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How much could relaxing regulations on staff ratios reduce the cost of childcare?

Using economic modelling of survey data, we ask whether the Government's proposed changes to staff ratios could have a major impact on childcare costs for parents? Our estimates suggest that, at best, total delivery costs could be reduced by an average 2% and fees for parents by 13%. However, there are several major hurdles to the changes being implemented.

The Government is consulting on relaxing regulations on childcare staff ratios

Government objectives for investment in the early education and childcare sector are twofold: to support child development through improving the quality of provision and to help parents undertake paid employment by reducing the amount they pay for childcare. Yet despite annual public spending in England of over £5 billion (IFS, figure 4), workforce qualifications are low relative to international levels and childcare in the UK is often cited as one of the most expensive in the world (Frontier International Reviews, papers 1 and 3).

One approach to help address the affordability issue could be to increase the number of children each staff member is permitted to care for at a given point in time. Current regulations for group settings (all except childminders) require at least one member of staff for every *three* children under age two; for every *four* children aged two and (typically) for every *eight* children aged three or four. A consultation launched by the Department for Education (DfE) in July 2022 sought views on relaxing the ratio for children aged two to at least one member of staff for every *five* children (Consultation Document).

In this article, we review the qualitative evidence from the sector and use economic modelling of survey data to ask whether, if implemented, this proposed change could have a major impact on childcare costs for parents?

Would settings change their staffing ratios?

We first need to consider whether providers would be happy to have more two year olds cared for by each staff member. The consultation document notes that England's statutory minimum staff:child ratios for two year olds are among the highest in Europe, although "*like-for-like comparisons must be treated with caution due to very different childcare systems*." The document also notes that the proposed ratio change would bring England into line with regulations in Scotland which "*has a similar childcare system to England*" with "*no evidence to suggest that the Scottish model is unsafe, and evidence shows high parental satisfaction rates.*" On the face of it, this suggests that settings could be happy to move to lower staffing levels in line with international practice.

However, many settings are currently operating with staffing levels above the minimum levels required by the regulations: 11% of non-school group-based settings report doing so for children under age two, 22% for two year old children and 39% for three and four year olds (SCEYP Main Summary 2021). This may be a conscious choice to have higher ratios or may reflect the challenges of operating precisely at the regulated ratio at all times (settings may struggle to have two year olds in precise denominations of four). As a result, many settings may not reduce staffing if the regulations change.

Moreover, qualitative evidence from stakeholder surveys indicates that some providers would not make any changes. An Early Years Alliance (EYA) survey of over 9,000 early years settings found that just 13% thought they would "*regularly*" or "*permanently*" use the new ratios if the government's proposal went ahead, while 87% said that they were opposed to the principle of relaxing ratios (EYA Survey). Other evidence (commissioned by DfE) indicates that concerns over care quality and the impacts on staff may be barriers to implementing the new ratios: "*…[providers] were concerned about possible changes to statutory requirements that would reduce the number of staff to children… … Setting managers viewed this as an unsuitable approach that could impact on the quality of childcare provision and increase workload and dissatisfaction among staff.*" (SCEYP Thematic Report 2021) Indeed, in the EYA survey, 75% of staff without responsibility for any ratio decisions reported that they would be likely to leave their job if ratios were relaxed.

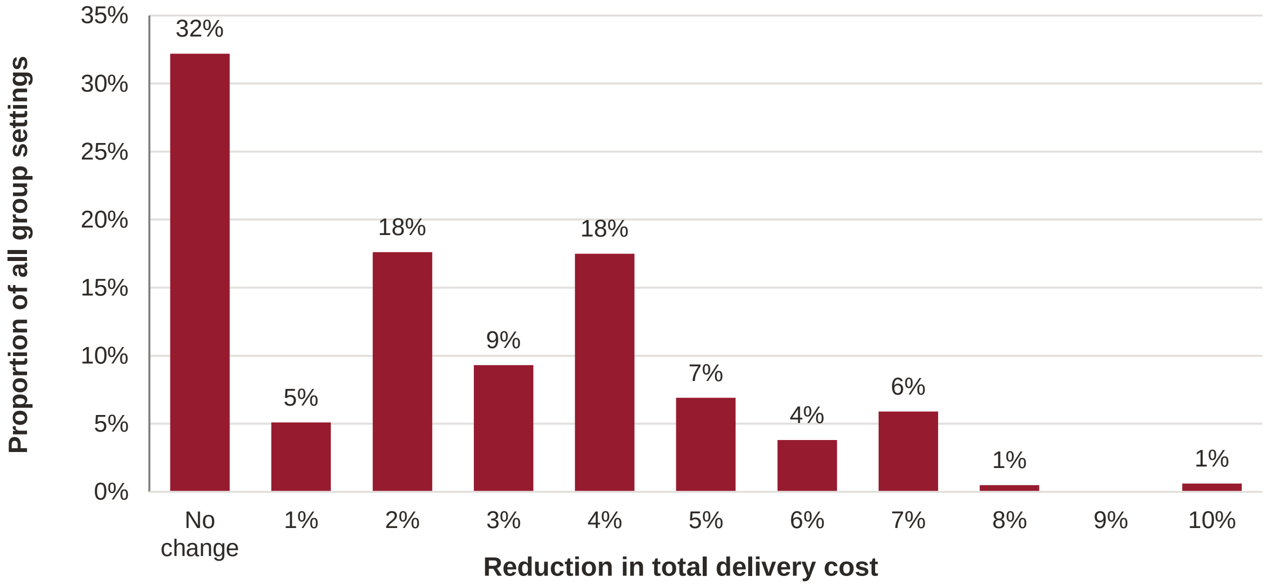
Despite this, it is possible that competitive pressures on costs and fees or learning from experience on safety might encourage some settings to take advantage of the relaxed regulation on ratios. The question then becomes whether the change could lead to significant reduction in delivery cost which would enable providers to consider reducing fees for parents.

