings for group-based providers that are part of a chain). Further, the number of hours of care provided was estimated (more information is provided in the Appendix). As a result, caution should be applied to the interpretation of the unit cost measures, especially compared to other measures such as hourly parent-paid fees where sample sizes are larger and these limitations are less relevant.

Furthermore, providers are not asked to report costs separately for different age groups, so unit cost estimates are not available for different age groups.

**Table 5: Unit cost by provider type (2023)**

Provider type	Mean provider unit cost	Median provider unit cost	Number of providers
Private group-based providers	£6.78	£5.19	361
Voluntary group-based providers	£6.19	£5.30	252
Nursery class childcare settings	£7.04	£5.30	207
Maintained nursery schools	£10.36	£9.31	34
Childminders	£7.67	£6.34	152
All providers	£7.15	£5.67	1,035
All providers except childminders	£6.77	£5.30	883

Source: Survey of Childcare and Early Years Providers, 2023

In 2023, the mean unit cost for all providers was estimated to be £7.15 per hour, or £6.77 per hour for all providers excluding childminders. The median unit cost for all providers was £5.67 per hour or £5.30 per hour for all providers excluding childminders. The mean unit cost for all providers was greater than the median (£7.15 per hour compared to £5.67

<sup>15</sup> Including childcare for both preschool children and, if they are enrolled at the setting, school-age children, but not including school provision.

per hour, representing a 26% difference). When excluding childminders, the mean unit cost for all providers was greater than the median by approximately 28% (£6.77 per hour compared to £5.30 per hour). This suggests that there are some providers with very large unit costs that increase the mean but not the median and that the median may be a better indicator than the mean of unit costs for the typical provider.

The median unit cost was highest for maintained nursery schools (£9.31 per hour). This was 47% greater than the next highest median unit cost, found among childminders (£6.34 per hour). The lowest median unit costs were among group-based providers: £5.30 per hour for voluntary group-based providers and £5.19 per hour for private group-based providers. It should be noted that childminders' costs do not include rent or mortgage payments.

The higher median unit cost for school-based providers is partly driven by higher staff hourly pay (which in turn is driven by their more highly qualified workforce). Childminders' unit costs being higher than private group-based and voluntary group-based providers is consistent with private and voluntary group-based providers being able to take greater advantage of economies of scale with a greater number of booked places per provider (an average of 37.6 and 24.8 booked places per provider, respectively) compared to childminders (an average of 3.5 booked places per provider)<sup>16</sup>.

It also reflects differences in staff-to-child ratios – childminders are allowed to look after a maximum of 3 pre-school children<sup>17</sup>, whereas there could be as many as 13 children per single staff member in school- and group-based providers<sup>18</sup> (depending on staff qualifications<sup>19</sup>).

### 3.1.2 Unit cost increase from 2022 to 2023

Median unit costs increased by 6.2% between 2022 and 2023 (Table 6). In comparison, the Consumer Price Index (CPI, a weighted measure of the price of a basket of goods and services<sup>20</sup>) rose by 8.7% in the twelve months up to May 2023, with childcare services prices within the index increasing by 4.3% over the same time period.

Besides maintained nursery schools (where the sample sizes are very small<sup>21</sup>), the biggest increase in provider unit costs were among private providers (12.4% increase in

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<sup>16</sup> 2023 Survey of Childcare and Early Years Providers (link [here](#)).

<sup>17</sup> Early Years Foundation Stage Statutory Framework for childminders (link [here](#)).

<sup>18</sup> Early Years Foundation Stage Statutory Framework for group and school-based providers (link [here](#)).

<sup>19</sup> However, it is also important to note that ratios also depend on the age of the children – in general, one staff member can provide care for more older children than they can younger children.

<sup>20</sup> Further details can be found [here](#).

<sup>21</sup> The 2023 estimates of unit cost for maintained nursery schools were based on 39 providers as reported in Table 5.

median provider unit cost from 2022 to 2023) and childminders (10.8% increase in median provider unit cost from 2022 to 2023).

**Table 6: Unit cost change by provider type (2022 to 2023)**

Provider type	Median provider unit cost change (2022 to 2023)
Private group-based providers	12.4%
Voluntary group-based providers	5.7%
Nursery class childcare settings	-1.6%
Maintained nursery schools	21.9%
Childminders	10.8%
All providers	6.2%
All providers except childminders	6.0%

Source: Survey of Childcare and Early Years Providers, 2023. Note: Estimates of unit cost in 2022 have been updated using the new methodology that was used to estimate unit costs in 2023 for this report.

Table 7 presents the change across the unit cost distribution. For example, the estimate in the '10<sup>th</sup> percentile' row is the percentage increase in the unit cost of the provider at the 10<sup>th</sup> percentile in 2022 (i.e. where 10% of providers in 2022 have a lower unit cost) compared to the unit cost of the provider at the 10<sup>th</sup> percentile in 2023.

**Table 7: Unit cost change by percentile (2022 to 2023)**

Percentile	All providers	All providers except childminders
10 <sup>th</sup> percentile	12.0%	11.1%
25 <sup>th</sup> percentile	9.0%	12.2%
50 <sup>th</sup> percentile	6.2%	6.0%
75 <sup>th</sup> percentile	6.8%	2.6%
90 <sup>th</sup> percentile	11.6%	1.1%

Source: Survey of Childcare and Early Years Providers, 2023. Note: The increase for the 10<sup>th</sup> percentile compares the unit cost of the provider at the 10<sup>th</sup> percentile in 2023 to the unit cost of the provider at the 10<sup>th</sup> percentile in 2022. The provider at the 10<sup>th</sup> percentile is the provider that has a unit cost larger than 10% of all providers (or all providers except childminders in the last column) and smaller than 90% of all providers (or all providers except childminders in the last column).

When childminders are excluded, increases in unit cost were higher for providers at the lower end of the unit cost distribution, indicating some bunching in the unit cost distribution. For example, when childminders are excluded, the unit cost of the provider at the 10<sup>th</sup> percentile in 2023 was 11.1% higher than the unit cost of the provider at the 10<sup>th</sup>

percentile in 2022, whereas for providers at the 90<sup>th</sup> percentile unit costs only increased by 1.1%<sup>22</sup>.

The difference in unit cost growth between all providers and when childminders are excluded was greatest for providers at the higher end of the unit cost distribution (i.e., 75<sup>th</sup> and 90<sup>th</sup> percentiles). Unit cost growth at the 90<sup>th</sup> percentile when all providers are included was 11.6% compared with only 1.1% when childminders are excluded. This suggests that childminders towards the higher end of the unit cost distribution faced greater growth in unit cost between 2022 and 2023 than other provider types at the lower end of the unit cost distribution.

This bunching in the unit cost distribution is consistent with a similar increase in unit cost across providers in absolute terms (e.g., a £1 increase in unit cost would constitute a smaller percentage increase in unit cost for providers with higher unit cost and vice versa for providers with lower unit cost). This could be due to providers with a lower cost base having less scope to reduce costs than those with a higher cost base. Another potential explanation may be that increases in the National Living Wage have a bigger proportional impact on providers with lower unit costs (and that are more likely, therefore, to be paying their staff at or around the National Living Wage).

### 3.1.3 Unit cost by region

Table 8 presents mean and median unit costs by region. Unsurprisingly, London had the highest median unit costs. Its median unit cost of £7.09 per hour was 9.6% and 14.7% (respectively) higher than the next highest median unit costs found in the North East (£6.47 per hour) and the South East (£6.18 per hour). The lowest median unit cost was reported in the East Midlands and the South West (both £5.00 per hour), 2.9% lower than the next lowest median unit cost (£5.15 per hour) in Yorkshire and the Humber.

However, the sample sizes for each region are far smaller than for other measures reported in this report (such as hourly parent-paid fees), so these estimates should be treated with caution. For example, the sample size for the North East region was only 51 providers.

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<sup>22</sup> It should be noted that the comparison of the provider at the 10<sup>th</sup> percentile in 2022 with the provider at the 10<sup>th</sup> percentile in 2023 does not necessarily compare the same provider in 2022 and 2023, as the ranking of providers by unit cost may change from 2022 to 2023.

**Table 8: Unit cost by region (2023)**

Region	Mean unit cost	Median unit cost	Number of providers
East Midlands	£6.58	£5.00	97
East of England	£6.64	£5.79	127
London	£9.42	£7.09	151
North East	£8.29	£6.47	51
North West	£7.08	£5.47	116
South East	£7.23	£6.18	176
South West	£5.36	£5.00	107
West Midlands	£5.96	£5.30	115
Yorkshire and the Humber	£6.41	£5.15	95
All providers	£7.15	£5.67	1,035

Source: Survey of Childcare and Early Years Providers, 2023

## 3.2 Staff hourly pay

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

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

### 3.2.1 Staff hourly pay by provider type

Table 9 presents the mean and median staff hourly pay per hour by provider type. Mean staff hourly pay per hour was 17% higher than median staff hourly pay per hour in 2023. This suggests that a small number of staff have much higher hourly pay than other staff and that the median is a better measure than mean of the "typical" childcare worker's hourly pay.

Across all providers, the median staff hourly pay was £11.30 per hour in 2023. The median hourly pay per hour was highest among staff working in nursery class childcare settings (£16.38 per hour), followed by £15.87 per hour for staff working in maintained nursery schools. Median hourly pay was £11.00 per hour for private group-based providers and for voluntary group-based providers. Childminders had the lowest median

hourly pay (£8.01 per hour), around 29% lower than the median staff hourly pay across all provider types<sup>23</sup>.

The trend in median staff hourly pay across providers in 2023 replicates similar patterns across providers found in 2022. Specifically, staff at school-based providers posted the highest hourly pay rates, followed by those at group-based providers and then childminders. This is consistent with school-based providers having a more qualified workforce on average compared to the other provider types. For example, over a third (38%) of staff working at school-based providers had Level 6 qualifications in 2023 compared to only around one in ten staff based in group-based providers (11%) and childminders (10%)<sup>24</sup>.

Median staff hourly pay across all providers increased by 13% between 2022 and 2023 (and 15% amongst all providers when childminders were excluded), which was more than the 10% increase in the National Living Wage in April 2023 (from £9.50 per hour to £10.42 per hour)<sup>25</sup>.

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<sup>23</sup> Childminders' median hourly pay of £8.01 per hour was lower than the National Living Wage in 2023 (£10.42 per hour from April 2023). Childminders, however, are self-employed and National Living Wage legislation does not apply to them. For other staff, hourly pay is derived based on their contracted weekly hours. This method can lead to an underestimation of actual hourly pay if they work fewer hours than their contracted hours.

<sup>24</sup> 2023 Survey of Childcare and Early Years Providers ([link here](#)).

<sup>25</sup> In 2023, improvements to the methodology for calculating salary figures resulted in an increase in estimates of average staff salaries. Specifically, when available, annual salaries were divided by the actual number of weeks per year that staff were contracted to work, instead of the previous assumption of 52 weeks per year. Further improvements to data collection and validation for staff salaries were introduced in the 2024 survey.

**Table 9: Hourly staff pay by provider type (2022 and 2023)<sup>26</sup>**

Provider type	Mean hourly pay	Median hourly pay	No. of staff
Private group-based providers			
2022	£10.65	£10.00	4,672
2023	£12.13	£11.00	3,736
Voluntary group-based providers			
2022	£11.45	£10.00	2,789
2023	£11.97	£11.00	1,962
All group-based providers			
2022	£11.03	£10.00	7,875
2023	£12.22	£11.00	5,975
Nursery class childcare settings			
2022	£16.57	£13.00	2,436
2023	£20.24	£16.38	1,413
Maintained nursery schools			
2022	£12.40	£10.34	137
2023	£19.75	£15.87	224
All school-based providers			
2022	£16.09	£12.82	2,573
2023	£20.15	£16.14	1,637
Childminding assistants			
2022	£10.02	£10.00	140
2023	£10.21	£10.42	156
Childminders			
2022	£8.82	£6.92	432
2023	£8.91	£8.01	397
All providers			
2022	£11.44	£10.00	11,020
2023	£13.19	£11.30	8,165
All providers except childminders			
2022	£11.75	£10.00	10,448
2023	£13.62	£11.50	7,612

Source: Survey of Childcare and Early Years Providers 2022 and 2023. Note: All providers included 414 and 277 staff in other group-based providers for 2022 and 2023 respectively. The methodology used to calculate hourly pay has changed from 2022 to 2023, so comparisons between years should be treated with caution. The 2023 estimates incorporate information on the number of weeks a year that a member of staff was contracted to work for (when the information is available), whereas the 2022 estimates assume that staff work for 52 weeks a year. As a result, the 2023 methodology provides larger estimates of hourly pay. There is greater impact on salaries for staff working at school-based providers where term-time-only working is more common. For example, the median hourly pay for school-based provider staff in 2023 would be £2.68 per hour lower using the 2022 methodology than the 2023 methodology. For all providers except childminders median hourly pay would be 29p per hour lower (£11.21 per hour instead of £11.50).

### 3.2.2 Staff hourly pay by highest level of qualification

As discussed, some of the variation in hourly pay across provider types is associated with variation in the average qualification levels of staff across provider types. Table 10

<sup>26</sup> Medians are considered to be a better measure of average staff pay. In this table, mean salaries have also been shown, for completeness and for comparison with previous reports.

provides hourly pay by highest level of qualification across different provider types in 2023, while Table 11 reports the hourly pay premium of staff relative to those with no early years or teaching-related qualifications or highest qualification at Level 1.

Staff employed at school-based providers had the highest median hourly pay across all (highest) qualification levels, as well as the highest hourly pay increment associated with higher levels of qualification. Specifically, individuals qualified to Level 3 working at nursery class childcare settings achieved a median hourly pay rate that was approximately 22% greater than those with no early years or teaching-related qualifications or Level 1 qualifications (as highest).

The corresponding estimate was 66% for those with Level 5 qualifications (as highest) – although generally relatively few staff have Level 5 as their highest level of qualification<sup>27</sup> - before sharply increasing to more than double (153% greater) for those with Level 6 qualifications.

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

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

This may be driven by the fact that staff working for school-based providers tend to be older. For example, 55% of staff working for school-based providers were 40 years old and older, compared to 35% of staff working for group-based providers. As a result, staff working for school-based providers may be more experienced for a given level of qualification, which may be reflected in a higher hourly pay premium.

There were much smaller increases in hourly pay across qualifications for group-based providers, with childcare workers at private group-based providers seeing only a 5% median hourly uplift associated with Level 3 qualifications (compared to possession of no early years or teaching-related qualifications or qualifications at Level 1).

Childminders tend to have higher-level qualifications than childminding assistants<sup>28</sup>. However, childminders' hourly pay is on average lower than those of childminding assistants. This may, in part, be driven by childminders' hourly pay being calculated in a different way to that for other staff such as childminding assistants. It may also, however,

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<sup>27</sup> For example, 5% of staff working in group-based providers and 4% of staff working in school-based providers had Level 5 qualifications as their highest level of qualification, while it was 4% for childminders and 1% for childminding assistants (2023 Survey of Childcare and Early Years Providers (link [here](#))).

<sup>28</sup> For example, in 2023 42% of childminding assistants did not have an Early Years qualification, whereas only 12% of childminders did not have an Early Years qualification (2023 Survey of Childcare and Early Years Providers (link [here](#))).

reflect the additional tasks that childminders have to carry out – related to managing their business and completing paperwork – after the children that they look after have gone home.

**Table 10: Median hourly staff pay by highest level of qualification and provider type (2023)**

Provider type	None or Level 1	Level 2	Level 3	Level 4	Level 5	Level 6 or higher
Private group-based providers	£10.50	£10.51	£11.00	£11.80	£12.10	£13.05
Voluntary group-based providers		£10.50	£11.00	£11.59	£12.35	£13.37
Nursery class childcare settings	£11.39	£13.68	£13.89	£16.71	£18.95	£28.85
Maintained nursery schools		£12.75	£14.29			£32.52
Childminding assistants	£10.42	£10.49	£10.42			
Childminders	£7.87	£8.94	£7.67	£11.75	£8.71	£8.24
All providers	£9.94	£10.60	£11.05	£12.50	£12.50	£15.38
All providers except childminders	£10.87	£10.60	£11.20	£12.50	£12.80	£15.74

Source: Survey of Childcare and Early Years Providers, 2023. Note: Estimates based on fewer than 10 staff members are excluded.

**Table 11: Hourly staff pay premium relative to no early years or teaching-related qualifications or Level 1 qualifications by provider type (2023)**

Provider type	None or Level 1	Level 2	Level 3	Level 4	Level 5	Level 6 or higher
Private group-based providers	-	0%	5%	12%	15%	24%
Voluntary group-based providers						
Nursery class childcare settings	-	20%	22%	47%	66%	153%
Maintained nursery schools						
Childminding assistants	-	1%	0%			
Childminders	-	14%	-3%	49%	11%	5%
All providers	-	7%	11%	26%	26%	55%
All providers except childminders	-	-2%	3%	15%	18%	45%

Source: Survey of Childcare and Early Years Providers, 2023. Note: Estimates based on fewer than 10 staff members are excluded.

Table 12 presents median hourly pay by level of highest qualification and age group in 2023. Table 13 reports the hourly pay premium relative to those whose highest qualification is Level 2 and below for each age group, while Table 14 reports the hourly pay premium relative to those aged 16 to 24 for each level of highest qualification.

The increase in hourly pay associated with a higher-level qualification increases with age, as shown in Table 12. The increase in hourly pay associated with a Level 4 or 5 qualification and a Level 6 qualification (relative to those with Level 2 or below as their highest qualification) was 5% and 10%, respectively, for those aged 16 to 24. This increased to 16% and 28% for those aged 25 to 39, rising again to 25% and 87% for those aged 50 and over. The larger qualifications premium for older age groups is consistent with those older age groups potentially having greater experience in childcare and a complementarity between qualifications and experience.

The median hourly pay of those whose highest qualification is Level 2 or below was either at the National Living Wage (£10.42 per hour) or slightly above it across all age groups.

Further, Table 12 shows that for those in possession of a Level 2 or below qualification (as highest), there was relatively little difference in median hourly pay across age groups. The difference in hourly pay across age groups was most pronounced for those with higher-level qualifications. For example, staff whose highest qualifications were at Level 4 or 5 and staff with Level 6 qualifications saw differences of 18% and 70% between those aged 50 and over, relative to those aged 16 and 24. This suggests that additional experience is particularly beneficial to levels of pay for staff with higher levels of qualifications.

**Table 12: Median hourly staff pay by level of highest qualification and age group (2023)**

Level of highest qualification	Age 16 to 24	Age 25 to 39	Age 40 to 49	Age 50 plus	All ages
Level 2 or below	£10.45	£10.73	£10.64	£10.42	£10.52
Level 3	£10.97	£11.08	£11.40	£11.50	£11.05
Level 4 or 5	£11.00	£12.50	£12.50	£13.00	£12.50
Level 6 or higher	£11.50	£13.75	£17.27	£19.53	£15.38
All levels	£10.70	£11.44	£11.84	£12.00	£11.30

Source: Survey of Childcare and Early Years Providers, 2023.

