

Title: Childcare Futures IA No: DfE138(2) RPC Reference No: RPC-DfE-5211(2) Lead department or agency: Department for Education Other departments or agencies:	Impact Assessment (IA)			
	Date: Submitted to RPC on 01/06/2023, revised on 7 July 2023 to incorporate RPC's comments			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Secondary legislation			
Contact for enquiries: bev.lawrence@education.gov.uk				
Summary: Intervention and Options		RPC Opinion (received Friday 7 July 2023): Fit for Purpose		

Cost of Preferred (or more likely) Option (in 2019 prices, 2020 present value)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
-	£1,500m (£700m - £2,500m)	-£200m (£100m - £300m)	Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

These interventions seek to overcome barriers created by existing regulations and enable providers to increase supply to align with additional demand, so that they are equipped to deliver the childcare expansion reforms announced as part of the Chancellor's Spring Budget 2023. These interventions seek to address how government can increase provider flexibilities and address the long-term decline of childminders. These interventions will also clarify the term 'adequate supervision' and ensure the safety of children in settings.

What are the policy objectives of the action or intervention and the intended effects?

Increase flexibilities given to providers through changes to the statutory minimum staff:child ratios for 2 year olds in group based settings from 1:4 to 1:5. These changes will bring English ratios in line with Scottish ratios. There will be no obligation on providers to operate at the new statutory minimums (i.e providers can still choose to operate at 1:4, rather than the new minimum of 1:5). The intended outcome is to give providers more flexibility on how they utilise their staff. On 'adequate supervision' the objective is to ensure safety of children in settings by amending wording to make it explicit that children have to be in sight and hearing of adults.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

- An amendment to ratios can only be achieved by secondary legislation. If we did nothing, settings would continue to staff at levels indicated in the 2022 Provider Survey and we would not increase choking prevention awareness.
- Option 1 (a, b and c)- preferred option. This would align 2-year-old staff:child ratios with Scotland and provide greater flexibilities to providers on how they staff their settings and to childminders. This will also ensure safety of children in settings and increase awareness of choking prevention.
- Option 2- Amend staff:child ratios for children under 2 years old (not 2 year olds as in option 1).
- Option 3- Amend staff:child ratios for children aged over 2 years old (i.e. 3-4 year olds), with the aim of increasing flexibility and reducing cost of childcare.
- Option 4- Explore additional flexibilities for providers using findings from the childcare: regulatory changes consultation.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: September 2028					
Is this measure likely to impact on international trade and investment?			No		
Are any of these organisations in scope?		Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

Claire Coutinho

Date:

10th July 2023

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2023	PV Base Year 2023	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate:

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.9	-	0.9
High	6.9	-	6.9
Best Estimate	3.1	-	3.1

Description and scale of key monetised costs by 'main affected groups'

EY settings: The main costs for both staff: children changes (ratio change for two-year-olds and additional flexibility for childminders) are familiarisation costs. For both groups, we expect familiarisation to take between 30 minutes and 90 minutes. For the two-year-old changes, we have created high to low estimates, based on between 1 and 3 members of staff familiarising themselves with the regulation change, and for CMs we have assumed 1 member of staff. In addition, there are familiarisation costs associated with understanding the new guidance on adequate supervision of eating for all settings, we have again assumed these take between 30 and 90 minutes, for between 1 and 3 staff at all provider types.

Other key non-monetised costs by 'main affected groups'

Wider impacts: The ratio change for 2-year-olds may lead to increased competition amongst providers, with some choosing not to change their ratios in order to compete based on quality, or perceived quality, of provision. Providers who are struggling financially may have to change their ratios, so they have more children per member of staff, potentially making them more competitive based on price but less competitive based on quality.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	103.2	878.2
High	-	375.5	3,195.7
Best Estimate	-	231.4	1,971.3

Description and scale of key monetised benefits by 'main affected groups'

Staff:child ratio change for two-year-olds

EY settings: Providers could offer additional childcare places or hours and therefore generate additional revenue, or they could reduce staffing hours / numbers and generate cost savings.