How much could delivery costs be reduced?

We can estimate the potential size of the reduction in delivery cost using evidence and data from the Government's Survey of Childcare and Early Years Providers (SCEYP). Let us assume that, in response to the change in regulation, all group settings currently caring for two year olds move from a staff:child ratio of 1:4 to a ratio of 1:5 for these children (roughly a "greatest impact" scenario as this may overstate the change in some settings). This means that staffing costs for these children could be reduced by 20% and total delivery cost for these children reduced by 14% because staff costs constitute, on average, 70% of total delivery costs (SCEYP Finance Report 2021).

The impact this would have on settings' total delivery costs covering all ages of children depends crucially on the proportion of children aged two. Just under a third (32%) of group settings do not have any two year olds and would not see any immediate benefit from the change in ratio regulation (although some might start offering places for two year olds in response to the ratio change). Among settings with two year olds, an average of 26% of children are aged two. We estimate that the mean reduction in setting's delivery costs would be 2% across all settings and 4% across settings with two year olds. As shown in figure 1, some settings could see greater reductions in cost but few settings (only around one in ten) would see a reduction of more than 5%. The moderate size of these gains suggests that the benefits to parents in terms of reduced fees might also be moderate. However, as we explore in the next section, the impacts for some settings could be surprisingly large.

Figure 1 Reduction in delivery cost across settings



Source: Frontier estimates using data from the Survey of Childcare and Early Years Providers, 2018, 2019 and 2021. Data accessed from UK Data Service: NatCen Social Research, Department for Education. (2022). Childcare and Early Years Provision: Providers' Survey, 2018. [data collection]. 2nd Edition. UK Data Service. SN: 8453, DOI: 10.5255/UKDA-SN-8453-2; Childcare and Early Years Provision: Providers' Survey, 2019. [data collection]. UK Data Service. SN: 8952, DOI: 10.5255/UKDA-SN-8952-1; and Childcare and Early Years Provision: Providers' Survey, 2021. [data collection]. UK Data Service. SN: 8951, DOI: 10.5255/UKDA-SN-8951-1

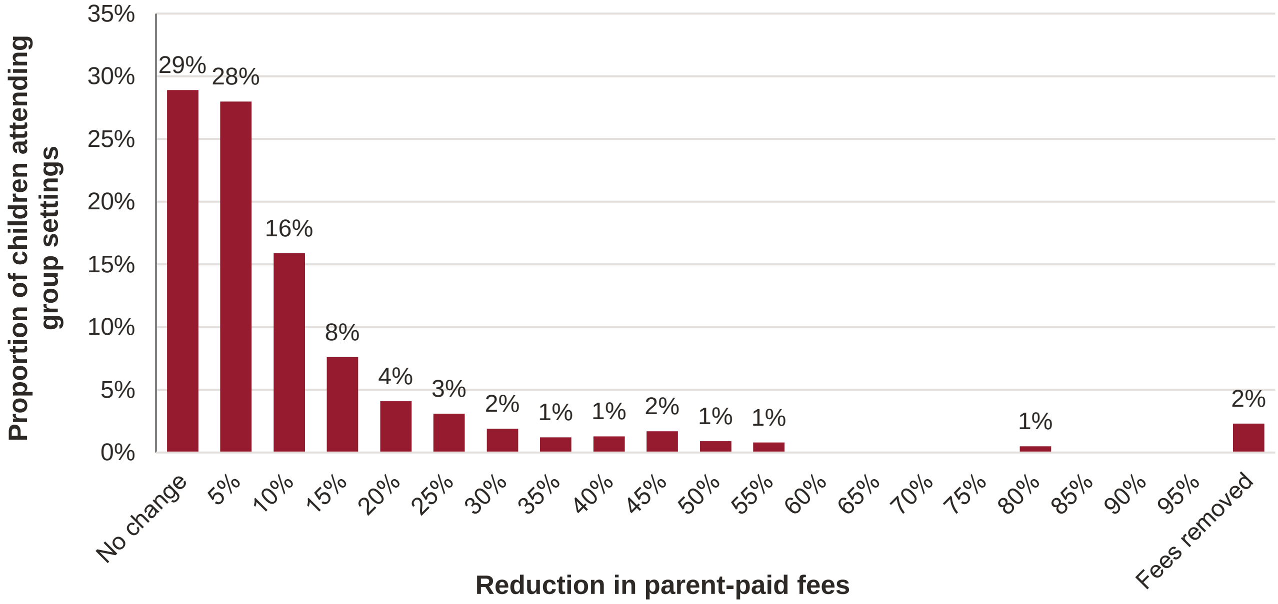
Notes: All proportions are rounded to the nearest whole number except those between 0% and 0.5% which are rounded to 1%. The empty column indicates a proportion less than 0.5%. Only 0.2% of settings had reductions greater than 10.5%. Estimates use midpoints where only banded data is available in the public access files.