**Table 13: Hourly staff pay premium relative to Level 2 and below by age group (2023)**

Level of highest qualification	Age 16 to 24	Age 25 to 39	Age 40 to 49	Age 50 plus	All ages
Level 2 or below	-	-	-	-	-
Level 3	5%	3%	7%	10%	5%
Level 4 or 5	5%	16%	17%	25%	19%
Level 6 or higher	10%	28%	62%	87%	46%
All levels	2%	7%	11%	15%	7%

Source: Survey of Childcare and Early Years Providers, 2023.

**Table 14: Hourly staff pay premium relative to age 16 to 24 by level of highest qualification (2023)**

Level of highest qualification	Age 16 to 24	Age 25 to 39	Age 40 to 49	Age 50 plus	All ages
Level 2 or below	-	3%	2%	0%	1%
Level 3	-	1%	4%	5%	1%
Level 4 or 5	-	14%	14%	18%	14%
Level 6 or higher	-	20%	50%	70%	34%
All levels	-	7%	11%	12%	6%

Source: Survey of Childcare and Early Years Providers, 2023.

### 3.2.3 Proportion of staff paid below the National Living Wage

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

One in ten (10%) of childcare staff (excluding childminders) aged 23 and older were paid below the NLW in 2023 (£10.42 per hour)<sup>29</sup>.

Childminders' hourly pay was derived using a different method to other staff so may not be directly comparable, so they are not included in the table below. Firstly, NLW legislation does not apply to self-employed workers like childminders. Secondly, unlike

<sup>29</sup> Staff may be paid under the National Living Wage for a variety of reasons. "Average hourly pay" is derived using contracted hours of work per week. As a result, it may be underestimated if the number of hours someone actually works is less than their contracted hours. In 2023, improvements to the methodology for calculating salary figures resulted in an increase in estimated hourly pay, leading to a decrease in the percentage of staff estimated to be earning below the National Living Wage. Specifically, when available, annual salaries were divided by the actual number of weeks per year that staff were contracted to work, instead of the previous assumption of 52 weeks per year. This most significantly impacts staff working at school-based providers, as they are more likely to have their salaries reported annually and are more likely to only work during term time (rather than all 52 weeks of the year). Further improvements to data collection and validation for staff salaries were introduced in the 2024 survey.

other childcare staff, childminders have to carry out additional tasks that might not be directly compensated for – such as undertaking and completing general administrative duties – after the children that they look after have gone home

For other provider types, there are other reasons why the proportion earning below the NLW is above zero. Where hourly pay is not provided, hourly pay is estimated by dividing gross weekly earnings by the number of contracted weekly hours worked. If the number of hours worked is in reality smaller than is reported, estimated hourly pay would be underestimated and the proportion of workers earning under the NLW would be overestimated.

Group-based providers had higher proportions of staff who were paid below the NLW compared to school-based providers. 15% of staff aged 23 and above employed at voluntary group-based providers, and 10% of staff at private group-based providers were estimated to be paid below the NLW, compared to 5% of staff at nursery class childcare settings, and 3% of staff at maintained nursery schools. This is consistent with the finding that staff working for school-based providers are paid more than those with the same qualifications working for group-based providers.

**Table 15: Proportion of staff aged 23 or over paid below the NLW (2023)**

Provider type	Proportion earning below the NLW	Sample size
Private group-based providers	10%	3,398
Voluntary group-based providers	15%	1,888
Nursery class childcare settings	5%	1,374
Maintained nursery schools	3%	219
All providers	10%	7,143

Source: Survey of Childcare and Early Years Providers, 2023. Note: All providers include 264 staff in other group-based providers.

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

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

### 4.1 Hourly parent-paid fees

*Hourly parent paid fees are the average hourly fees charged by providers to parents (not including hours that are covered by entitlements).*

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

Table 16, Table 17, and Table 18 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 in 2023 respectively.<sup>30</sup> For all childcare providers, the mean hourly parent-paid fee was £6.05 per hour for children under the age of two, £6.07 per hour for two-year-old children, and £5.90 per hour for three- and four-year-old children. When excluding childminders, the corresponding mean hourly parent-paid fees were £7.02 per hour for children under the age of two, £6.63 per hour for two-year-old children, and £6.27 per hour for three- and four-year-old children.

When comparing mean and median hourly parent-paid fees across age groups it is important to note that differences may be driven by the types of providers that are more likely to provide childcare to different age groups. For a given provider type, the mean and median hourly parent-paid fees decrease as age increase, whereas mean and median hourly parent-paid fees when all provider types are considered together are more similar across age groups.

For example, the mean hourly parent-paid fee is around the same for under two-year-olds as it is for two-year-olds across all providers. This is driven by differences in the composition of provider types that provide childcare for each age group.

Mean hourly parent-paid fees were lowest among childminders across all age groups, with the highest mean hourly parent-paid fees among private group-based providers for all age groups. In addition, there is greater variation in the mean hourly parent-paid fees between provider types than between age groups. The mean hourly parent-paid fees

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<sup>30</sup> Hourly parent-paid fees are not presented for school-age children because the hourly parent-paid fees would not be representative for this age group as they exclude school-age children amongst providers not offering any preschool childcare provision.

across the three age groups lie within a range of £0.17 per hour (£5.90 per hour to £6.07 per hour). In contrast, the mean hourly parent-paid fees across the provider types lie within a range of £1.73 per hour for under two-year-olds, £1.42 per hour for two-year-olds, and £1.27 per hour for three- and four-year-olds.

The median hourly parent-paid fee (the middle observation when providers are ranked from lowest to highest) was lower than the mean hourly parent-paid fee across all provider types and age groups.<sup>31</sup> This is because, unlike the mean, the median hourly parent-paid fee is not influenced by extreme values (such as a few providers having much larger hourly parent-paid fees)<sup>32</sup>.

#### **4.1.2 Changes in hourly parent-paid fees from 2022 to 2023**

Mean hourly parent-paid fees across all providers for children under the age of two increased by 6.5% from 2022 to 2023. The corresponding increases for two-year-olds and three- and four-year olds were 6.1% and 5.4%, respectively. Mean hourly parent-paid fees rose more steeply amongst non-childminders – for example, hourly parent-paid fees increased by 7.7% for children under the age of two for all non-childminder providers. Across all providers, increases in mean hourly parent-paid fees were lower than CPI inflation of 8.7% across the twelve months to May 2023.<sup>33</sup>

For children under the age of two, voluntary group-based providers, nursery class childcare settings, and maintained nursery schools saw hourly parent-paid fees rise quicker than the rate of CPI inflation from 2022 to 2023 (although this difference is not statistically significant). Mean hourly parent-paid fees rose by 9.4% for voluntary group-based providers, 20.3% for nursery class childcare settings, and 10.1% for maintained nursery schools. Among other age groups, no provider type saw hourly parent-paid fees rise faster than CPI inflation.

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<sup>31</sup> Median hourly parent-paid fees tend to be whole or half pounds (or at a precise five or ten pence), reflecting the clustering of hourly parent-paid fees around easily computable figures.

<sup>32</sup> Providers reporting hourly parent-paid fees of zero or in excess of £40 per hour were removed from the sample when calculating estimates of average hourly parent-paid fees.

<sup>33</sup> The median provider (median based on the date that the provider responded to the survey) provided information in May 2023. CPI inflation data can be found here: [link](#).

**Table 16: Mean and median hourly parent-paid fees for children under age two (2019, 2021, 2022, and 2023)**

<b>Provider type</b>	<b>Mean hourly parent-paid fee</b>	<b>Median hourly parent-paid fee</b>	<b>Number of providers</b>
Private group-based providers			
2019	£5.92	£5.50	2,124
2021	£6.27	£5.80	2,017
2022	£6.59	£6.15	1,984
2023	£7.08	£6.80	1,876
Voluntary group-based providers			
2019	£5.39	£5.00	374
2021	£6.06	£5.33	345
2022	£6.15	£5.70	276
2023	£6.73	£6.36	253
Nursery class childcare settings			
2019	£5.46	£4.80	41
2021	£4.98	£4.94	36
2022	£6.11	£5.71	24
2023	£7.35	£6.65	40
Maintained nursery schools			
2019	£5.70	£5.53	22
2021	£5.96	£6.00	22
2022	£6.63	£6.50	10
2023	£7.30	£6.68	11
Childminders			
2019	£4.92	£4.50	5,391
2021	£5.23	£5.00	4,886
2022	£5.36	£5.00	3,489
2023	£5.62	£5.25	3,352
All providers			
2019	£5.15	£5.00	8,090
2021	£5.53	£5.00	7,432
2022	£5.68	£5.25	5,915
2023	£6.05	£5.65	5,648
All providers except childminders			
2019	£5.81	£5.35	2,699
2021	£6.20	£5.70	2,546
2022	£6.52	£6.00	2,426
2023	£7.02	£6.64	2,296

Source: Survey of Childcare and Early Years Providers, 2019, 2021, 2022, and 2023. Note: "All providers" includes 128, 126, 132, and 116 'other' group-based providers for 2019, 2021, 2022, and 2023 respectively.

**Table 17: Mean and median hourly parent-paid fees for two-year-old children (2019, 2021, 2022, and 2023)**

<b>Provider type</b>	<b>Mean hourly parent-paid fee</b>	<b>Median hourly parent-paid fee</b>	<b>Number of providers</b>
Private group-based providers			
2019	£5.85	£5.30	3,050
2021	£6.21	£5.70	2,973
2022	£6.49	£6.00	2,699
2023	£6.98	£6.50	2,482
Voluntary group-based providers			
2019	£5.18	£4.75	1,957
2021	£5.56	£5.00	1,750
2022	£5.92	£5.35	1,522
2023	£6.24	£5.75	1,310
Nursery class childcare settings			
2019	£4.95	£4.66	399
2021	£5.24	£5.00	531
2022	£6.24	£5.24	447
2023	£6.11	£5.40	485
Maintained nursery schools			
2019	£5.57	£5.15	115
2021	£6.15	£6.00	132
2022	£6.21	£5.80	108
2023	£6.60	£6.00	96
Childminders			
2019	£4.88	£4.50	5,333
2021	£5.16	£4.50	5,047
2022	£5.28	£5.00	3,481
2023	£5.56	£5.20	3,333
All providers			
2019	£5.16	£4.95	11,129
2021	£5.53	£4.95	10,649
2022	£5.72	£5.25	8,485
2023	£6.07	£5.65	7,912
All providers except childminders			
2019	£5.55	£5.00	5,796
2021	£5.94	£5.40	5,602
2022	£6.28	£5.78	5,004
2023	£6.63	£6.00	4,579

Source: Survey of Childcare and Early Years Providers, 2019, 2021, 2022, and 2023. Note: "All providers" includes 275, 216, 228, and 206 'other' group-based providers for 2019, 2021, 2022, and 2023 respectively.

**Table 18: Mean and median hourly parent-paid fees for three- and four-year-old preschool children (2019, 2021, 2022, and 2023)**

<b>Provider type</b>	<b>Mean hourly parent-paid fee</b>	<b>Median hourly parent-paid fee</b>	<b>Number of providers</b>
Private group-based providers			
2019	£5.72	£5.10	3,376
2021	£6.10	£5.50	3,245
2022	£6.29	£6.00	2,810
2023	£6.77	£6.40	2,560
Voluntary group-based providers			
2019	£5.03	£4.50	2,141
2021	£5.36	£5.00	1,884
2022	£5.75	£5.00	1,610
2023	£5.97	£5.50	1,385
Nursery class childcare settings			
2019	£4.67	£4.20	1,259
2021	£5.01	£4.50	1,602
2022	£5.71	£5.00	1,337
2023	£5.78	£5.00	1,442
Maintained nursery schools			
2019	£5.30	£5.00	142
2021	£5.92	£5.50	155
2022	£5.95	£5.50	132
2023	£6.20	£5.75	111
Childminders			
2019	£4.80	£4.50	5,624
2021	£5.09	£4.80	5,457
2022	£5.22	£5.00	3,647
2023	£5.50	£5.00	3,541
All providers			
2019	£5.04	£4.67	12,849
2021	£5.39	£5.00	12,583
2022	£5.60	£5.00	9,778
2023	£5.90	£5.50	9,249
All providers except childminders			
2019	£5.34	£5.00	7,225
2021	£5.71	£5.00	7,126
2022	£5.99	£5.43	6,131
2023	£6.27	£5.78	5,708

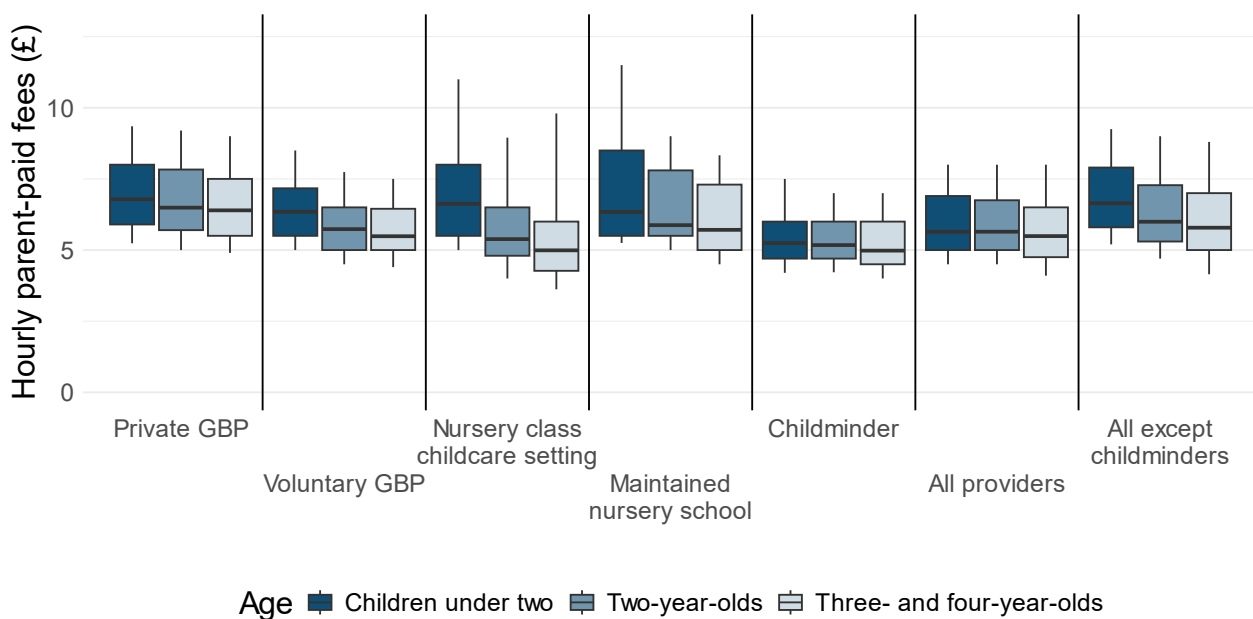
Source: Survey of Childcare and Early Years Providers, 2019, 2021, 2022, and 2023. Note: "All providers" includes 307, 240, 242, and 210 'other' group-based providers for 2019, 2021, 2022, and 2023 respectively.

### 4.1.3 Distribution of hourly parent-paid fees across provider types and age groups

Figure 3 illustrates the variation in hourly parent-paid fees within provider types for children under the age of two, two-year-old children, and three- and four-year-old children. Each box presents the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (median), 75<sup>th</sup>, and 90<sup>th</sup> percentile hourly parent-paid fee for each provider type, and for each age group.

In each provider type, hourly parent-paid fees were generally higher across the distribution for children under the age of two compared to older age groups. The disparity in median hourly parent-paid fees between age groups was highest for voluntary providers, nursery class childcare settings, and maintained nursery schools. For example, the median hourly parent-paid fee for children under the age of two in nursery class childcare settings was £6.65, compared to £5.00 for three- and four-year old children.

**Figure 3: Distribution of hourly parent-paid fees by age of child and provider type (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Notes: The bottom whisker reports the 10<sup>th</sup> percentile for the provider type, where the providers have been ranked by hourly parent-paid fees, while the top whisker reports the 90<sup>th</sup> percentile. The bottom of the box presents the 25<sup>th</sup> percentile, the middle line within the box the 50<sup>th</sup> percentile (the median), and the top of the box the 75<sup>th</sup> percentile. The interquartile range is the distance between the top and bottom of the box.

Within provider types, the distribution of hourly parent-paid fees was widest for maintained nursery schools and nursery class childcare settings. The interquartile range (equal to the 75<sup>th</sup> percentile hourly parent-paid fee minus the 25<sup>th</sup> percentile) for children under the age of two was £3 per hour for maintained nursery schools and £2.50 per hour

for nursery class childcare settings, compared to £1.90 per hour across all providers. The range of hourly parent-paid fees for nursery class childcare settings is partly driven by differences between those associated with maintained schools (median hourly parent-paid fees for three- and four-year-olds of £5.00 per hour) and those associated within independent schools (fees of £8.10 per hour for the same age group).

By contrast, the distribution of hourly parent-paid fees for childminders was relatively tight. The interquartile range in hourly parent-paid fees for childminders ranged from £1.30 to £1.50 per hour across age groups. The tighter distribution for childminders may be a consequence of statutory staff-to-child ratios being the same across all pre-school age groups (where they are allowed to look after a maximum of three children per childminder), whereas this varies for other provider types (where the statutory ratios range from three children aged under 2 to up to thirteen children aged 3 to 4 per staff member).

It should be noted that the wider distribution in hourly parent-paid fees for maintained nursery schools may be driven by the low sample sizes for these provider types, while for nursery class childcare settings the wider distribution may be driven by differences between settings associated with maintained schools and settings associated with independent schools.

#### **4.1.4 Regional distribution of hourly parent-paid fees**

Figure 4 displays the median hourly parent-paid fee by Local Authority for different age groups<sup>34</sup>. Darker areas are Local Authorities with higher median hourly parent-paid fees<sup>35</sup>.