Parents: If cost savings are realised, it is possible that some of this will be passed on to parents in the form of reduced fees.

Childminder ratio flexibilities

Childminders: if they are not currently operating at full capacity, the proposed changes could allow them to do so, or if they are already at full capacity, they could offer additional places to younger children at a higher hourly rate. Both responses will generate additional income.

Other key non-monetised benefits by ‘main affected groups’

Staff:Child ratio change for two-year-olds

Parents: Depending on the local market structure, some providers will be able to offer additional childcare places due to the proposed change, and therefore due to economies of scale may be able to offer the places at a reduced cost to parents. This would drive competition between providers, and benefit parents through reduced fees and enhanced parental choice. Furthermore, these measures will enable providers to more easily meet demand for new places that will be created by the expansion of free childcare entitlements at the time of Spring Budget 2023.

Children: For providers who don’t pass on financial gains through lower prices, but increase investment in staff training and wages, as well as offer more flexible provision, children may benefit from higher quality provision. However, on the other side, quality of provision to children may suffer if providers decide to utilise the measures to reduce staffing, without also considering staffing qualification levels, in order to improve their financial position.

Childminder ratio flexibilities

Parents: The additional flexibility will allow CMs to offer more places to younger children. This will benefit parents as they will have access to more childcare options, potentially closer to home, and the child may benefit from more stability by being able to stay in the same setting if a sibling needs care too.

Children: As with the two-year-old ratio change and for the same reasons, there could be positive or negative impacts on the quality of provision depending on provider behaviour.

Adequate supervision whilst eating

Children: Fatalities due to choking on food and from allergic reactions are often preventable when acted upon swiftly. Strengthening the supervision whilst eating requirement may therefore prevent some unnecessary deaths.

Key assumptions/sensitivities/risks

Discount rate

3.5

Survey data have been used to produce estimates of the number of providers that will respond to the changes, and the degree to and means by which they will likely do so. However, the analysis still necessarily relies on a number of assumptions about how providers are likely to react. The costs that have been calculated illustrate the likely impact of the changes. The calculations carry uncertainty, which has been illustrated throughout.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs:	Benefits:	Net: -200	
-			-900

Evidence Base

1 Problem under consideration and rationale for intervention

1. This Impact Assessment relates to policy proposals that are intended to increase flexibilities for providers and help to reverse or slow the long-term decline in numbers of Childminders (CMs). They will also ensure the safety of children in settings. The proposals are discussed in turn below alongside the context of the problem and the rationale for intervention.
2. A significant increase in demand for childcare will be generated by the expansion of eligibility for access to free childcare entitlements at Spring Budget 2023. In the absence of this intervention, the presence of barriers and information asymmetries created by existing regulations, mean that childcare providers will not be able to optimally increase supply to align with the higher demand. Information asymmetries exist as provider characteristics differ and they are better placed to judge their optimum level of staffing to child ratios, rather than having a 'one-size' fits all system. Furthermore, for those providers who want to change their ratios through increasing the places they offer and accrue economies of scale, they are prevented from doing this due to the barrier created by existing regulations.