How much could settings reduce fees for parents?

The final step is to consider whether and how much providers might pass on the financial benefits from a relaxed staff ratio regulation to parents in terms of reduced fees. In the Early Years Alliance survey, just 2% of early years providers reported that the ratio changes would result in lower fees for parents (EYA Survey). Some evidence suggests that support among parents for using ratios to reduce their costs may not be popular: a poll of 17,000 parents conducted by campaign group Pregnant Then Screwed on Instagram found that 85% of parents were opposed to plans to relax ratios even if it meant that childcare costs were lowered as a result (Parent Survey). Indeed, the financial strains and staff recruitment issues currently faced by the sector could mean that settings chose to use any benefits to support their sustainability or improve staff pay and conditions rather than reduce fees.

But supposing providers did pass on the benefits to parents – would it make a substantial difference to childcare fees? Using the government survey data, we can estimate the potential reduction in fees if all benefits were passed on through reduced fees for all children in the setting (figure 2).

Figure 2 Reduction in parent-paid fees across children



Source: Frontier estimates using data from the Survey of Childcare and Early Years Providers, 2018, 2019 and 2021. Data archive references as for Figure 1.

Notes: All proportions are rounded to the nearest 5% except those between 0% and 2.5% which are rounded to 5%. The empty columns indicate a proportion less than 2.5%. Estimates use midpoints where only banded data is available in the public access files. Child proportions are obtained by weighting each setting by the number of registered children attending the setting.

The reduction in fees is generally greater than the reduction in delivery cost. The reason for this is that a substantial proportion of hours are funded through the Government's free early education entitlement rather than parent-paid fees. Indeed, on average settings receive only 27% of their income from parent-paid fees. While relaxing staff ratios could reduce delivery costs for *all* hours of care, focusing the financial benefits only on the hours paid for by parents (and nothing on Government-funded hours) means than fee reductions can be greater than the reductions in delivery costs.

We estimate that the average reduction in delivery costs of 2% could translate into an average reduction in fees as high as 13%. While our analysis suggests that almost no setting would benefit from a reduction in delivery cost of greater than 10%, it does indicate that around a quarter of children could benefit from reduced fees of between 10% and 20% and around another one in five could benefit from reduced fees of 25% or greater. In a small proportion of cases (2% of children), our estimates indicate that fees could be removed altogether because the free entitlement funding would be sufficient to cover the delivery costs of the parent-paid hours under the new ratios (although, in practice, complete removal of fees may be unlikely). At the other end of the scale, we estimate that just under a third (29%) of children are in settings that would not be able to reduce fees, 24% because they are in settings with no children aged two and a further 5% because they have are in settings with no parent-paid fees (offering only the free entitlement places). The key message is that, even if the financial benefits were passed on to parents, the reductions in costs would vary considerably across parents with some seeing very little change.

Is relaxing staff ratios a good way to reduce costs for parents?

Our analysis indicates that the proposed relaxation in the staffing ratio for two year old children could have a moderate impact on childcare costs for parents but there are three hurdles to lower costs being realised for a substantial proportion of parents.

First, providers may not reduce staffing levels due to concerns about the safety and quality of care. This reflects a long-term conflict in childcare delivery between the aim of keeping costs low to support affordability for parents and the aim of delivering high quality (but higher cost) care which benefits children.

Second, the impact of the proposed changes in staff ratios may not be as large as it initially appears because they only affect a subset of children (and some settings are not affected at all). In addition, staff ratio changes do not reduce the non-staff elements of total costs.

Third, the translation of reductions in delivery costs into lower fees for parents is complicated by the mixed public-private funding of early education and care. This creates a wide range in the potential size of fee reductions across settings, with some parents potentially benefitting to a greater extent than others.

Taken together, this suggests that the objective of reducing costs for parents might be better served by other approaches.

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