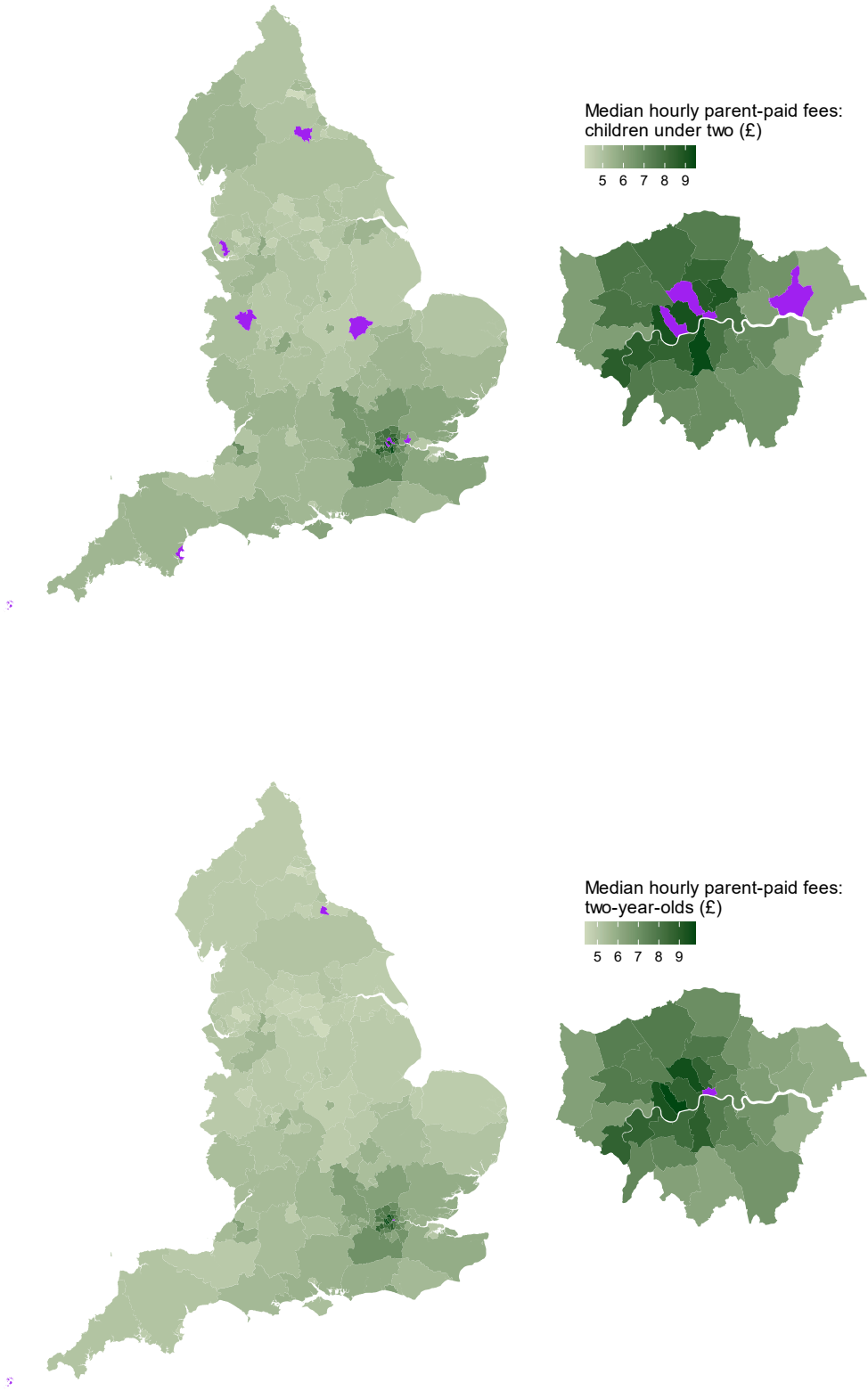
There was significant variation in median hourly parent-paid fees across regions. Hourly parent-paid fees were highest in areas of London (specifically Central and inner West London) and the South East. For example, the median hourly parent-paid fee for children under two was £9.00 in Kensington and Chelsea, compared to £5.65 nationally. Regional patterns in hourly parent-paid fees were largely preserved across different age groups, with London and the South East having consistently higher hourly parent-paid fees than the rest of England.

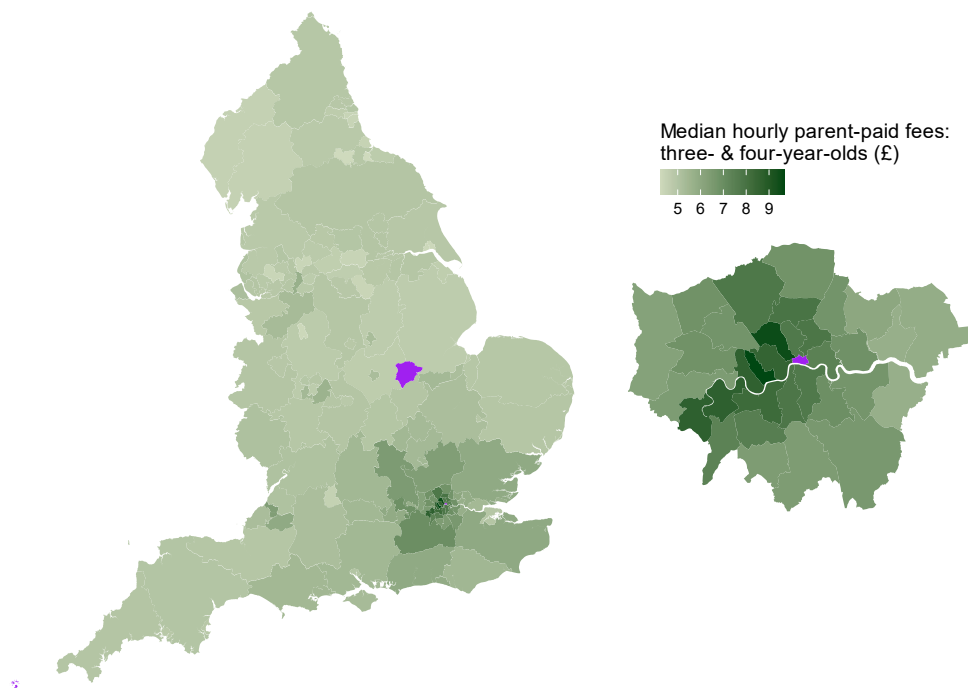
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<sup>34</sup> The median hourly parent-paid fee is calculated as the weighted median of hourly parent-paid fees for providers within a given Local Authority.

<sup>35</sup> Areas with fewer than ten provider responses have been shown in purple to avoid statistical disclosure of small samples.

**Figure 4: Distribution of hourly parent-paid fees by age group and by Local Authority (2023)**

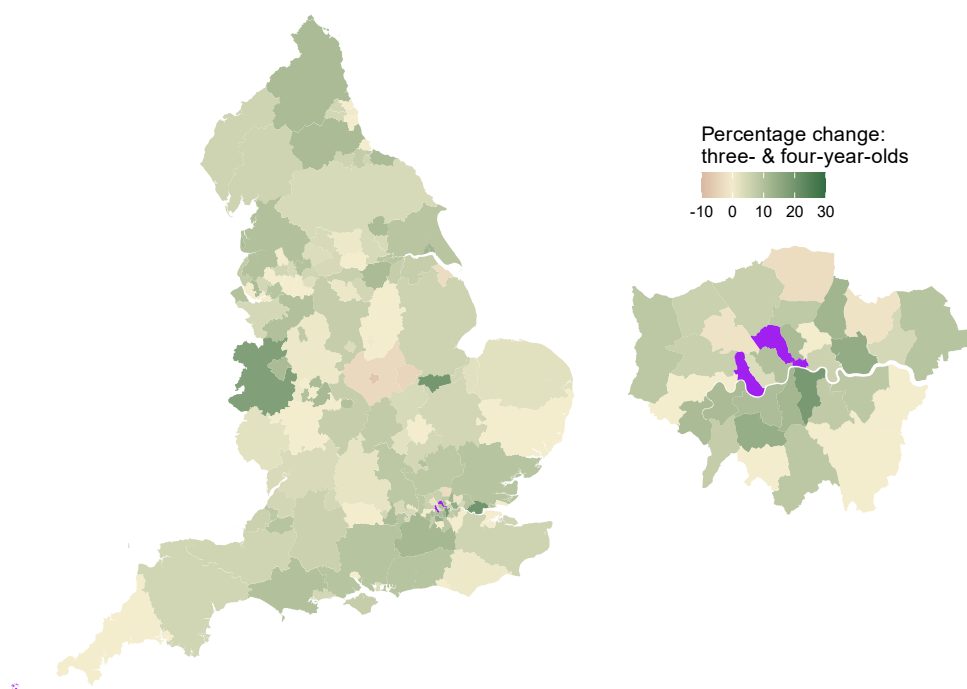




Source: Survey of Childcare and Early Years Providers 2023. Note: Level of geography is ONS 'Counties and Unitary Authorities'. Areas with no data or fewer than ten respondents are shaded in purple to preserve anonymity.

**Figure 5: Percentage change in median hourly parent-paid fees by age of child and Local Authority (2022 to 2023)**





Source: Survey of Childcare and Early Years Providers 2023. Note: Level of geography is ONS 'Counties and Unitary Authorities'. Areas with no data or fewer than ten respondents are shaded purple to preserve anonymity.

Figure 5 displays the percentage change in median hourly parent-paid fees for all providers for children under two, two-year-old children, and three- and four-year-old children. Local authorities where median hourly parent-paid fees increased are shown in shades of green, and regions where they decreased are shown in shades of red.

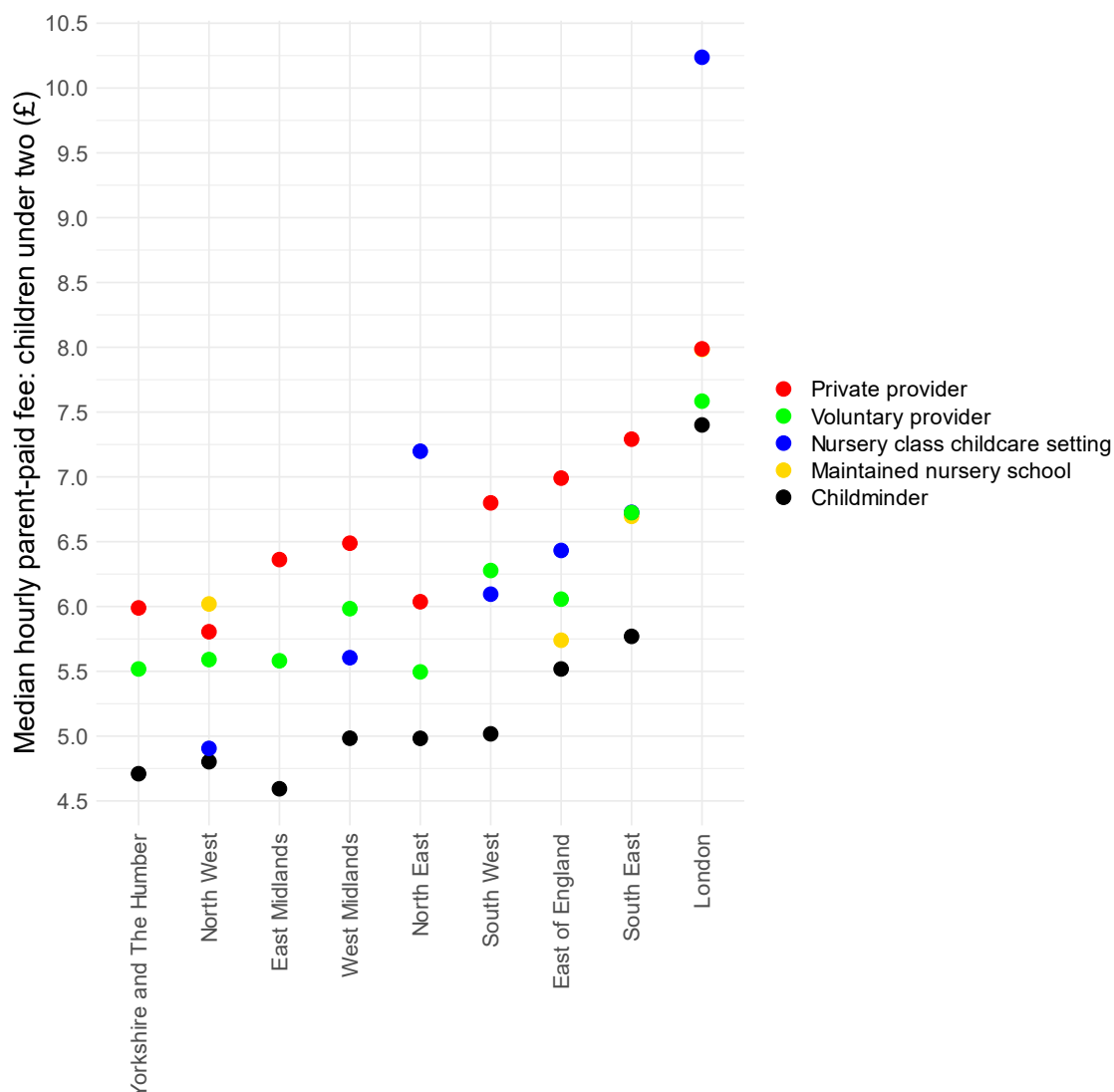
Median hourly parent-paid fees increased across most local authorities for all age groups. For children under two and two-year-old children, the largest increase in median parent-paid fees occurred in towns within the commuting zones of large cities across England, such as in the West Midlands (such as Dudley and Walsall), the North West (such as Stockport and Warrington), and around London (such as Reading, Wokingham, Surrey, and Medway).

Figure 6 to Figure 8 show the distribution of median hourly parent-paid fees for children under two, two-year-old children, and three- and four-year-old children by provider type and region. Across all ages and provider types, hourly parent-paid fees were highest in London.

For **children under two**, median hourly parent-paid fees for the cheapest provider type in London (childminders) were higher than for the most expensive provider type (private group-based providers) in the second-most expensive region (the South East). Across all

regions except London and the North East, private providers had the highest average hourly parent-paid fees.

**Figure 6: Distribution of median hourly parent-paid fees for children under two by provider type and region (2023)**

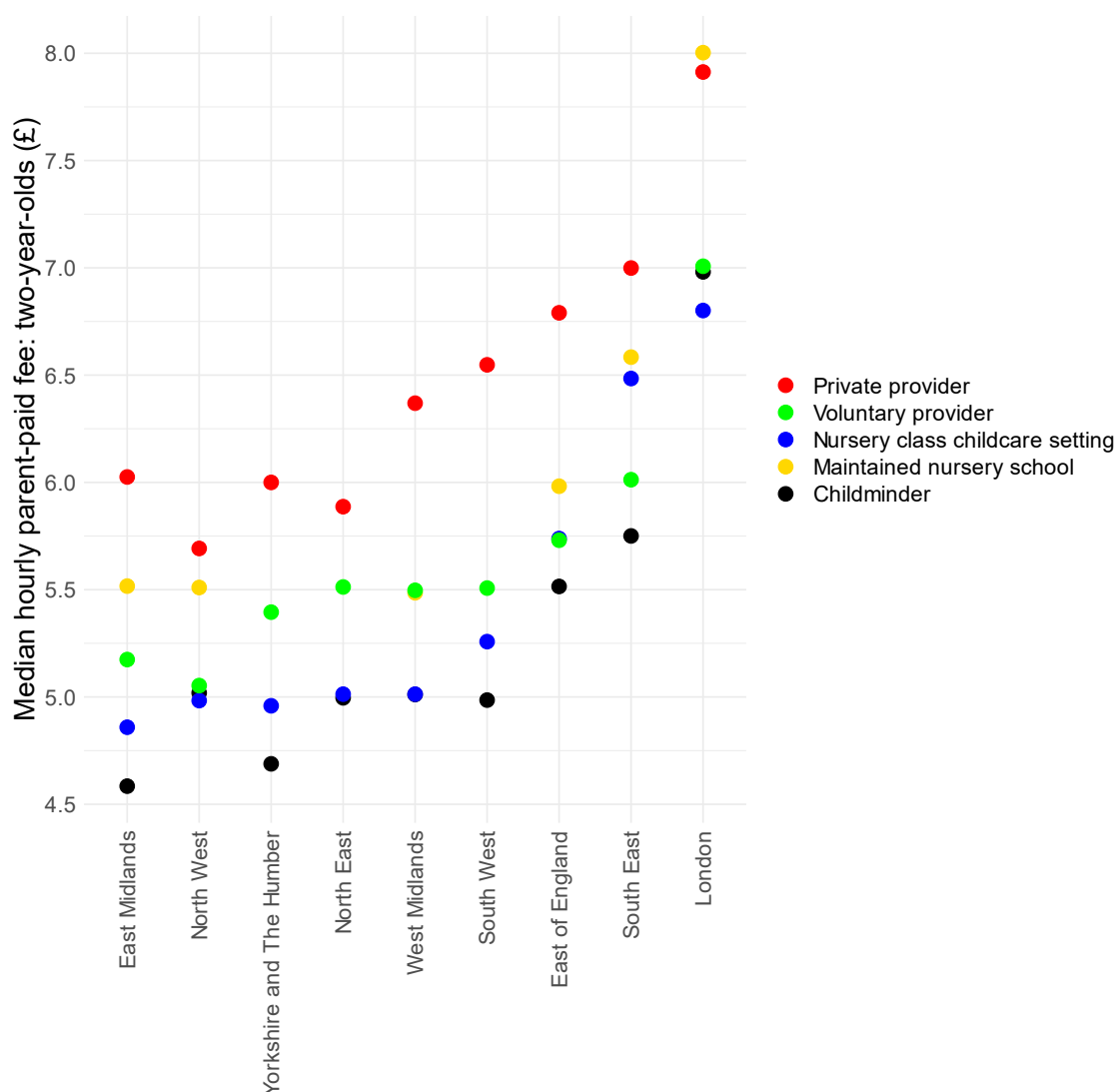


Source: Survey of Childcare and Early Years Providers 2023. Note: Median hourly parent-paid fee is calculated as the average median hourly parent-paid fee for all local authorities lying within the specified region. Region-provider type pairs with no data or fewer than ten respondents are omitted from the plot to preserve anonymity.

Notably, median hourly parent-paid fees for nursery class childcare settings in London were over £2 per hour higher than for any other provider type, with an average median hourly parent-paid fee of £10.20 per hour. These results are consistent with those found in Table 16, which suggests that a small number of providers (specifically within London) charging high fees are driving up the mean hourly parent-paid fees for nursery class childcare settings. Childminders had the lowest median hourly parent-paid fees across all regions.

For **two-year-olds**, median hourly parents-paid fees were highest for private providers across all regions (besides maintained nursery schools in London). In contrast to fees for children under two, in London, median hourly parent-paid fees for nursery class childcare settings were lower than for any other provider type (although still higher than the most expensive provider type across most other regions). The distribution of hourly parent-paid fees across provider types varied across regions. The South West had the largest difference in hourly parent-paid fees across provider types, with median hourly parent-paid fees ranging from £4.98 for childminders to £6.54 for private providers. The distribution of hourly parent-paid fees by provider type was narrowest in the North West.