1.1 Two-Year-Old Ratios

3. In the Government's Spring Budget, the Chancellor announced transformative reforms to childcare. By 2027-28, Government will expect to be spending in excess of £8bn every year on free hours and early education, helping working families with their childcare costs. This represents the single biggest investment in childcare in England ever, and a significant expansion of childcare provision. To support this reform agenda, and the significant increase in demand for childcare that is likely to emerge, the Government is seeking to provide more flexibility for providers by changing staff:child ratios from 1:4 to 1:5 for two-year-olds in England. England has some of the tightest ratios internationally, and the 2022 Survey of Childcare and Early Years Providers¹ estimated that staff costs account for 70 to 80 per cent of total provider costs. These tight ratios may also act as a limit on the number of children and families who can access childcare.
4. Staff:child ratios have not changed since they were introduced through the Children Act 1989 by codifying existing practice. Ratio reform was last attempted in 2013 via the 'More Great Childcare' paper² and has not been attempted since, given the strong sector response opposing reform due to safety and quality concerns. Since the introduction of ratio requirements, the childcare market has changed considerably.
5. Ratios and early years regulation is devolved. Scotland already operates at a 1:5 ratio for two-year-olds. There is no evidence to suggest that the Scottish model is unsafe, and evidence shows high parental satisfaction rates. However, generally speaking, staff in Scotland are required to possess a higher qualification than those in England.
6. Changing limits on staff:child ratios may allow providers to reduce operating costs or gain additional revenue. It is uncertain whether and how providers will respond to any such change to ratios. A significant proportion of providers currently operate above the existing statutory minimum requirements to enable settings to implement ratios of fewer children per staff member.³ The result of the recent consultation suggests that a majority (64%) of providers expect to pass on savings of less than 25p per hour to parents, with 36% saying that they expected to pass on less than 10p per hour.⁴

¹ SCEYP 2022: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-provider-survey/2022>

²

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/219660/More_20Great_20Childcare_20v2.pdf

³ [Childcare and early years providers survey: 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/219660/Childcare_and_early_years_providers_survey_2021_-_GOV.UK.pdf)

⁴ [Findings from the EY staff:child ratio consultation survey, March 2023, p.30](#)

7. Amending the ratios will also help to align supply, which would be restricted with no intervention, with the expected increase in demand, following the Spring Budget childcare announcement. This centred on an expansion in the entitlements offer from 9 months to school age and from April 2024 working parents of two-year-olds can access 15 hours a week. Therefore, without an intervention, parents may be limited in terms of choice and access to childcare if they want to take up the expanded entitlements offer. Giving providers flexibility on ratios will give them increased choice to determine the appropriate ratio that works best for their staff and children in their setting and meet the increase in demand for places.

1.2 Childminder ratio flexibility

8. The total number of Childminders (CMs) has been falling for more than 10 years, and the total number on all Ofsted registers fell by 36% between 31st August 2015 and 31st August 2022⁵; each year, more childminders leave the market than enter it. While the decline has not impacted the sufficiency of EY childcare places in the market overall (as the overall number of available places has remained broadly stable), it has reduced the availability of a form of childcare that can be more affordable and flexible than other provider types. Evidence gathered through the DfE's 2021 childcare and early years survey of parents⁶ suggests that affordability and flexibility are priorities for parents. Parents were asked what changes to local childcare provision, if any, would be most helpful for making it better suited to their needs. Parents were most likely to say more affordable childcare (31%) and more childcare available during the school holidays (20%).
9. Government considers that increasing flexibility within existing ratios would help parents to use CMs to support their working lives by clarifying in the Early Years Statutory Framework that childminders can make exceptions to the usual ratios when caring for their own children and for sibling groups; and could correspondingly make it easier for CMs to find families to work with and to retain them over time. There is also a non-monetised element of this option: it would benefit the stability and well-being of children, as if they are already settled with a childminder, they will not have to move if an additional sibling subsequently requires care at the same time. We have discussed this ratio change with Ofsted who feel it would be a sensible change that would accommodate more families, more flexibly.

1.3 Supervision whilst eating

10. Work on choking prevention and safe eating in early years settings began after Minister Ford met with the parents of Sadie Salt in March 2021. Sadie Salt passed away in November 2020 after choking on food at nursery. Since the death of Sadie Salt, sadly another child died after choking on food in a nursery in Kent in October 2021.
11. Policy officials have been learning from Sadie's death and other fatal cases to strengthen awareness of choking and choking prevention. Through engagement with stakeholders such as early years providers, Ofsted and Local Authorities, we have identified that there is a need for greater clarity about what constitutes 'adequate supervision' of children while eating in early years settings. Currently the requirement states: *3.29. Staffing arrangements must meet the needs of all children and ensure their safety. Providers must ensure that children are adequately supervised, including whilst eating, and decide how to deploy staff to ensure children's needs are met. Providers must inform parents and/or carers about staff deployment, and, when relevant and practical, aim to involve them in these decisions. Children must usually be within sight and hearing of staff and always within sight or hearing.*
12. By inserting the following sentence: "Whilst eating, children must be within sight and hearing of a member of staff" to make the requirement more explicit, we intend to reinforce this