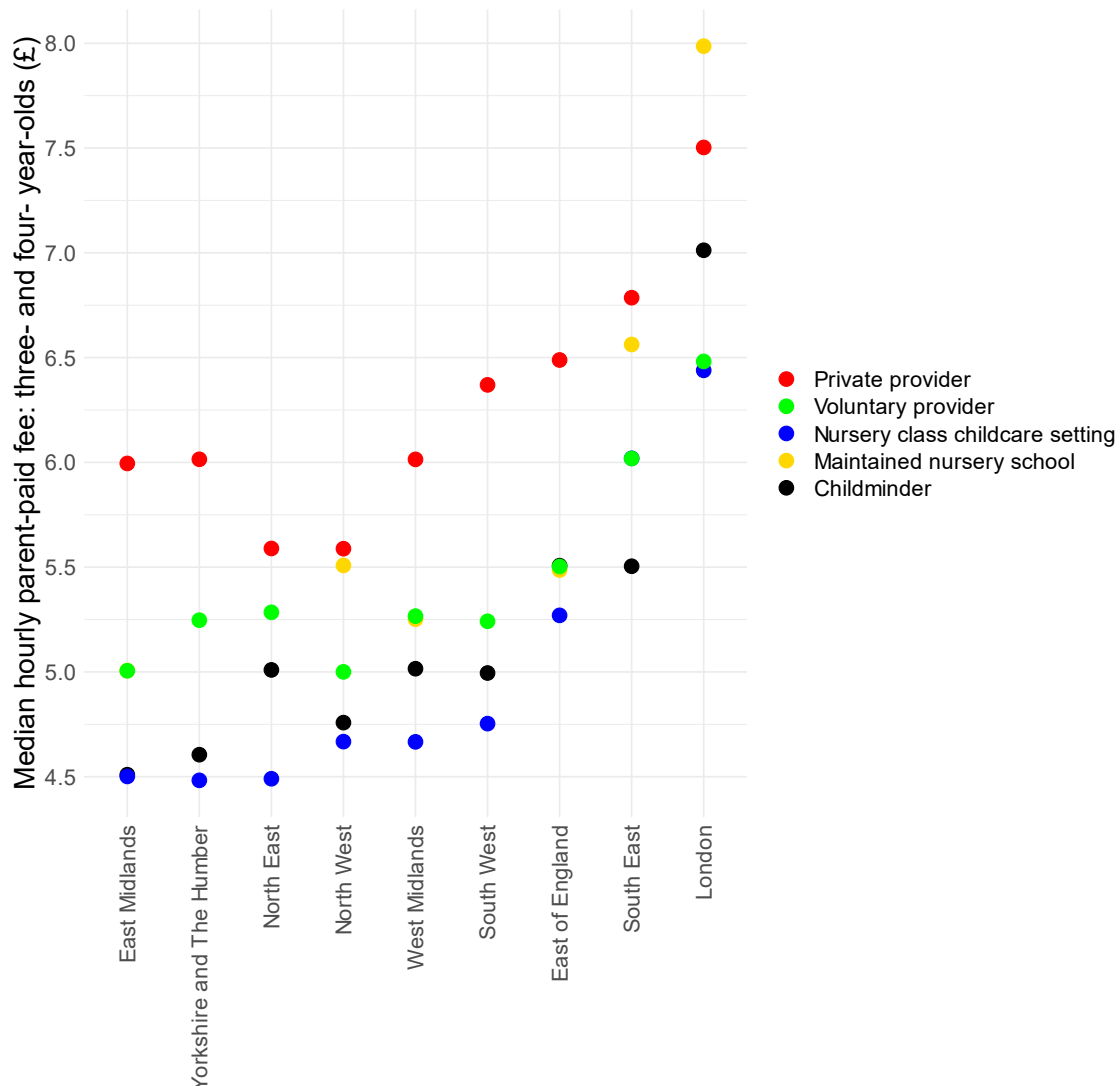
**Figure 7: Distribution of median hourly parent-paid fees for two-year-olds by provider type and region (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Note: Median hourly parent-paid fee is calculated as the average median hourly parent-paid fee for all local authorities lying within the specified region. Region-provider type pairs with no data or fewer than ten respondents are omitted from the plot to preserve anonymity.

For **three- and four-year-olds**, hourly parent-paid fees were lowest for nursery class childcare settings across all regions except the South East. As for two-year-olds, median hourly parent-paid fees were generally highest for private providers. There was substantial variation in median hourly parent-paid fees across provider types. For example, average median hourly parent-paid fees for private providers in the South West were £6.36 per hour, compared to £4.74 per hour for nursery class childcare settings.

**Figure 8: Distribution of median hourly parent-paid fees for three- and four-year-olds by provider type and region (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Note: Median hourly parent-paid fee is calculated as the average median hourly parent-paid fee for all local authorities lying within the specified region. Region-provider type pairs with no data or fewer than ten respondents are omitted from the plot to preserve anonymity.

## 4.2 Hourly entitlement funding rates

*Entitlement funding rates are the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the early years entitlement. At the time of the 2023 survey this entitlement included 15 hours for disadvantaged two-year-olds, 15 hours for all three- and four-year-olds, and a further 15 hours for three- and four-year-olds with working parents<sup>36</sup>.*

### 4.2.1 Hourly entitlement funding rates by provider type

Table 19 and Table 20 display the mean hourly entitlement funding rates and mean hourly parent-paid fees for two-year-old children and for three- and four-year-old preschool children.<sup>37</sup> The mean hourly entitlement funding rate is defined as the average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the early years entitlement<sup>38</sup>. Mean hourly parent-paid fees are defined in the same way as in Table 16 to Table 18.

The mean hourly entitlement funding rate for all providers was £5.62 for two-year-old children, and £4.83 for three- and four-year-old children. This represented a 4.5% increase compared to 2022 for two-year-old children and a 3.9% increase for three- and four-year old children.

For two-year-old children, mean hourly entitlement funding rates varied from £5.55 for childminders to £5.88 for maintained nursery schools. The relatively limited variation among provider types for two-year-olds might be explained by the entitlement being targeted at children from disadvantaged backgrounds, in contrast to the universal 15-hour entitlement for three- and four-year-olds.

There was more variation across provider types in mean hourly entitlement funding rates for three- and four-year-olds, which was again highest for maintained nursery schools (£5.68) and lowest for childminders (£4.74). This reflects the specific supplement for maintained nursery schools in the EYNFF, which is intended to compensate for their requirement to have head teachers, governing bodies and qualified teachers, unlike other providers. This may also be partly explained by the type of care that is provided by maintained nursery schools compared to other provider types. For example, 29% of

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<sup>36</sup> Further details about working parent eligibility can be found [here](#).

<sup>37</sup> Comparisons are not made for children under the age of two and school-age children, because in 2023 children in these age groups were not eligible for entitlement funding.

<sup>38</sup> These will not necessarily directly correspond with Department for Education published rates. Entitlement funding rates are calculated using the Early Years National Funding Formula (EYNFF), set up in 2017/18 and updated yearly. This formula consists of a universal base rate for each age group, and factors for additional needs (e.g., free school meal provision) that varies funding across providers. The formula also includes a cost adjustment multiplier that reflects local variation in costs and conditions and supporting workforce qualifications.

children at maintained nursery schools have SEND compared to 6% of children at childminders<sup>39</sup>.

Grouping together all provider types, mean hourly parent-paid fees were £0.45 higher than mean entitlement funding rates for two-year-old children, and £1.07 higher for three- and four-year-old children. The difference between hourly entitlement funding rates and parent-paid fees across provider types increased from 2022 to 2023 for both age groups.

The larger difference for the older age group was in part driven by the decline in hourly entitlement funding rates between two-year-olds and three- and four-year-olds. This is because the funding formula has a higher base rate for two-year-old children, as entitlement funding for two-year-olds is currently targeted at disadvantaged children.

Across all age groups and provider types, mean hourly entitlement funding rates were lower than mean hourly parent-paid fees. For two-year-olds, the deficit between mean hourly entitlement funding rates and parent-paid fees was highest for private providers (£1.37 per hour) and lowest for childminders (£0.01 per hour). For three- and four-year-olds, the deficit was greatest for private providers (£1.90 per hour) and lowest for maintained nursery schools (£0.52 per hour).

Differences between provider types (within age groups) were driven by differences in hourly parent-paid fees, as mean hourly entitlement funding rates were relatively consistent across different provider types (except for higher rates for maintained nursery schools).

However, differences between age groups within provider types are driven by age group differences in hourly entitlement funding rates, as mean hourly parent-paid fees were relatively consistent across age groups.

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<sup>39</sup> Survey of Childcare and Early Years Providers 2023 (link [here](#)).

**Table 19: Mean hourly parent-paid fees and hourly entitlement funding rates for two-year-old children (2019, 2021, 2022, and 2023)**

Provider type	Mean entitlement funding rate	Mean parent-paid fee	Difference: funding rate minus parent-paid fee	Number of providers for funding rate	Number of providers for hourly parent-paid fee
Private group-based providers					
2019	£5.09	£5.85	-£0.76	2,453	3,050
2021	£5.22	£6.21	-£0.99	2,350	2,973
2022	£5.38	£6.49	-£1.11	2,029	2,699
2023	£5.61	£6.98	-£1.37	1,808	2,482
Voluntary group-based providers					
2019	£5.11	£5.18	-£0.07	1,638	1,957
2021	£5.33	£5.56	-£0.23	1,423	1,750
2022	£5.44	£5.92	-£0.48	1,222	1,522
2023	£5.68	£6.24	-£0.66	1,061	1,310
Nursery class childcare settings					
2019	£4.99	£4.95	£0.04	381	399
2021	£5.22	£5.24	-£0.02	492	531
2022	£5.39	£6.24	-£0.85	297	447
2023	£5.63	£6.11	-£0.48	339	485
Maintained nursery schools					
2019	£5.35	£5.57	-£0.22	158	115
2021	£5.42	£6.15	-£0.73	159	132
2022	£5.61	£6.21	-£0.60	120	108
2023	£5.88	£6.60	-£0.72	98	96
Childminders					
2019	£4.98	£4.88	£0.10	1,392	5,333
2021	£5.14	£5.16	-£0.02	1,392	5,047
2022	£5.28	£5.28	£0.00	888	3,481
2023	£5.55	£5.56	-£0.01	765	3,333
All providers					
2019	£5.06	£5.16	-£0.10	6,254	11,129
2021	£5.23	£5.53	-£0.30	5,955	10,649
2022	£5.38	£5.72	-£0.34	4,737	8,485
2023	£5.62	£6.07	-£0.45	4,242	7,912
All providers except childminders					
2019	£5.10	£5.55	-£0.45	4,862	5,796
2021	£5.26	£5.94	-£0.68	4,592	5,602
2022	£5.42	£6.28	-£0.86	3,849	5,004
2023	£5.64	£6.63	-£0.99	3,477	4,579

Source: Survey of Childcare and Early Years Providers, 2019, 2021, 2022, and 2023. Note: "All providers" includes 232, 168, 181, and 171 'other' group-based providers for the hourly entitlement funding rate in 2019, 2021, 2022, and 2023 respectively. "All providers" includes 275, 216, 228, and 206 'other' group-based providers for the hourly parent-paid fee in 2019, 2021, 2022, and 2023 respectively.

**Table 20: Mean hourly parent-paid fees and hourly entitlement funding rates for three- and four-year-old children (2019, 2021, 2022, and 2023)**

Provider type	Mean entitlement funding rate	Mean parent-paid fee	Difference: funding rate minus parent-paid fee	Number of providers (funding rate)	Number of providers (parent-paid fee)
Private group-based providers					
2019	£4.36	£5.72	-£1.36	3,014	3,376
2021	£4.52	£6.10	-£1.58	2,941	3,245
2022	£4.66	£6.29	-£1.63	2,343	2,810
2023	£4.87	£6.77	-£1.90	2,110	2,560
Voluntary group-based providers					
2019	£4.31	£5.03	-£0.72	1,999	2,141
2021	£4.49	£5.36	-£0.87	1,754	1,884
2022	£4.57	£5.75	-£1.18	1,478	1,610
2023	£4.79	£5.97	-£1.18	1,295	1,385
Nursery class childcare settings					
2019	£4.48	£4.67	-£0.19	1,763	1,259
2021	£4.62	£5.01	-£0.39	2,135	1,602
2022	£4.87	£5.71	-£0.84	1,386	1,337
2023	£4.93	£5.78	-£0.85	1,406	1,442
Maintained nursery schools					
2019	£5.22	£5.30	-£0.08	196	142
2021	£5.29	£5.92	-£0.63	201	155
2022	£5.25	£5.95	-£0.70	145	132
2023	£5.68	£6.20	-£0.52	111	111
Childminders					
2019	£4.30	£4.80	-£0.50	4,221	5,624
2021	£4.42	£5.09	-£0.67	4,298	5,457
2022	£4.54	£5.22	-£0.68	2,111	3,647
2023	£4.74	£5.50	-£0.76	2,116	3,541
All providers					
2019	£4.34	£5.04	-£0.70	11,471	12,849
2021	£4.49	£5.39	-£0.90	11,539	12,583
2022	£4.65	£5.60	-£0.95	7,671	9,778
2023	£4.83	£5.90	-£1.07	7,231	9,249
All providers except childminders					
2019	£4.38	£5.34	-£0.96	7,250	7,225
2021	£4.55	£5.71	-£1.16	7,241	7,126
2022	£4.72	£5.99	-£1.27	5,560	6,131
2023	£4.88	£6.27	-£1.39	5,115	5,708

Source: Survey of Childcare and Early Years Providers, 2019, 2021, 2022, and 2023. Note: "All providers" includes 278, 210, 208, and 193 'other' group-based providers for the hourly entitlement funding rate in 2019, 2021, 2022, and 2023 respectively. "All providers" includes 307, 240, 242, and 210 'other' group-based providers for the hourly parent-paid fee in 2019, 2021, 2022, and 2023 respectively.

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

Entitlement funding rates are calculated using the Early Years National Funding Formula (EYNFF), set up in 2017/18 and updated yearly.<sup>40</sup> This formula consists of a universal base rate for each age group, and factors for additional needs, using measures of free school meal provision, disability, special educational needs, and English as an additional language to vary the funding across providers. The formula also includes a cost adjustment multiplier that reflects local variation in costs and conditions, including supplements for local deprivation, rurality, supporting flexible childcare (for example out-of-hours provision), and supporting workforce qualifications. An additional supplement is paid to maintained nursery schools.

The EYNFF generates variation in the entitlement funding rates across provider types. To visualise the variation in funding rates, Figure 9 presents the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (the median), 75<sup>th</sup> and 90<sup>th</sup> percentile self-reported hourly entitlement funding rate for all age groups and provider types.

The distribution of hourly entitlement funding rates across providers was generally tighter than the distribution of mean hourly parent-paid fees across providers.

For example, the difference in median hourly entitlement funding rates for providers in the 75<sup>th</sup> percentile and 25<sup>th</sup> percentile of the distribution for two-year-olds was £0.59 per hour, compared to a £1.75 per hour difference in median hourly parent-paid fees. Hourly entitlement funding rates are largely determined by a national funding formula that includes a minimum hourly entitlement funding rate, whereas there is no corresponding structure for hourly parent-paid fees, which are set by providers.

Across all provider types, hourly entitlement funding rates were higher for two-year-old children than for three- and four-year-old children.

The step down in hourly entitlement funding rates for older age groups is illustrated by the median hourly entitlement funding rate for two-year-old children (£5.57 per hour) being higher than the hourly entitlement funding rate associated with the 90<sup>th</sup> percentile for three- and four-year old children (£5.50 per hour).

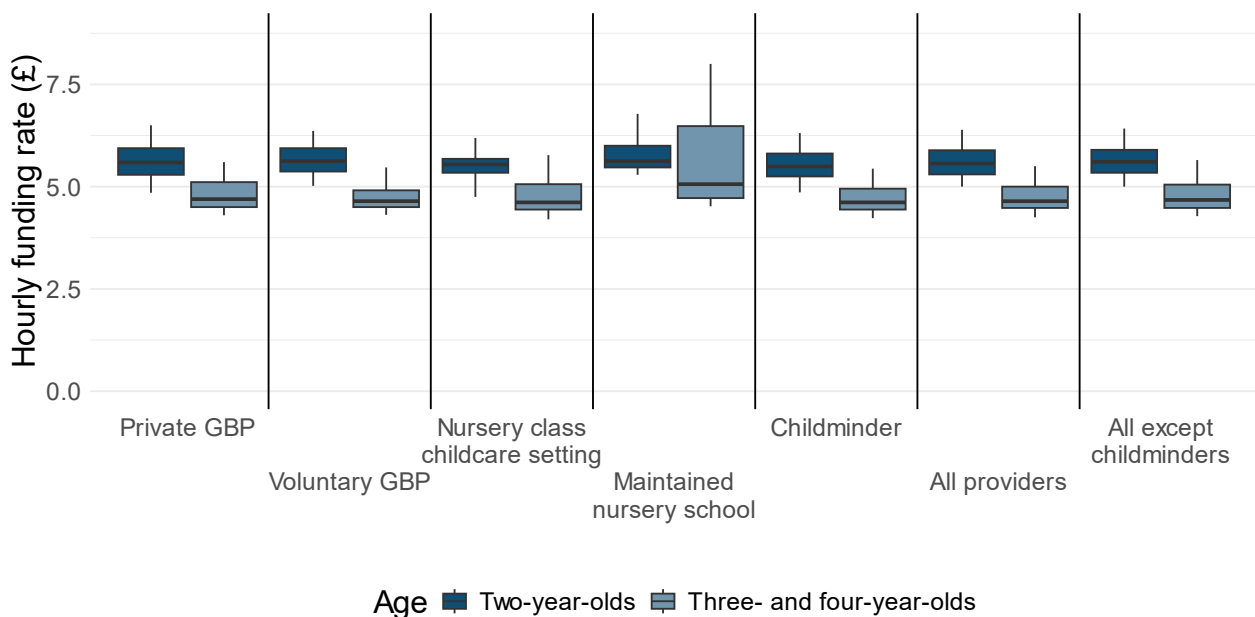
This step change in hourly entitlement funding rates between the two age groups reflects the funding formula having a higher base rate for two-year-old children, as entitlement funding for this age group is currently targeted at disadvantaged children, as well as higher cost of childcare for younger children due to differences in staff-to-child ratio requirements.

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<sup>40</sup> Details of the formula are published on gov.uk (link [here](#))

The difference in hourly entitlement funding rate levels between age groups was such that the 10<sup>th</sup> percentile hourly funding rate for two-year-old children for voluntary group-based providers (£5.37 per hour) was only slightly below the 90<sup>th</sup> percentile funding rate for three- and four-year-old children (£5.47 per hour).

**Figure 9: Distribution of hourly entitlement funding rates by age of child and provider type (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Note: The bottom whisker reports the 10<sup>th</sup> percentile for the provider type, where the providers have been ranked by hourly funding rates, while the top whisker reports the 90<sup>th</sup> percentile. The bottom of the box presents the 25<sup>th</sup> percentile, the middle line within the box the 50<sup>th</sup> percentile (the median), and the top of the box the 75<sup>th</sup> percentile. The interquartile range is the distance between the top and bottom of the box.

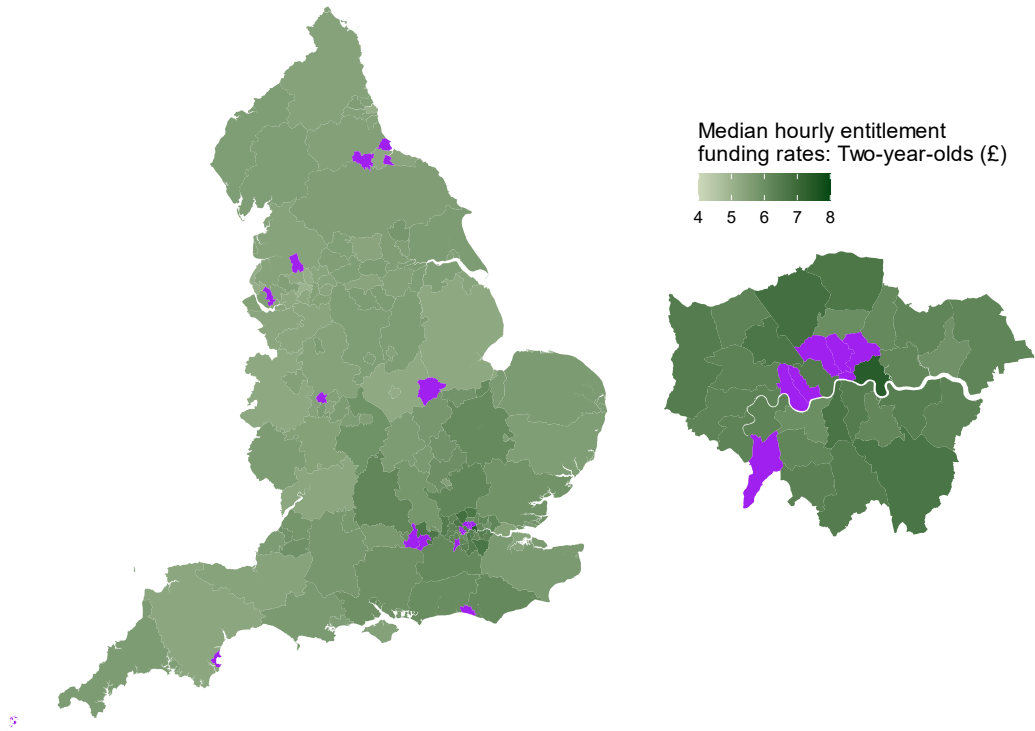
Median hourly entitlement funding rates were higher for maintained nursery schools compared to other provider types for reasons explained previously. Maintained nursery schools also had a wider distribution of entitlement funding rates, particularly for three- and four-year-old children. The interquartile range for maintained nursery schools (the difference between the 25<sup>th</sup> and 75<sup>th</sup> percentile funding rates) for three- and four-year-old children was £1.76 per hour, compared to £0.53 per hour for two-year-old children.

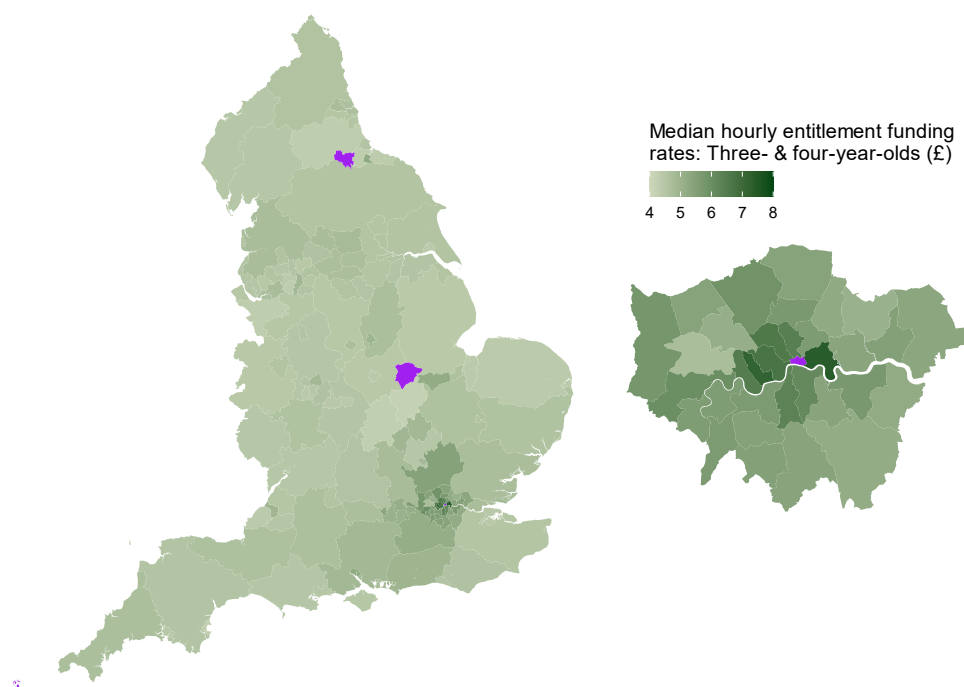
### 4.2.3 Regional variation in hourly entitlement funding rates

Figure 10 displays the distribution of median hourly entitlement funding rates by Local Authority for two-year-old children and three- and four-year-old children. Darker areas represent Local Authorities with higher median hourly entitlement funding rates<sup>41</sup>.

<sup>41</sup> Areas with fewer than ten provider responses have been shaded purple to avoid statistical disclosure of small samples.

**Figure 10: Distribution of hourly entitlement funding rates by age of child and Local Authority (2023)**





Source: Survey of Childcare and Early Years Providers 2023. Note: Level of geography is ONS 'Counties and Unitary Authorities'. Areas with no data or fewer than ten respondents are shaded purple to preserve anonymity.

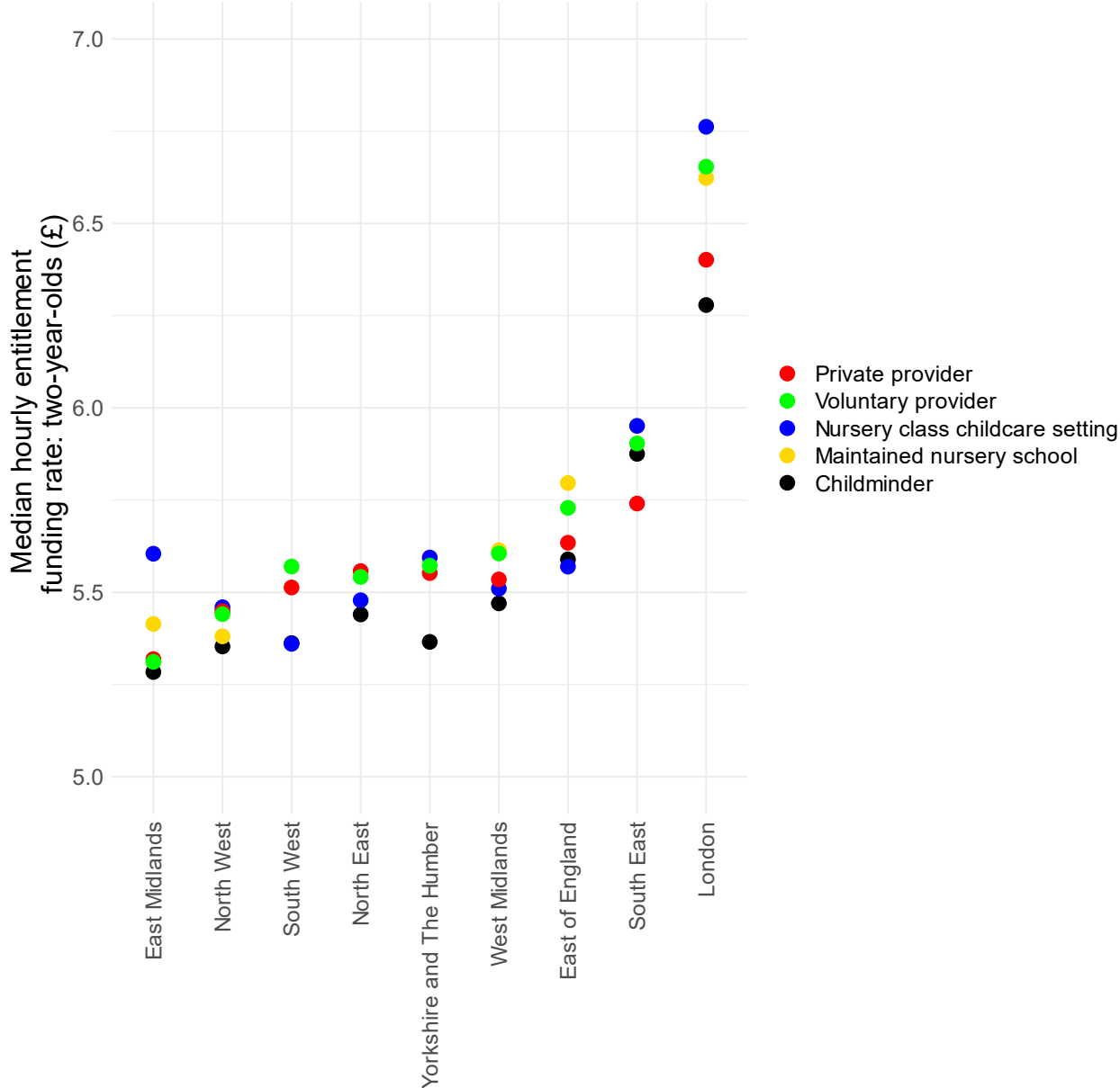
For two-year-old children, median hourly entitlement funding rates were highest in areas of London including Tower Hamlets (£7.07 per hour) and Barnet (£6.82 per hour), and lowest in areas of the North West and North East such as Blackpool (£5.24 per hour) and South Tyneside (£5.10 per hour). The low median hourly entitlement funding rate in Blackpool illustrates the impact of a wider set of factors in the hourly entitlement funding rate (e.g., though not relevant in the examples presented here, additional funding for rural areas).

For three- and four-year-old children, median hourly entitlement funding rates were also highest in London boroughs such as Hammersmith and Fulham, and Tower Hamlets. The high median hourly entitlement funding rates in Tower Hamlets demonstrates that hourly entitlement funding rates reflect other factors such as measures of local deprivation.

Regional differences in hourly entitlement funding rates between provider types are explored in more detail in Figure 11 and Figure 12. Median hourly entitlement funding rates for different provider types for two-year-old children are displayed in Figure 11. The disparity in median hourly entitlement funding rates between London and the rest of England is such that the lowest median hourly entitlement funding rate in London (for childminders) was greater than the highest median hourly entitlement funding rate across all other regions.

The within-region disparity in hourly entitlement funding rates across provider types was also higher in London than any other region. The difference between the highest provider hourly entitlement funding rate (£6.78 for nursery class childcare settings) and the lowest (£6.27 for childminders) was £0.51, compared to £0.30 in the East Midlands, the region with the second highest range.

**Figure 11: Distribution of median hourly entitlement funding rates for two-year-olds by provider type and region (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Note: Median hourly funding rate is calculated as the average median hourly funding rate for all local authorities lying within the specified region. Regions with no data or fewer than ten respondents are omitted from the plot to preserve anonymity.

The corresponding distribution of median hourly entitlement funding rates for three- and four-year-olds is displayed in Figure 12. As for two-year-old children, median hourly entitlement funding rates in London were higher for all provider types than for the

provider type with the highest hourly entitlement funding rate in all other regions. For example, the median hourly entitlement funding rate for private providers was £5.43 per hour in London, compared to £4.70 per hour in England as a whole.

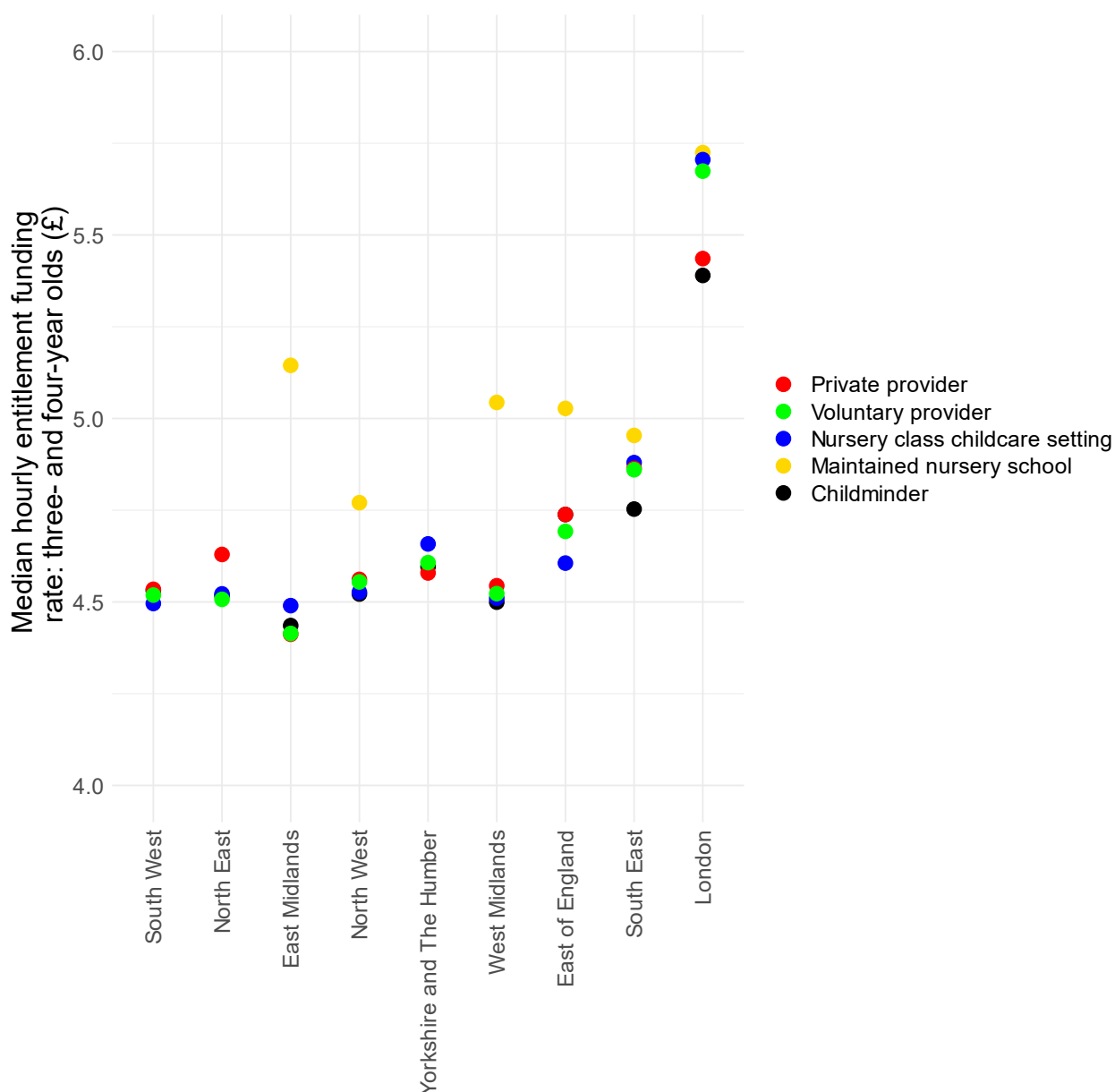
In contrast to the results for two-year-olds, maintained nursery schools had the highest hourly entitlement funding rate across all regions. The distribution of hourly entitlement funding rates across providers varied widely across regions. For example, the hourly entitlement funding rate for maintained nursery schools in the East Midlands was £5.13 per hour, compared to the second-highest entitlement funding rate £4.46 per hour – a difference of £0.67. In contrast, the difference between the highest and second-highest provider hourly entitlement funding rates was £0.12 in the South East.

Regional variation in hourly entitlement funding rates does not match regional variation in Gross Domestic Household Income (GDHI) as closely as hourly parent-paid fees do, with hourly entitlement funding rates less variable over regions. Additionally, the regions with the lowest GDHI (the North East and Yorkshire and the Humber) do not have the lowest hourly entitlement funding rates. This is because the calculation of entitlement funding is not solely based on considerations of cost of living, which will match regional variation in incomes, but also other regional factors such as local deprivation measures and measures of rurality and sparsity.<sup>42</sup> The consideration of these other factors in setting funding rates acts to standardise funding rates across regions with different average household incomes.

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<sup>42</sup> These factors, among others, are referenced in the EYNFF operational guide (link [here](#))

**Figure 12: Distribution of median hourly entitlement funding rates for three- and four-year-olds by provider type and region (2023)**

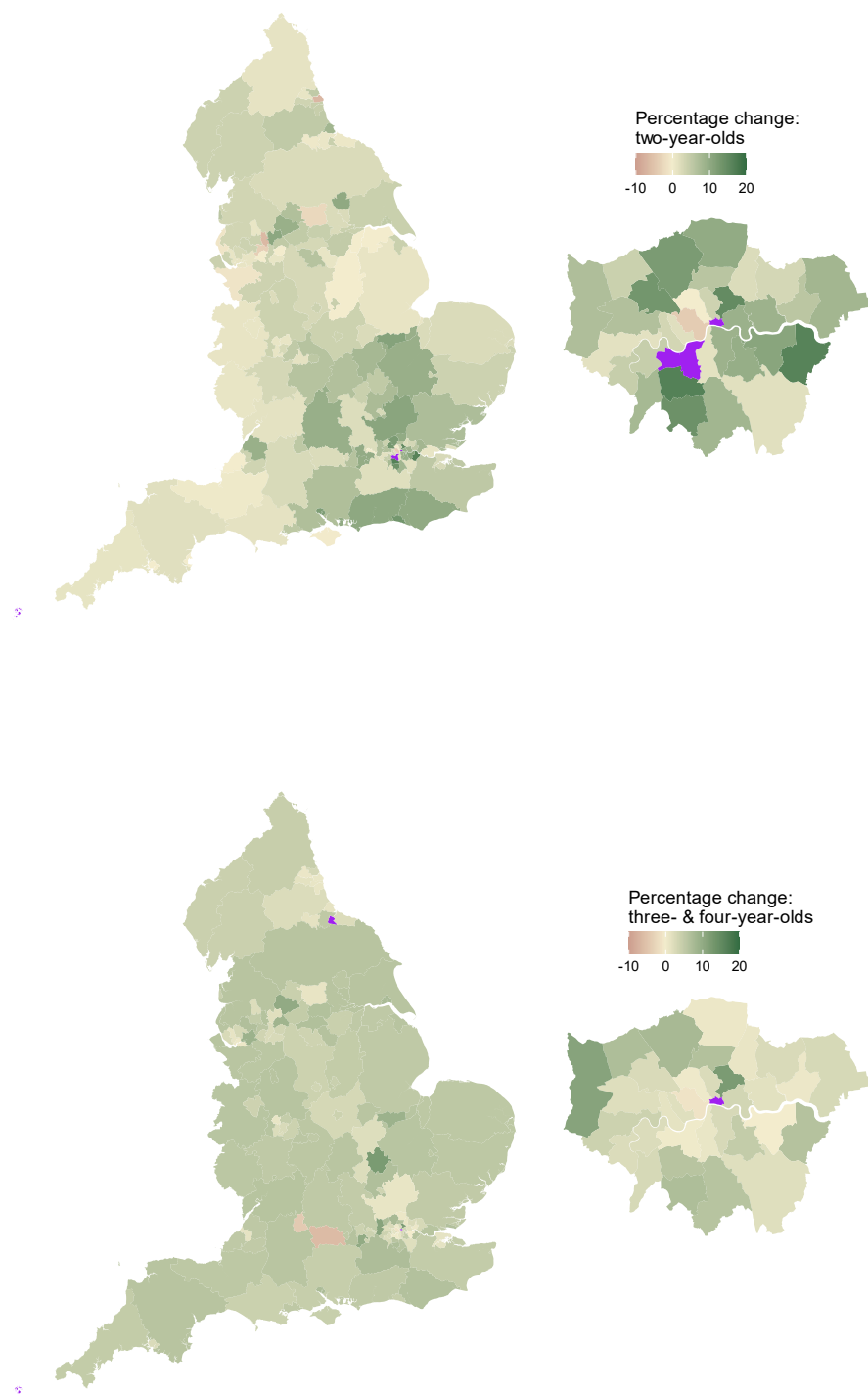


Source: Survey of Childcare and Early Years Providers 2023. Note: Median hourly funding rate is calculated as the average median hourly funding rate for all local authorities lying within the specified region. Regions with no data or fewer than ten respondents are omitted from the plot to preserve anonymity.