⁵ <https://www.gov.uk/government/statistics/childcare-providers-and-inspections-as-at-31-august-2022><https://www.gov.uk/government/statistics/childcare-providers-and-inspections-as-at-31-august-2022/main-findings-childcare-providers-and-inspections-as-at-31-august-2022>, <https://www.gov.uk/government/statistics/childcare-providers-and-inspections-as-at-31-august-2015>

⁶ <https://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2021>

practice, ensure the safety of children in early years settings, and reduce the number of incidents.

13. The inquests into the recent deaths of the aforementioned two children are yet to be held. We are anticipating that DfE will come under scrutiny and that we will be asked to do more to help prevent these accidents from happening.

2 Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

14. This document constitutes a final stage impact assessment and has been updated based on advice from the RPC, evidence from a public consultation on the proposed changes⁷, a bespoke survey of Early Years Providers conducted on behalf of the DfE by the National Centre for Social Research (NatGen)⁸ and evidence from the Scottish model.
15. The analysis presented here draws on the outputs of the Early Years Provider Cost Pressures Model (CPM) which has as its principal data source the Survey of Childcare and Early Years Providers (SCEYP), and on recently published data from the NatGen survey. This is a fully quality-assured business-critical model, that provides estimates of the cost of childcare for different provider types, and how these costs are projected to change in the future.

2.1 Consultation

16. The Government is committed to ensuring that parents can access high quality, flexible childcare, and understand the support they are entitled to. To inform this aim the Department for Education (DfE) ran the 'Childcare: Regulatory Changes' consultation between 4 July 2022 and 16 September 2022.
17. The consultation received 14,043 responses, the majority of which were from parents (70%, n=9,813). Over 3,000 responses were from childcare providers (23%, n=3,237), which included group-based providers on the early years register, maintained nursery schools, childminders, primary schools with nursery provision and other organisations providing childcare.
18. CooperGibson Research was commissioned by the DfE to code and analyse the responses. The following provides a summary of key messages and emergent themes.

2.1.1 Summary of results of the Consultation

Staff:child ratio changes for two-year-olds (Proposal A in the Cooper Gibson Report)

19. The vast majority of the respondents to the consultation disagreed with the proposal to change the staff:child ratios from a ratio of 1:4 to a ratio of 1:5. This was a consistent finding across all of the different types of respondents, such as parents, group-based providers and organisations representing the sector.

Childminder ratio flexibilities (Proposals B and C in the report)⁹

20. It was much more common for respondents to disagree with Proposal B than agree. This was a fairly consistent finding across all groups of respondents except for childminders, who were more likely to agree. Respondents who agreed with Proposal B did so for the following

⁷https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1142987/Childcare_regulatory_changes_government_consultation_response.pdf

⁸https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1143005/Findings_from_the_early_years_staff-child_ratio_consultation_survey.pdf

⁹ Proposal B put forward that childminders can care for more than the specified maximum of three children under the age of 5 if they are caring for sibling babies or the sibling of another child they care for. Proposal C put forward that childminders can care for more than the specified maximum of three children under the age of 5, if they are also caring for their own baby and/or their own child.

reasons. They reported that it would increase the flexibility for childminders to make the best decisions for the needs of their setting and support families by providing more childcare spaces for children. Of those who agreed, some did so in principle, but said that the proposed amended wording required even further clarification, particularly in relation to the reference to 'continuity of care' to ensure consistency of understanding and implementation across the sector.

21. Whilst some agreed, the majority of respondents disagreed with Proposal C. Childminders were more likely to agree to the proposal, a view that was not shared as strongly by the other groups. Parents in particular were more likely to disagree.

2.2 Provider survey conducted by National Centre for Social Research (NatCen)

22. Alongside the consultation, Government collected quantitative evidence from a representative sample of providers on the likelihood of them adopting the proposed changes and the predicted effect of these changes on income, costs and parental fees.
23. The sample for the survey was early years providers who had previously taken part in the Survey of Childcare and Early Years Providers (SCEYP) 2021 and agreed to be recontacted. SCEYP is a large-scale, nationally representative survey of school-based providers (SBPs), group-based providers (GBPs) and childminders (CMs) in England.
24. A total of 842 providers (85 SBPs, 589 GBPs and 168 CMs) responded to the online consultation survey. The data has been weighted to be representative of the population of early years providers in England in 2022.
25. In relation to the proposed change to the two-year-old ratio limit, the survey asked providers a number of questions to understand how they might use the change in their business, whether they may a) increase the number of childcare places, or b) reduce staffing hours. Where possible and appropriate, the survey also asked providers to estimate the costs and benefits (we anticipated benefits to be mostly cost savings) to their business.

2.2.1 Summary of results from the NatCen survey

Likelihood of changing provision – 2-year-old change

26. The majority of group settings with 2-year-olds (70%) said they would be unlikely or very unlikely to change their provision if ratio requirements were relaxed, with 45% saying they would be very unlikely. 28% of group settings with 2-year-olds said they would be likely or very likely to make any changes to provision. This corresponds to 19% of all group settings (including those with and without 2-year-olds).
27. 9% of group settings not currently offering care for 2-year-olds said that they would definitely or probably start offering places to 2-year-olds if the ratio change were introduced. This corresponds to 3% of all group settings (including those with and without 2-year-olds).

Impact on provision – staff:child ratios for 2-year-olds

28. Group settings with 2-year-olds that were asked how they would change their provision in response to the ratio change were fairly evenly divided between those who said they would increase the amount of care offered to 2-year-olds (62%) and those who said they would reduce staffing levels (69%).
29. Among settings reporting that they would increase the amount of care offered, 79% said that their income would consequently increase, with an average (median) anticipated increase in income of 6%. Overall, the likely potential impact is that 8% of all group settings with 2-year-olds would see an increase in their income, but a maximum of 16% (including those unlikely to make a change) might see their income increase because of the proposed ratio change.
30. Among settings reporting that they would reduce staffing levels, 60% said that staff costs would consequently be lower. Overall, the likely potential impact is that 9% of all group settings with 2-year olds would see a reduction in their staffing costs, but a maximum of 15% (including those unlikely to make a change) might see a reduction because of the proposed ratio change.

31. Taking income and costs together, the likely impact is that 15% of group settings with 2-year olds would see an initial financial gain (through increased income and/or reduced staff costs), but a maximum of 28% (including those unlikely to make a change) might see an initial financial gain.
32. Among settings who expected that they would see some financial gain, most (64%) reported that none of the gain would be passed on to parents through reduced fees, while 31% said they would pass on some of it and only 5% indicated they would pass on most or all of it.
33. Among settings expecting some financial gain and not expecting to pass all the gain on to parents, most (63%) said they would use any financial gain to support the financial sustainability of their provision, for example by building up reserves or paying back loans. Around half of the settings (53%) said they would use it to pay for additional resources for staff training or career development, and just under half (49%) said they would use the surplus to increase staff salaries.

Likelihood of changing provision – Childminder ratio change

34. A majority of all childminders (56%) reported that they would not change their provision in response to the proposed ratio change, with 32% reporting they would be very unlikely to do so. 26% reported they would be either likely or very likely to make changes while 18% said that they did not know if they would do so.