#### 4.2.4 Changes in hourly entitlement funding rates

Figure 13 explores regional differences in the change in hourly median entitlement funding rates from 2022 to 2023 by age group. Areas where hourly median entitlement funding rates increased are shown in shades of green, and areas where they decreased are shown in shades of red.

**Figure 13: Percentage change in hourly entitlement funding rates from 2022 to 2023 by age of child and Local Authority**



Source: Survey of Childcare and Early Years Providers 2023. Note: Level of geography is ONS 'Counties and Unitary Authorities'. Areas with no data or fewer than ten respondents are shaded purple to preserve anonymity.

For two-year-old children, median hourly entitlement funding rates increased in the vast majority of local authorities between 2022 and 2023. London boroughs also saw some of the largest increases in hourly entitlement funding rates between 2022 and 2023. For example, median hourly entitlement funding rates increased by 16.6% in Merton, 16.3% in Bexley, and 14.9% in Hackney, compared to a national average increase of 3.3%.

Changes in median hourly entitlement funding rates were broadly similar for three- and four-year-old children, with most regions seeing an increase in hourly entitlement funding rates. Nationally, the increase in the median hourly entitlement funding rate was 4.7%. As was the case for two-year-old children, increases in median hourly entitlement funding rates for three- and four-year-old children were highest in areas of London including Hackney (12.4%) and Hillingdon (11.2%). Otherwise, changes in median hourly entitlement funding rates were relatively evenly distributed across the rest of England.

### **4.3 Comparing hourly parent-paid fees and hourly entitlement funding rates**

The following section examines differences in hourly parent-paid fees and hourly entitlement funding rates across age groups and Local Authorities.

Figure 14 and Figure 15 compare median hourly parent-paid fees to median hourly entitlement funding rates by age group and Local Authority. Each dot represents the median hourly entitlement funding rate and parent-paid fee for one local authority. The dashed 45-degree line represents the line where median hourly entitlement funding rates and parent-paid fees would be equal. Local authorities to the left of the line have higher median entitlement funding rates than hourly parent-paid fees, whereas the opposite is true for local authorities on the right of the line.

For two-year-old children, Local Authorities with higher median parent-paid fees also generally had higher median hourly entitlement funding rates. However, the trend increase in median hourly entitlement funding rates was flatter than the dashed 45-degree line. This result is consistent with the finding that parent-paid fees across regions were more variable than hourly entitlement funding rates (Figure 4 and Figure 10).

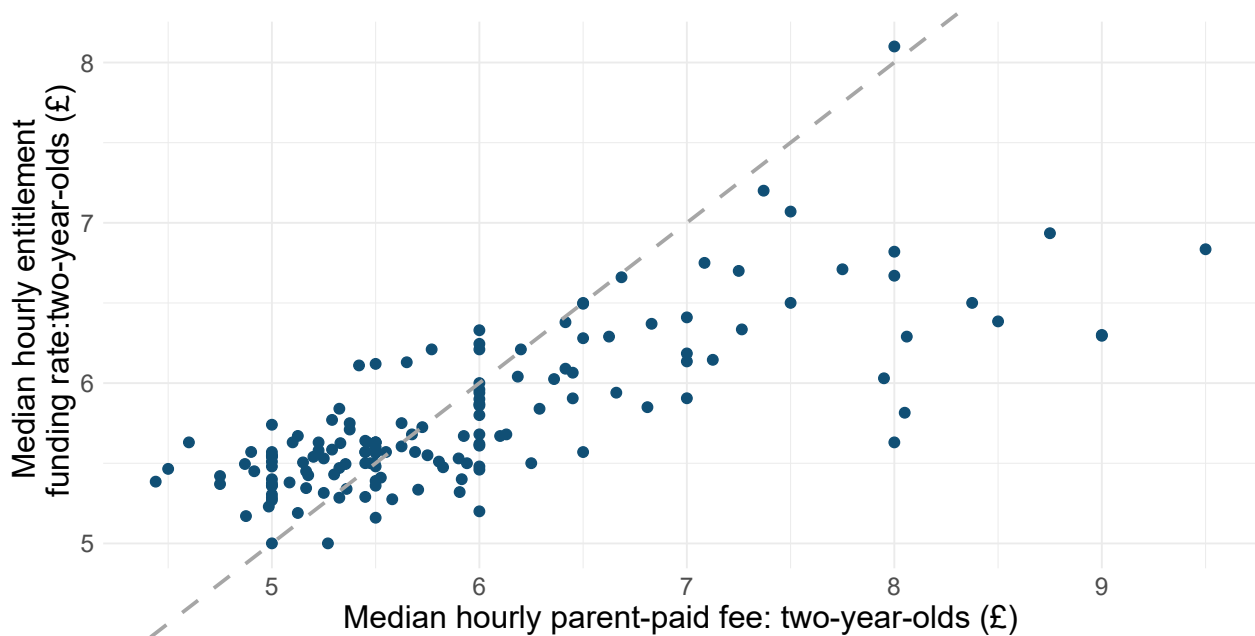
For three- and four-year-old children, very few local authorities had a median hourly entitlement funding rate that was greater than their median hourly parent-paid fee. This finding reflects the general reduction in hourly entitlement funding rates for three- and four-year-old children (relative to those for two-year-olds).

Similar to the results for two-year-old children, local authorities with higher median hourly parent-paid fees also had a higher gap between median hourly entitlement funding rates and median parent paid fees, relative to local authorities with lower median hourly

entitlement funding rates. For example, the median hourly parent-paid fees for two-year-old children in Hammersmith and Fulham (£9.50) was £2.66 higher than the median hourly entitlement funding rate of £6.84. In contrast, the median hourly parent-paid fees for two-year-old children in Rotherham (£4.38) was £1.22 lower than the median hourly entitlement funding rate of £5.60.

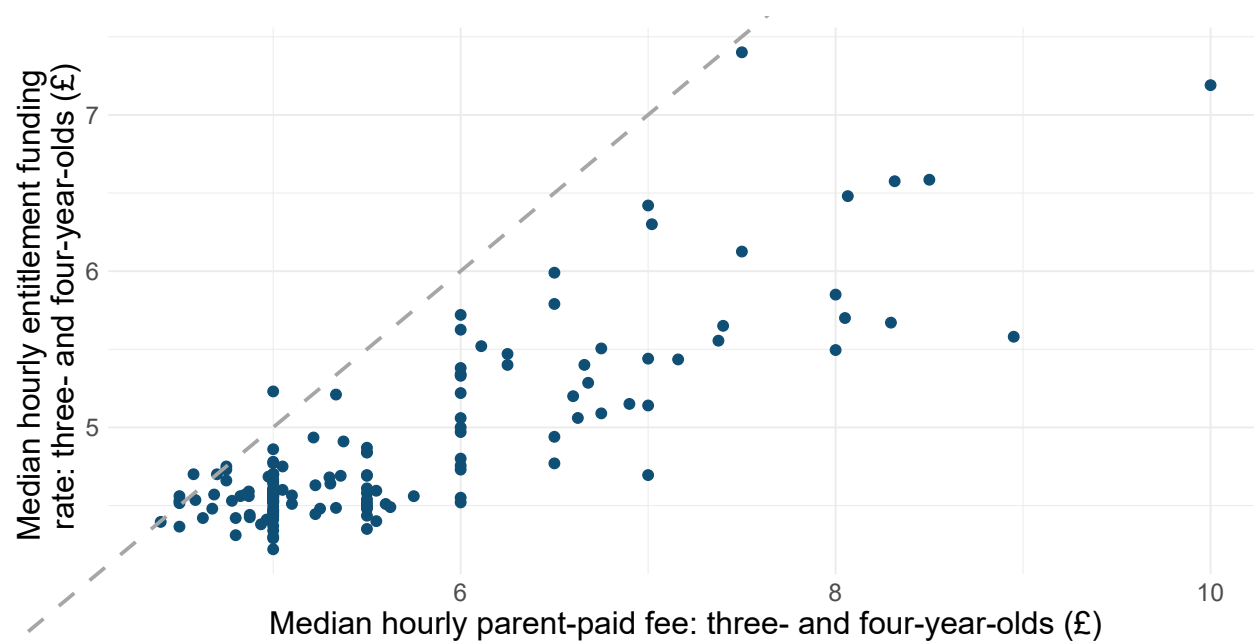
The results from Figure 14 and Figure 15 are further explored in Figure 16, which displays a heatmap of the difference between median entitlement funding rates and median parent-paid fees by local authority and age group. Local authorities that had higher median hourly entitlement funding rates than median hourly parent-paid fees are shown in shades of green, while local authorities that had higher median hourly parent-paid fees are shown in shades of red. Areas where the proposed expansion of childcare provision might prove to be most challenging to providers are those shaded in dark red.

**Figure 14: Median hourly parent-paid fees and median hourly entitlement funding rate for two-year-olds by local authority (2023)**



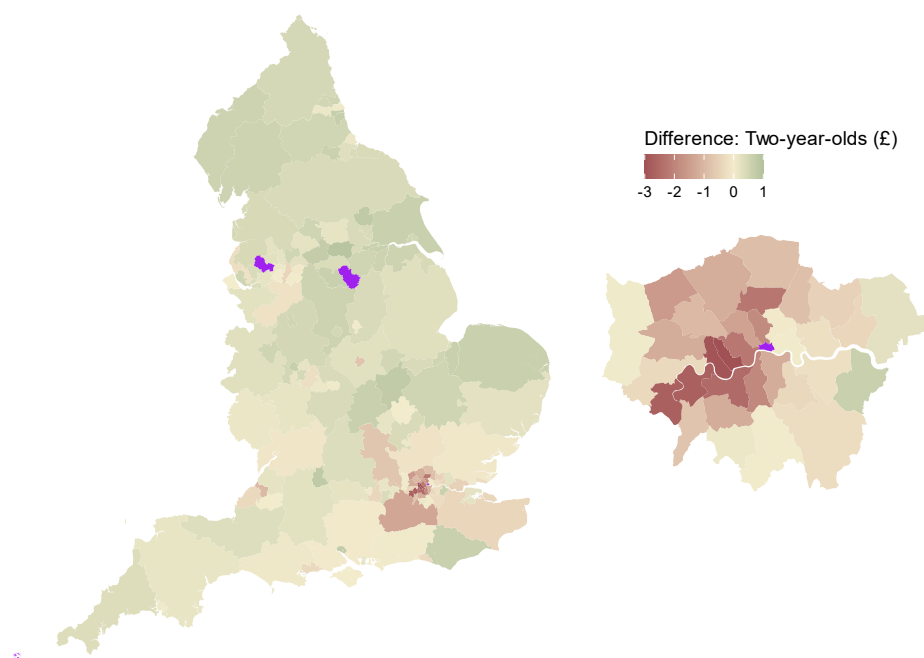
Source: Survey of Childcare and Early Years Providers 2023. Note: Each dot represents one local authority. Local authorities with no data or fewer than ten respondents are removed from the plot.

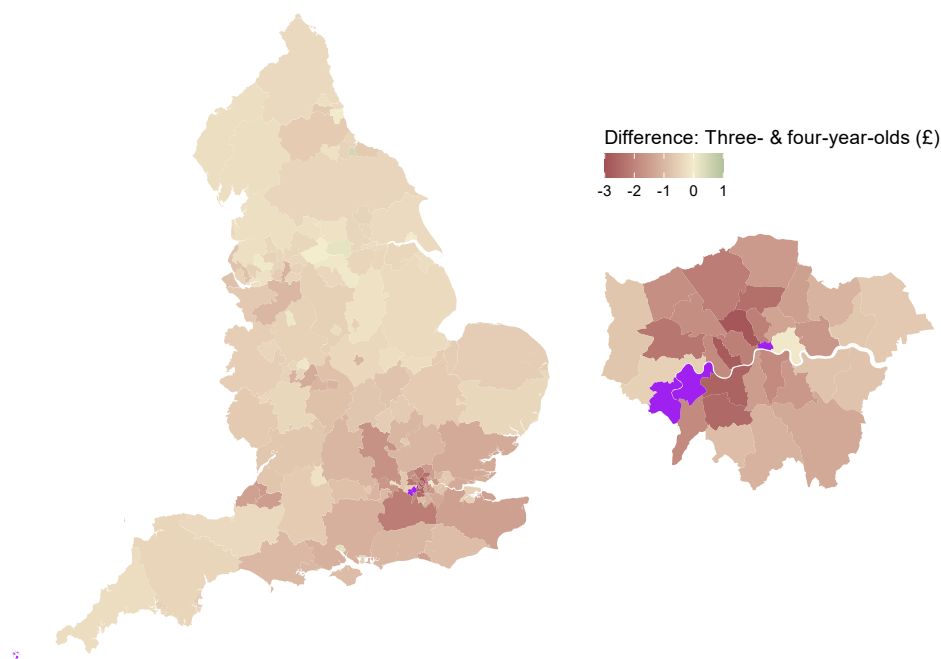
**Figure 15: Median hourly parent-paid fees and median hourly entitlement funding rate for three- and four-year-olds by local authority (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Note: Each dot represents one local authority. Local authorities with no data or fewer than ten respondents are removed from the plot.

**Figure 16: Difference between median hourly entitlement funding rate and hourly parent-paid fees by region and age group (2023)**





Source: Survey of Childcare and Early Years Providers 2023. Note: Level of geography is ONS 'Counties and Unitary Authorities'. Areas with no data or fewer than ten respondents are shaded purple to preserve anonymity.

For two-year-old children, median hourly entitlement funding rates were lower relative to hourly parent-paid fees (in absolute terms) in most boroughs in London. Boroughs in south west London (for example, Hammersmith and Fulham, Kensington and Chelsea, and Richmond) had the greatest difference between hourly entitlement funding rates and hourly parent-paid fees in absolute terms (e.g., £3.00 per hour in Kensington and Chelsea). However, this was not always the case, with some boroughs in east London (for example Bexley and Havering) having higher median hourly entitlement funding rates than median hourly parent-paid fees.

For three- and four-year-olds, median hourly entitlement funding rates are lower than hourly parent-paid fees across most local authorities, though hourly parent-paid fees were greatest relative to hourly entitlement funding rates (in absolute terms) in boroughs in London (and in south west London in particular), and the wider South East in areas within commuting distance to London.

## 4.4 Use of additional charges

Income from additional charges is a small fraction of the 6% of all providers' income that did not come from either parent-paid fees or entitlement funding (as reported under 'other' income, which also includes voluntary support, local authority or government

grants for specific items, and other uncategorised income). From a different perspective, additional charges represent only 2.2% of all providers' income that is derived directly from parent-paid fees<sup>43</sup>.

### **Use of additional charges**

Figure 17 shows that 75% of all providers imposed some form of additional charges for parents in 2023, rising to 83% of providers when excluding childminders. This proportion was highest for private providers (87%) and nursery class childcare settings (82%). Only 65% of childminders made additional charges to parents despite childminders having the highest proportion of costs attributable to food and materials (Table 3)<sup>44</sup>.

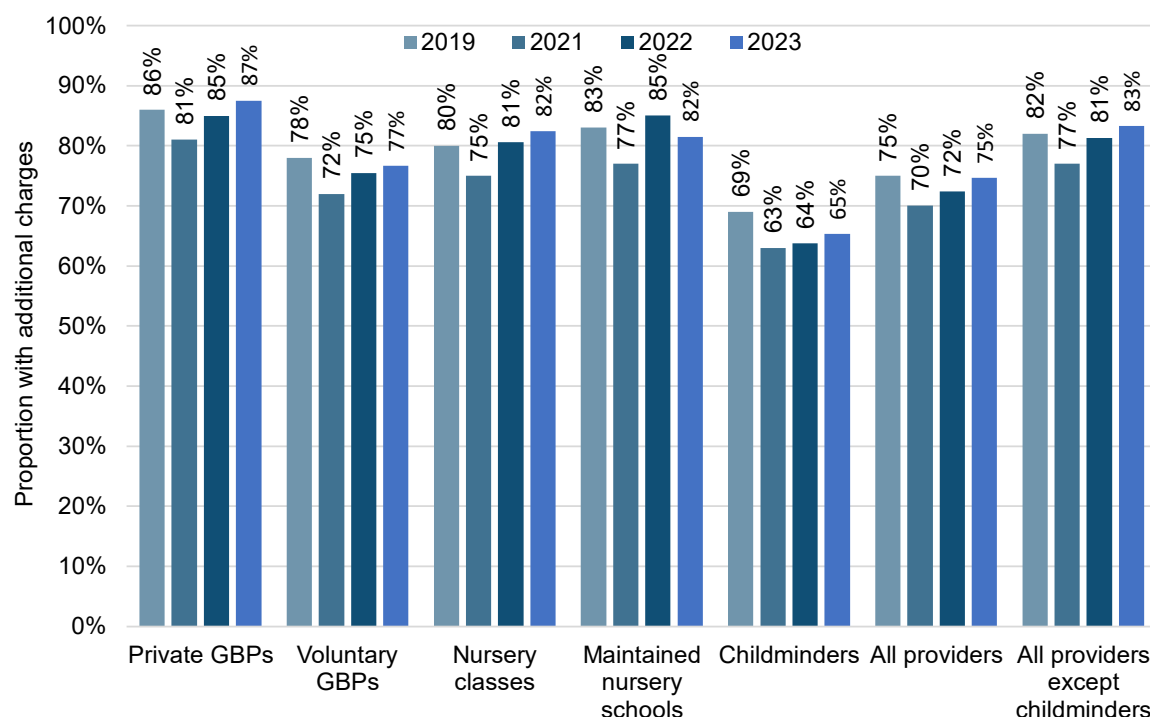
The use of additional charges increased from 2022 to 2023 across all provider types except for maintained nursery schools. Despite the general increase in the proportion of providers applying additional charges from 2021 to 2023, the proportion of providers using additional charges is broadly in line with the proportion using additional charges in 2019. Further, COVID-19 restrictions in 2021 would have likely reduced the frequency of additional activities such as outings which is consistent with a smaller proportion of providers making additional charges to parents in 2021 than in other years.

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<sup>43</sup> Providers' income from additional charges was 1.3% of all providers' income, while Table 4 reports that 58% of all providers' income comes from parent-paid fees.

<sup>44</sup> This can partly be explained by a smaller proportion of childminders (compared to most other provider types) using additional charges for items such as food, as discussed later.