Impact on provision – Childminder ratio flexibilities

35. Childminders who said they would change their provision in response to the new ratio flexibilities were evenly divided between those who said the additional flexibility would enable them to fill spare places and those who said it would enable them to reallocate places to younger children (42% each), with the remainder saying they would do something else.
36. Among childminders who reported that they would change provision, most (79%) reported that income would increase, with an average (median) increase of 20%. Overall, the likely potential impact is that 21% of childminders would experience an increase in income because of the ratio change, but a maximum of 49% (including those unlikely to change provision) could see an increase in their income.
37. Among childminders who reported that their income would increase, the majority (60%) did not expect that this financial gain would be passed on to parents through reduced fees, while 33% said they would pass on some of the benefit and only 7% indicated they would pass on most or all of it. Overall, the likely impact is that 8% of childminders would pass on savings to parents, but a maximum of 20% (including those unlikely to change provision) might do so.
38. Among childminders who reported that their income would increase but who did not expect to pass all of this gain on to parents, most said they would use any financial gain to buy new materials or equipment (79%) and/or to support the financial sustainability of their provision (53%).

2.3 Scotland model

39. Ratios and regulation of early years provision is devolved. Government has based its decision to mirror the Scottish model, given that Scottish applies ratios very similarly to England, with a slight difference for children aged 2, and a slight variation on wider flexibilities for children aged 3 and over to increase the standard ratio of 1:8 to other variations in specific circumstances (see table below).

Table 1: Comparison of English and Scottish ratios

Age	England	Scotland
• Under 2	• 1:3	• 1:3
• 2 years old	• 1:4	• 1:5
• 3 years and over	<ul style="list-style-type: none"> • 1:8 (if Level 3 qualified member of staff present) • 1:13 (if Level 6 qualified member of staff present) 	<ul style="list-style-type: none"> • 1:8 • 1:10 if children attend setting for a maximum of 4 hours per day

40. The change to ratios for 2-year-olds is a relatively minor change, and will give those providers who wish to use the 1:5 ratio more flexibility over how they operate, without compromising children’s safety or quality of provision. Providers are not obliged to move to the new statutory minimum of 1:5 ratio unless that is their preference: they can still staff to the 1:4 ratio if they would prefer.

2.3.1 Summary of evidence on the Scottish model

41. There is no evidence to suggest that the Scottish model is unsafe, and evidence shows high parental satisfaction rates. In 2018, a survey of parents in Scotland found 96% of parents were satisfied with how staff interact with their child, 90% of parents were satisfied with the extent to which their child received personal care and attention tailored to specific needs.¹⁰

42. Scotland’s Care Inspectorate has previously stated that there is no current evidence indicating that the previous minimum staffing ratios for early learning and childcare (ELC) settings should be adjusted or that the needs of children were not being met with their workforce model.¹¹

43. There are differences in the system with regards to the qualification levels of staff. Generally, staff in Scotland are required to be of a higher qualification than those in England. In England, staff must be Level 3- or Level 6-qualified to work in an EY setting, with most being Level 3-qualified (which equates to a Level 6 in Scottish standards).¹²

44. In Scotland, most practitioners are qualified to Scottish L7, which is equivalent to the English L4/L5 and in England most practitioners are qualified to English L3, which is lower than the Scottish L7.¹³

45. EPI’s (Education Policy Institute) structural quality review found that the literature on workforce training and professional development is straightforward in terms of general conclusions and recommendations: highly-qualified staff are key to high-quality provision; a degree with a specialisation in early childhood is important but not sufficient on its own; and in-service training is necessary for both new and experienced staff. Nevertheless, the topic is complex from an implementation point of view. Pre-service training, induction and in-service training are interconnected. Just as researchers agree that a degree in early childhood prepares teachers in a way that is more impactful for children, they also know that a degree should not just be a label and that, in itself and on its own, it does not guarantee quality

¹⁰ [Quality of early learning and childcare - Parents' views and use of early learning and childcare: report - gov.scot \(www.gov.scot\)](http://www.gov.scot/resources/documents/2018/06/Quality_of_early_learning_and_childcare_-_Parents'_views_and_use_of_early_learning_and_childcare_report.pdf)

¹¹ [Guidance on adult to child ratios in early learning and childcare settings.pdf \(careinspectorate.com\)](http://www.careinspectorate.com/guidance/guidance-on-adult-to-child-ratios-in-early-learning-and-childcare-settings.pdf)

¹² [Comparing qualification levels - SQA](http://www.sqa.gov.uk/qualifications/early-childhood/early-childhood-qualification-levels-comparing-qualification-levels)

¹³ [Comparing qualification levels - SQA](http://www.sqa.gov.uk/qualifications/early-childhood/early-childhood-qualification-levels-comparing-qualification-levels)

teaching and caring if it is not accompanied by strong induction and CPD practices. In fact, many studies observed as part of EPI's structural quality review looked at all these components together, making it hard to disentangle the impact of each one of them alone.¹⁴ Therefore, it is not necessarily the case that higher qualifications alone are pivotal to the quality of the Scottish model. Existing safeguarding regulations in place in England will not be affected by the staff:child ratio change for two-year-olds.

3 Description of options considered

3.1 Option 0 – Do Nothing

46. Without intervening, we anticipate that providers would continue to staff at similar levels to those found in the 2022 Providers Survey¹⁵. Within this survey, whilst the majority of providers staffed to minimum staff:child ratios, some providers reported staffing to more generous ratios than the statutory minimum, as there are fewer children per member of staff:
- 11% of all group based providers worked at a ratio of less than 1:3 for under 2s.
 - 21% of all group based providers worked at a ratio of less than 1:4 for 2 year olds.
 - 35% of all group based providers and 39% of all school based providers worked a ratio of less than 1:8 for 3 and 4 year olds.
47. Additionally, 15% of group-based providers had spare capacity for full day places, with 20% having availability for morning sessions and 28% having availability for their afternoon sessions.¹⁶
48. If staffing continued at similar levels, it is likely that staff costs will continue to make up 70% to 80% of totals costs faced by school-based and group-based providers. A greater proportion of provider costs being on staffing means any increase in staff costs, such as on higher wages, are more likely to increase the cost of childcare to parents.
49. As staff:child ratios in early years settings are requirements of the Early Years Foundation Stage (EYFS) statutory framework, the only way they can be changed is through secondary legislation, which means we have not prioritised non-regulatory options of achieving the policy aims listed in section 4.
50. The “Do Nothing” option does not deliver the policy objective to improve flexibilities for providers to achieve a childcare system that a) provides the care that parents are seeking and b) helps providers utilise their staff in the most efficient and effective way.

Option 0c – Supervision whilst eating

51. Without intervening, we anticipate that providers will continue to supervise children in the same way as they do currently. For the majority of providers, anecdotal evidence has shown us that this would mean that children will be within sight **and** hearing whilst eating. However, for some providers this will mean that sometimes young children may only be within sight **or** hearing whilst eating.
52. The “Do Nothing” option would not deliver the policy objective of ensuring the safety of children while in early years settings by increasing awareness of choking prevention. Recent deaths within settings due to choking are likely to attract significant media attention at the time of the inquests and it is likely that DfE will be called upon to demonstrate preventative action in this area. Mealtimes for babies and young children are a high-risk environment for choking incidents, and making the language more explicit within the supervision while eating wording is likely to increase awareness of choking prevention and therefore reduce the likelihood fatal incidents.

¹⁴ [Early-years-structural-quality-review_EPI.pdf](#), p.21.