**Figure 17: Proportion of providers making additional charges to parents by provider type (2019, 2021, 2022, and 2023)**



Source: Survey of Childcare and Early Years Providers, 2019, 2021, 2022, and 2023.

## Use of different kinds of additional charges

Figure 17 shows a modest increase in the proportion of childcare providers making additional charges from 2022 to 2023. The following section breaks down additional charges by specific items, as reported in Table 21.

In 2023, the additional charges that the largest proportion of providers made were for unarranged late pickups (43%), one-off activities (39%) and meals (35%).

However, there was considerable variation in the use of different types of charges across provider types.

- Additional charges relating to meals were more likely to be found in nursery class childcare settings (54%), private group-based providers (44%), and maintained nursery schools (44%). Additional charges relating to meals were less prevalent among childminders (24%) and voluntary group-based providers (22%).
- The proportion of providers making additional charges for consumables (e.g., nappies and suncream) were generally low across all provider types (12%), but particularly among nursery class childcare settings and maintained nursery schools (3% and 5%, respectively) which is consistent with older children (who

make up a larger proportion of children at school-based providers) needing fewer consumables such as nappies. In comparison, 20% of private group-based providers had additional charges for consumables.

- There was considerable variation in the use of additional charges for unarranged late pickups, with 67% of private group-based providers making these charges compared with 17% of nursery class childcare settings. Nursery class childcare settings may be required to close when the rest of the school closes (87% close before 4pm<sup>45</sup>) whereas other provider types may not face the same constraints, which may explain differences in the use of additional charges for late pickups.
- 44% of private group-based providers made additional charges for registration and other administration tasks. However, these charges were not widespread among nursery class childcare settings, maintained nursery schools, and childminders (5%, 8%, and 4% respectively).

**Table 21: Proportion of providers using different kinds of additional charges (2023)**

	Private group-based providers	Voluntary group-based providers	Nursery class childcare settings	Maintained nursery schools	Childminders	All providers	All providers except childminders
Meals	44%	22%	54%	44%	24%	35%	44%
Snacks	28%	26%	11%	25%	13%	17%	20%
Consumables	20%	14%	3%	5%	12%	12%	11%
Regular activities	20%	10%	8%	4%	16%	14%	13%
One-off activities	32%	33%	57%	43%	37%	39%	42%
Unarranged late pickups	67%	46%	17%	42%	43%	43%	43%
Registration or other administration	44%	23%	5%	8%	4%	14%	23%
Other items	5%	5%	8%	6%	3%	5%	7%
Number of providers	4,273	2,151	2,529	140	5,114	14,567	9,453

Source: Survey of Childcare and Early Years Providers 2023. Note: "All providers" also includes 360 'other' group-based providers. 'Other items' consists of additional charges for uniforms, transport, late payment fees, additional hours or sessions, or any other specific answer given.

<sup>45</sup> Survey of Childcare and Early Years Providers 2023 (link [here](#)).

Table 22 shows how the proportion of providers using additional charges changed between 2022 and 2023 in terms of percentage point differences:

- The proportion of providers using additional charges increased or stayed the same across all types of additional charge for all provider types except maintained nursery schools.
- The proportion of all providers using additional charges increased by three percentage points for meals, snacks, consumables, and unarranged late pickups.
- The percentage point increase in the proportion of providers using additional charges was lower for regular and one-off activities, and for “other” items.

**Table 22: Percentage point change from 2022 to 2023 in the proportion of providers using different kinds of additional charges**

Proportion of costs in category	Private providers	Voluntary providers	Nursery class childcare settings	Maintained nursery schools	Childminders	All providers	All providers except childminders
Meals	3pp	2pp	3pp	-5pp	1pp	3pp	3pp
Snacks	4pp	2pp	1pp	-3pp	3pp	3pp	1pp
Consumables	4pp	3pp	1pp	1pp	2pp	3pp	2pp
Regular activities	2pp	1pp	0pp	-2pp	3pp	1pp	1pp
One-off activities	2pp	3pp	1pp	-2pp	2pp	1pp	2pp
Unarranged late pickups	7pp	4pp	2pp	5pp	2pp	3pp	4pp
Registration or other administration	6pp	3pp	1pp	4pp	1pp	2pp	2pp
Other items	1pp	1pp	2pp	-6pp	1pp	1pp	2pp

Source: Survey of Childcare and Early Years Providers 2022 and 2023. Note: ‘Other items’ consists of additional charges for uniforms, transport, late payment fees, additional hours or sessions, or any other specific answer given.

Within private and voluntary group-based providers and maintained nursery schools, the percentage point increase in the proportion of providers using additional charges was larger for procedural activities such as unarranged late pickups and registration or other administration than for expenditure on physical goods such as meals or consumables. These findings suggest that these provider types may be shifting towards using additional charges for procedural components of their day-to-day activities instead of charges for goods and services.

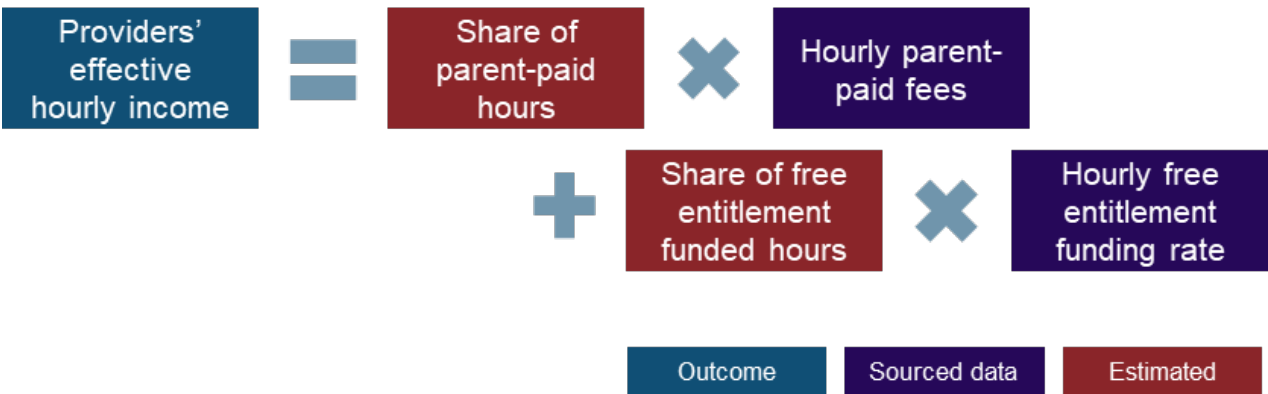
# 5. Hourly effective income

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

A measure of providers’ hourly effective income was calculated by taking a weighted average of hourly parent-paid fees and hourly entitlement funding rates, weighted by the share of hours paid for by each source of income. This is set out in Figure 18 (see the Appendix for more information about the methodology and how shares of parent-paid hours and entitlement funded hours are estimated).

This measure presents an estimate of providers’ income per hour of care provided, some of which will be parent-paid hours and others of which will be entitlement hours. Hourly effective income captures the extent to which providers’ incomes come from either parent-paid hours or entitlement hours. This measure does not include income from other sources, which is important to note given variation in the proportion of income that comes from other sources across provider types (e.g., 18% of maintained nursery schools’ income compared to only 3% of childminders’ income).

**Figure 18: Calculation of providers’ hourly effective income**



## 5.1 Hourly effective income by provider type

Table 23 shows the median hourly effective income by provider type for two-year-old children and for three- and four-year-old children. The median hourly effective income for two-year-old children was £5.76 per hour, or £5.81 excluding childminders. The median hourly effective income was highest for private providers (£6.00) and maintained nursery schools (£5.85), and lowest for childminders (£5.15).

For three- and four-year-old children, median hourly effective income across all providers was £4.90 per hour and remained the same when childminders were excluded. As for

two-year-old children, median hourly effective income was highest for private providers (£5.12) and maintained nursery schools (£5.05). The lowest median effective income was for nursery class childcare settings, reflecting the relatively higher share of childcare hours funded through entitlement funding for this provider type.

Across all provider types, median hourly effective income was higher for two-year-old children than for three- and four-year-old children. In general, the gap in median hourly effective income between two-year-old children and three- and four-year-old children was roughly similar across provider types (ranging from £0.80 to £0.87), except for childminders, where the gap was £0.25. This finding is largely due to the lower hourly parent-paid fees for two-year-old children charged by childminders relative to other provider types (Table 17).

**Table 23: Median hourly effective income for two-year-old children and three- and four-year-old children (2023)**

Provider type	Two-year-old children	Three- and four-year old children	Number of providers for two-year-old children	Number of providers for three- and four-year-old
Private group-based providers	£6.00	£5.12	243	274
Voluntary group-based providers	£5.69	£4.84	177	227
Nursery class childcare settings	£5.41	£4.59	50	152
Maintained nursery schools	£5.85	£5.05	21	27
Childminders	£5.15	£4.90	19	76
All providers	£5.76	£4.90	531	779
All providers except childminders	£5.81	£4.90	512	703

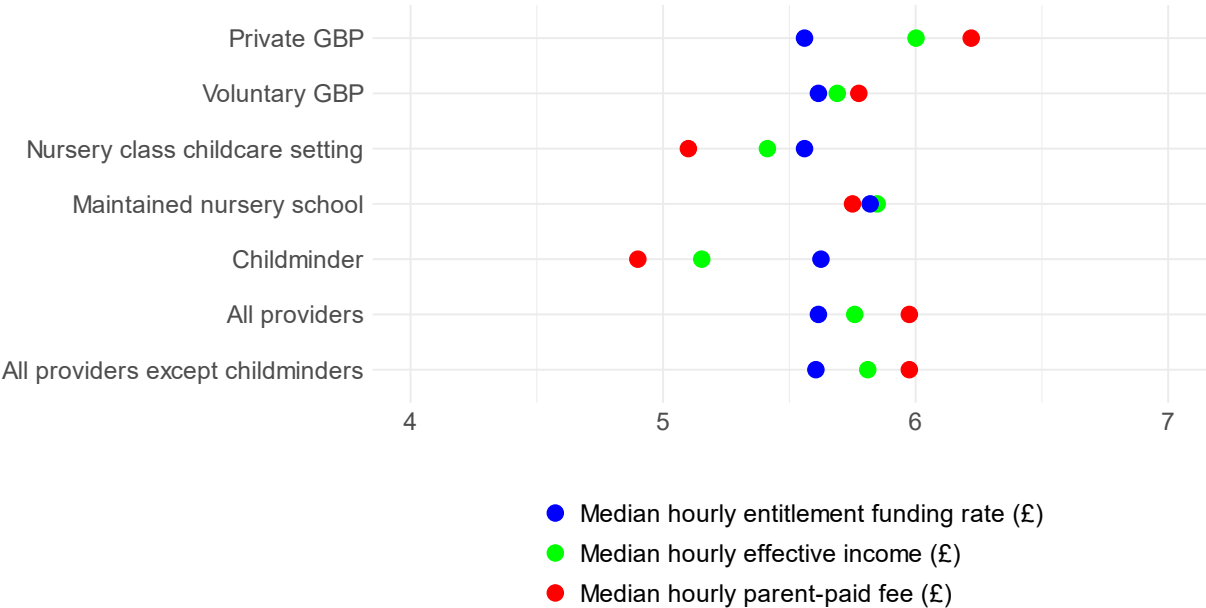
Source: Survey of Childcare and Early Years Providers 2023. Note: “All providers” includes 21 ‘other’ group-based providers for two-year-old children and 23 ‘other’ group-based providers for three- and four-year-old children.

It should be noted that estimates of median hourly effective income in Table 23 may not be directly comparable to estimates of hourly entitlement funding rates and hourly parent-paid fees (e.g., Table 19). This is for two reasons. Firstly, estimates reported in tables such as Table 19 are mean estimates rather than median estimates. Secondly, the sample used to estimate median hourly effective income is much smaller than that used to estimate hourly entitlement funding rates and hourly parent-paid fees, as more information (e.g., income from providing care for two-year-olds) is required to estimate hourly effective income. For example, 765 childminders’ responses are used to estimate the mean hourly entitlement funding rate in Table 19 for two-year-olds, while responses from only 19 childminders are used to estimate the median hourly effective income for two-year-olds in Table 23.

Figure 19 and Figure 20 compare providers' median hourly effective income with their median hourly entitlement funding rate and median hourly parent-paid fees, for two-year-old children and for three- and four-year-old children, respectively.<sup>46</sup>

While the median hourly effective income should generally lie between the median hourly entitlement funding rate and the median hourly parent-paid fee, there may be cases where it does not. This is because the provider that is the median provider by hourly effective income may not be the same provider that is the median provider by hourly entitlement funding rate<sup>47</sup>.

**Figure 19: Median hourly effective income, hourly parent-paid fees, and hourly entitlement funding rates, for two-year-old children by provider type (2023)**

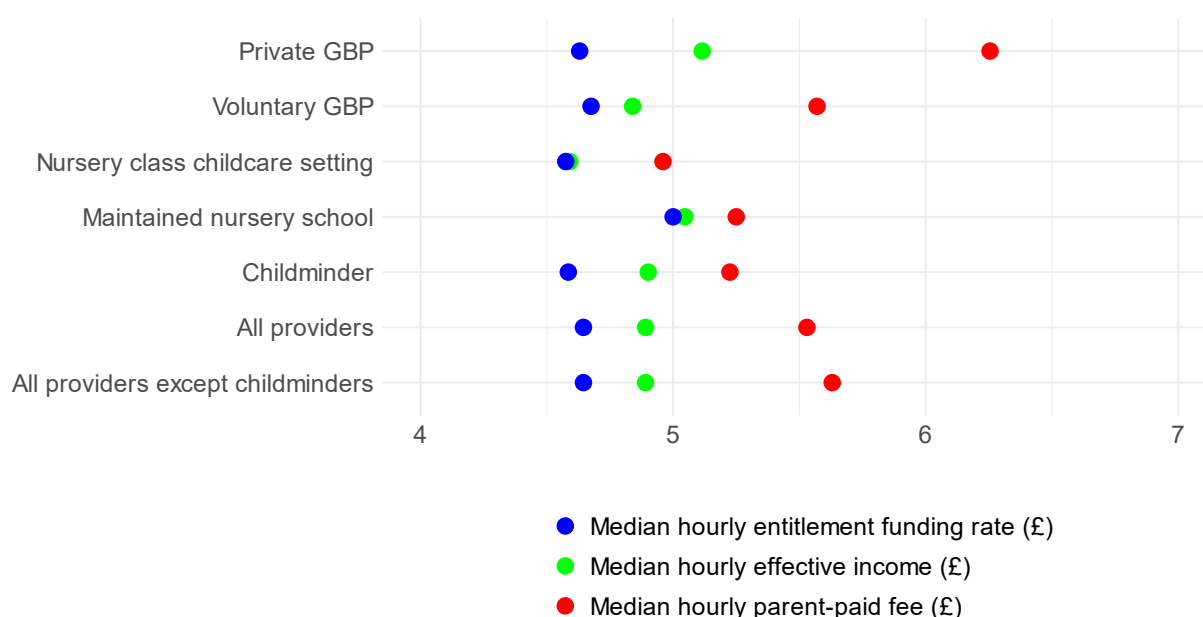


Source: Survey of Childcare and Early Years Providers 2023. Note: Number of providers are as reported in Table 23.

<sup>46</sup> The median values for hourly parent-paid fees and hourly entitlement funding rates in the figures were calculated over the sample of providers with hourly effective income data, in order to be able to compare the measures. This is a smaller number of observations than used in Chapter 4, and so the hourly parent-paid fee and hourly entitlement funding rate values in Figure 19 and Figure 20 may differ marginally from those in the previous chapter. As reported in Table 9, the sample used to calculate hourly parent-paid fees and hourly entitlement funding rates for the comparisons in this chapter are 531 providers for two-year-old children and 779 providers for three- and four-year-old children. In Chapter 4, hourly entitlement funding rate statistics are based on a sample of 4,242 providers for two-year-old children and 7,231 providers for three- and four-year-old children. Hourly parent-paid fee statistics are based on a sample of 7,912 providers for two-year-old children and 9,249 providers for three- and four-year-old children.

<sup>47</sup> In contrast, it would not be possible for the median hourly effective income to be outside of the range between the median hourly entitlement funding rate and the median hourly parent-paid fee if the median providers by hourly effective income, the median provider by hourly entitlement funding rate, and the median provider by hourly parent-paid fees were all the same.

**Figure 20: Median hourly effective income, hourly parent-paid fees, and hourly entitlement funding rates, for three- and four-year-old children by provider type (2023)**



Source: Survey of Childcare and Early Years Providers 2023. Note: Number of providers are as reported in Table 23.

For two-year-old children, the hourly effective income of private group-based providers and childminders is more reliant on parent-paid fees than on entitlement funding, illustrated by the median hourly effective income being closer to the median parent-paid fees than the median hourly entitlement funding rate. The large proportion of hours provided at the lower hourly parent-paid fees contributes to childminders' hourly effective income being considerably lower than other providers, on top of the fact that their hourly parent-paid fees are lower than other providers'.

In contrast, for nursery class childcare settings, maintained nursery schools, and voluntary group-based providers, the analysis suggests that these providers were more reliant on entitlement funding rather than parent-paid fees.

For three- and four-year-old children, median hourly parent-paid fees were higher than median hourly entitlement funding rates across all provider types. Median hourly effective income was relatively closer to hourly entitlement funding rates for school-based providers. Nursery class childcare settings had an hourly effective income (£4.59) almost identical to the median hourly entitlement funding rate (£4.58). This is consistent with nursery class childcare settings receiving almost three-quarters (73%) of their income through entitlement funding compared to around a third (34%) for the average provider.

The drop in provider hourly effective income between two-year-old children and three- and four-year-old children was driven largely by the sharp decline in hourly entitlement funding rates for three- and four-year-old children (as median hourly parent-paid fees are more similar between age groups).

Overall, this suggests that childcare provider incomes for three- and four-year olds in 2023 were more sensitive to local authority hourly entitlement funding rates than parent-paid fees, since a greater proportion of childcare hours were funded by the former source.

## 5.2 Hourly effective income by region

The next section explores regional variation in provider hourly effective income across different age groups.

Table 24 presents the median provider hourly effective income by age group and by region, while Figure 21 and Figure 22 display the median hourly effective income, median hourly parent-paid fees, and hourly entitlement funding rates for two-year-old children and three- and four-year-old children, respectively, across regions..

As shown in Figure 21, the gap between median hourly parent-paid fees and median hourly entitlement funding rates was highest for regions with higher hourly parent-paid fees (for example London and the South West).

The wider distributions of hourly parent-paid fees and hourly entitlement funding rates in these regions mean that the distribution of childcare hours across each funding source will have a larger impact on provider hourly effective income. By contrast, provider hourly effective income is less sensitive to the distribution of hours between parent-paid hours and entitlement funded hours in regions where hourly parent-paid fees and hourly entitlement funding rates are very similar (for example the North West).

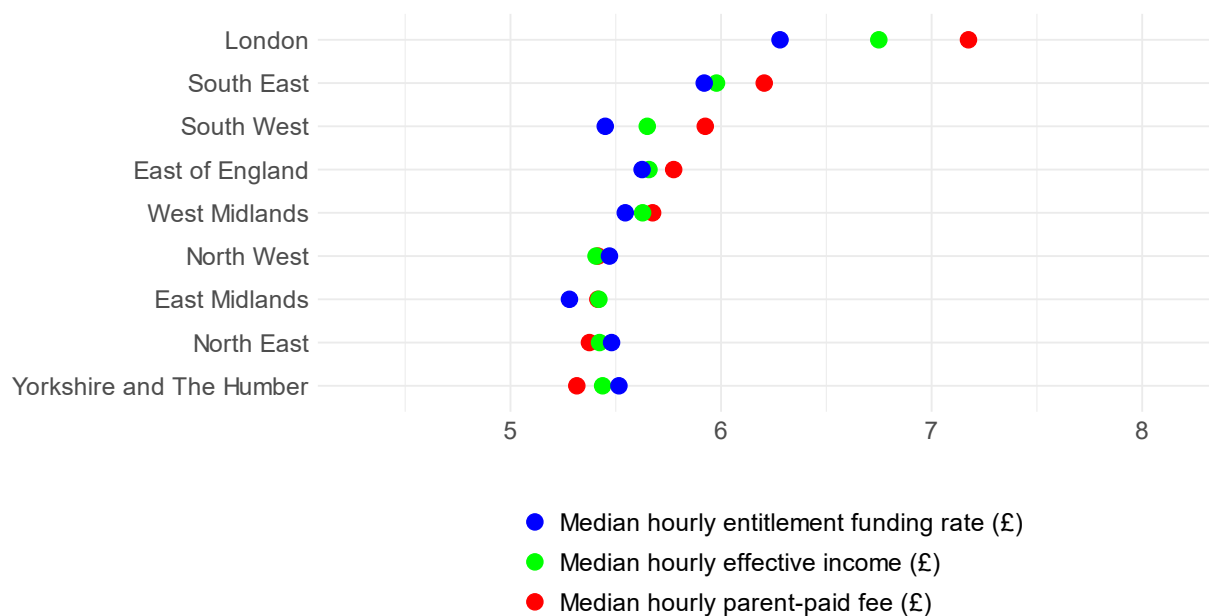
Except for London and the South East, provider hourly effective income was relatively similar across regions, despite substantial variation in parent-paid fees. For example, median hourly effective income was £5.65 in the South West and £5.44 in Yorkshire and the Humber (a difference of £0.21), but the corresponding hourly parent-paid fees were £5.92 and £5.32 (a difference of £0.60).

**Table 24: Median provider hourly effective income for two-year-old children and three- and four-year-old children by region (2023)**

Region	Two-year-old children	Three- and four-year old children	Number of providers for two-year-old children	Number of providers for three- and four-year-old children
East Midlands	£5.42	£4.59	57	83
East of England	£5.66	£4.93	64	102
London	£6.75	£5.88	77	99
North East	£5.42	£4.72	24	28
North West	£5.41	£4.65	55	83
South East	£5.98	£5.02	91	140
South West	£5.65	£4.71	64	94
West Midlands	£5.63	£4.71	57	87
Yorkshire and the Humber	£5.44	£4.74	42	63
All providers	£5.76	£4.90	531	779

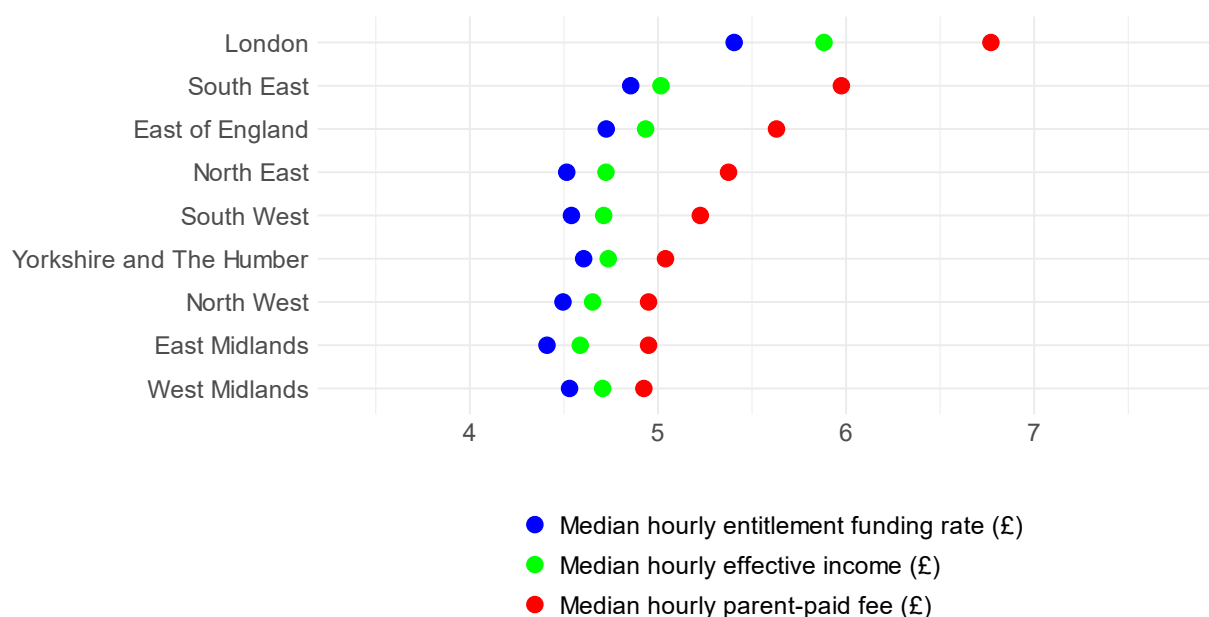
Source: Survey of Childcare and Early Years Providers, 2023

**Figure 21: Median hourly effective income, hourly parent-paid fees, and hourly entitlement funding rates, for two-year-old children by region (2023)**



Source: Survey of Childcare and Early Years Providers 2023.

**Figure 22: Median hourly effective income, hourly parent-paid fees, and hourly entitlement funding rates, for three- and four-year-old children by region (2023)**



Source: Survey of Childcare and Early Years Providers 2023.

Figure 22 displays the median hourly effective income, hourly parent-paid fees, and hourly entitlement funding rates for three- and four-year-old children across regions. Compared to the results for two-year-olds, the within-region distribution of hourly effective income, hourly parent-paid fees, and hourly entitlement funding rates was relatively consistent across regions. Hourly effective income was closer to hourly entitlement funding rates than hourly parent-paid fees for every region, implying that a greater share of childcare hours are provided through entitlement funding than through parent-paid fees.

Median hourly effective income in London was £5.88, nearly £1 higher than for the region with the second-highest hourly effective income (the South East, at £5.02). Despite hourly parent-paid fees being lowest in the West Midlands, hourly effective income in this region was larger than in the East Midlands and the North West, due to higher hourly entitlement funding rates.

The gap between hourly parent-paid fees and hourly entitlement funding rates was larger in regions with higher hourly parent-paid fees (for example London and the South East) for three- and four-year-old children, similar to two-year-old children.

These findings suggest that providers in areas with lower hourly entitlement funding rates may compensate by raising parent-paid fees, leading to a flattening of the regional hourly effective income distribution.

# Appendix

## A1. Descriptions of financial measures

### A1.1 Income-to-cost ratio

*Total weekly income divided by total weekly cost.*

The income-to-cost ratio was calculated as the total weekly income divided by the total weekly cost. The ratio is greater than one if total income exceeds total cost, is equal to one if total income equals total cost and is less than one if total income is less than total cost. For example, a provider with total weekly income of £5,000 and total weekly cost of £4,000 would have an income-to-cost ratio of 1.25, while a provider with total weekly income of £3,000 and total weekly cost of £4,000 would have an income-to-cost ratio of 0.75.

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

However, it should be noted that for-profit providers may not have included repayments for investments in the business (including repayment of bank loans or payment of dividends) or funds used for future investment as part of their costs, even if such payments or funds need to be covered by income for their business to be sustainable<sup>48</sup>.

The methodology used to estimate 2022 figures is different to the methodology used in the 2022 report. In particular, in the 2023 report, childminders were excluded from the analysis if they did not report both the childminding costs that they paid themselves and the other costs associated with their childminding settings (rather than assuming zero costs for the cost component they did not report as in the 2022 report). As a result, the methodology used in the 2023 report would, in comparison to the methodology used in the 2022 report, result in a larger estimate of the average childminder's costs and therefore a smaller estimate of their income-to-cost ratios.

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<sup>48</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.

## A1.2 Cost decomposition

*Division of the total cost into the proportions paid for staff, rent or mortgage, food, materials, training costs, business rates payments, energy bills, costs of recruiting staff and any other costs associated with delivering the childcare provision<sup>49</sup>.*

Additional validation checks were included in the previous (2022) survey to improve the accuracy of the cost information provided. In 2023, the validation callback stage focused on those who initially said 'don't know' to questions about cost and income to increase the amount of usable data. Further details can be found in the 2023 childcare and early years provider survey technical report.

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

- Staff costs include the amounts spent on staff salaries (including wages, taxes, National Insurance, and pension contributions), covering all frontline carers and staff in supporting roles (e.g., cooks and cleaners), but do not include outsourced services (e.g., outsourcing of cleaning to an external company).
- Childminders were asked about staff costs as (a) the amount they spend on all staff that they directly pay and (b) the childminding income they personally earn (including any pay for themselves and any amounts that they regularly draw before any tax is deducted). The sum of these two elements was used to measure staff costs for childminders.
- Food costs include meals, snacks and refreshments.
- Materials costs include items such as books, toys and art materials.
- Training costs include items such as classes, courses and materials.
- Childminders do not pay business rates, so they were not asked about the amounts they pay.
- In line with the information collected for total cost, childminders were not asked about the amounts they pay for rent or mortgage or energy bills. Nursery class childcare settings and maintained nursery schools were not asked for the amounts they paid for energy bills or business rates (because nursery class childcare settings, in particular, might find it difficult to separate those costs associated with their nursery provision from those associated with other parts of the school).

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<sup>49</sup> Other costs may include cleaning costs or administrative costs (such as for telephone and internet services, IT support, marketing, insurance, professional fees and licences).

It should be noted that due to these differences, cost breakdowns for different types of providers are not directly comparable.

### A1.3 Income decomposition

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

Providers were asked to report the amount of income they received from parent-paid fees and entitlement funding (by age group), additional charges for parents, charitable donations, and any other sources of income.<sup>50</sup> Additional charges include meals, snacks, other consumables such as nappies or sun cream, extra regular activities such as music classes, extra one-off activities such as special outings, unarranged late pickups and registration or other administration charges. Other income may include government grants or local authority support for specific items.

As with the cost information collected, additional validation checks were included in the 2023 survey to improve the accuracy of the income information provided.

Providers' fee income and entitlement income were calculated as the sum of the income for each age group of children they reported income for. 'Income from other sources' was calculated as the sum of

- Income received from any additional charges to parents;
- Income received from fundraising/charitable donations; and
- Income received from any other sources.

To calculate the proportion of each income category (parent-paid fees, entitlement fundings, and other sources), each category was divided by the sum of the providers parent-paid fees, entitlement fundings, and other sources of income. The 2022 and 2023 estimates presented in the report follow this methodology, which differs from the methodology used in the 2022 Providers' Finances Report.

In the 2022 Providers' Finances Report, "income from other sources" was calculated differently, by subtracting fee income and entitlement income from providers' total reported income. Providers where this "residual" income was less than zero were excluded from the income breakdown analysis.

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<sup>50</sup> In 2018, providers were not specifically asked for the amount they received from other sources, and so a residual "other" category was calculated as the sum of the amounts reported for additional charges and for charitable donations and fundraising activities, added to the difference between the total income reported and the sum of the amounts reported for each of the income sources. The residual calculation was used for 2018, 2019, 2021, and for 2022 (in the 2022 report) for consistency. However, in this year's report the methodology has been updated.

In this report, “income from other sources” was taken directly from providers’ answers in the survey (rather than calculating a “residual” other income and excluding cases where it less than zero). This significantly reduces estimates of the percentage of providers’ income that comes from other sources but is considered to be a more accurate estimate.

## **A1.4 Unit cost**

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

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

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

The derived unit cost was trimmed to remove unit costs of less than £1 or those in excess of £40 per hour.

The methodology used to estimate unit cost is different to the methodology used to calculate unit cost estimates in 2022 Providers’ Finances Report, such as a higher threshold under which unit costs were omitted from the analysis (£1 per hour in 2023 compared to only omitting zero unit costs in 2022). As such, unit costs presented in this report for 2022 and 2023 are not directly comparable to those presented in the 2022 Providers’ Finances Report.

Further, unit cost is estimated using a methodology which also differs to the methodology used in the 2021 Providers’ Finances Report (and previous reports). The previous methodology estimated the total number of hours of care provided in the week based on the number of booked places and estimates of the number of hours of care provided for a particular type of care (e.g., full day).

## **A1.5 Staff hourly pay**

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

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

include broader returns to investments in the business and is not subject to minimum wage legislation. The derived hourly pay measure was trimmed to remove hourly pay of zero or in excess of £300 per hour.

Estimates of hourly staff pay in 2023 incorporate information on the number of weeks a year that a member of staff was contracted to work for (when the information is available), whereas estimates of pay in 2022 assume that staff work for 52 weeks a year. As a result, the 2023 methodology provides larger estimates of hourly pay. This change has a greater impact on salaries for staff working at school-based providers where term-time-only working is more common.

## **A1.6 Hourly parent-paid fees**

*The average hourly fee charged to parents.*

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

The reported average hourly fees were trimmed to remove average hourly fees of zero or in excess of £40 per hour. This was the case for 45, 40, 29, and 7 providers' average hourly fees for under two-year-olds, two-year-olds, three- and four-year-olds, and school-aged children, respectively.

## **A1.7 Entitlement funding rate**

*The average hourly amount that providers report receiving from local authorities in payment for hours delivered as part of the early years education entitlement.*

The survey asked providers two questions about the entitlement funding rate:

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

It should be noted that these rates are different from the rates paid by the Department for Education to local authorities in the Early Years National Funding Formula. They may not

correspond directly to the average rate paid by local authorities to providers as the reported rate may differ across providers within the same local authority. These differences may arise due to supplements available to providers, such as those related to deprivation, flexibility, and rurality.

## A1.8 Additional charges

*Charges that providers require parents to pay for specific items over and above regular fees.*

Directly after asking about hourly parent-paid fees, the survey asked providers which items, if any, providers made additional charges for from a list of eight items containing

- meals;
- snacks;
- other consumables such as nappies or sun cream;
- extra regular activities such as music classes;
- extra one-off activities such as special outings;
- unarranged late pickups;
- registration or other administration charges; and
- other items not mentioned above.

## A1.9 Hourly effective income

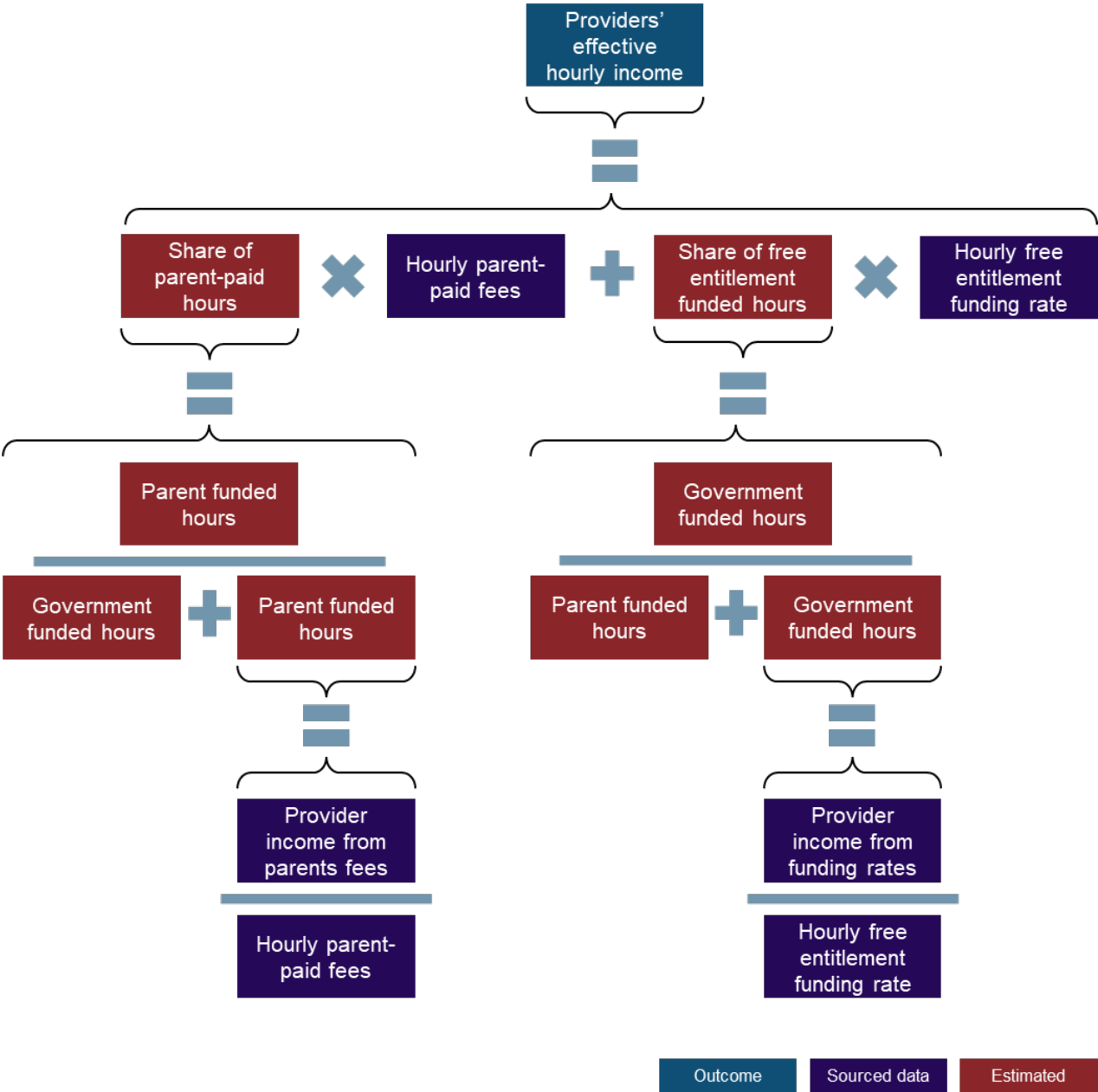
*Providers' hourly effective income captures how much providers receive in income per hour of care that they provide, accounting for both hourly entitlement funding rates and hourly parent-paid fees.*

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

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

Figure 23 diagrammatically sets out each calculation step described above, helping to illustrate how data sourced from the SCEYP is used to construct each estimated parameter needed to calculate providers' hourly effective income.

Figure 23: Detailed calculation of providers' hourly effective income





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