¹⁵ [Childcare and early years providers survey: 2022 - GOV.UK \(www.gov.uk\)](#)

¹⁶ [Childcare and early years providers survey: 2022 - GOV.UK \(www.gov.uk\)](#)

3.2 Option 1(a, b & c) – Preferred Option

Option 1a – Ratio change for 2-Year-Olds

53. The first option concerns staff:child ratios when caring for 2-year-olds. Changes to the Early Years Foundation Stage framework (EYFS) will be required via amendments to the EYFS (Welfare Requirements) Regulations 2012, paragraph 3.33.
54. These changes would align the English system to that of Scotland. The Scottish system has similar ratios to England, but these differ for children aged 2. Whilst in England the staff:child ratio is 1:4, Scotland applies ratios of 1:5. There is no evidence to suggest that the Scottish model is unsafe, and evidence shows high parental satisfaction rates. In 2018, a survey of parents in Scotland found 96% of parents were satisfied with how staff interact with their child, 90% of parents were satisfied with the extent to which their child received personal care and attention tailored to specific needs.¹⁷
55. Whilst these proposed changes to staff:child ratios would amend the existing statutory minimum requirements, providers would continue to be able to staff their settings above these minimum requirements if that is their preference.
56. Results from the NatCen survey suggested that 9% of group settings not currently offering care for 2-year olds said that they would definitely or probably start offering places to 2-year olds if the ratio change were introduced. Group settings with 2-year olds that were asked how they would change their provision in response to the ratio change were fairly evenly divided between those who said they would increase the amount of care offered to two year olds (62%) and those who said they would reduce staffing levels (62%).

Option 1b – Additional flexibility for childminders

57. Currently under the EYFS, CM's have limited flexibility within staff:child ratios for sibling babies. Currently, CMs can look after six children under 8, of which three children can be under 5. However, exceptions to the usual ratios can be made, for example:
- when childminders are caring for sibling babies, or
 - when caring for their own baby, or
 - to maintain continuity of care, or
 - if children aged three to five only attend the childminding setting before and/or after a normal school day, and/or during school holidays, they may be cared for at the same time as three other young children.
58. Under this option, CMs could still look after six children under 8, but the language around sibling babies would be updated to reflect that it can apply to siblings of all ages. The proposed new wording, below, would remove 'babies' from the wording of the first bullet point, and change the wording of the second bullet point from 'baby' to 'child', to clarify that flexibility is not limited to only babies in these scenarios. Exceptions to the usual ratios can be made, for example:
- when childminders are caring for siblings, or
 - when caring for their own child, or
 - to maintain continuity of care, or
 - if children aged three to five only attend the childminding setting before and/or after a normal school day, and/or during school holidays, they may be cared for at the same time as three other young children.
59. This would mean CMs can look after a greater number of children under 5 in the case of siblings and their own child, should they choose to. This proposal does not change the

¹⁷ Quality of early learning and childcare - Parents' views and use of early learning and childcare: report - gov.scot (www.gov.scot)

overall staff to child ratio as per 1a but clarifies the ratios of different age groups that can be cared for within this.

Option 1c – Supervision whilst eating

60. Changes to the Early Years Foundation Stage framework (EYFS) will be required via amendments to the EYFS (Welfare Requirements) Regulations 2012, paragraph 3.29. The following sentence will be inserted: “Whilst eating, children must be within sight and hearing of a member of staff”.
61. Engagement with early years providers to date indicates that for many settings, adequate supervision while eating is already understood to mean that children are within sight of a member of staff, and in the NatCen survey 98% of group settings and 97% of childminders reported that they already did this. We assume no additional costs to any non-compliant providers in changing their practice, on the basis that staff are likely already focusing *only* on minding children during mealtimes, and therefore will not suffer any loss to productivity as a result of a subtle change in how they carry out this task. More broadly, we believe that an explicit requirement in the EYFS will reinforce this practice and ensure the safety of children in early years settings.

Option 2

62. . Similar objectives could be achieved by also amending the staff:child ratios for children aged under 2. This would achieve both flexibility for providers and may generate very significant cost savings.
63. However, there are several significant costs associated with this option. Firstly, this is due to the age of these children, who are the youngest within early years provision. They have very specific needs, and so it was agreed that for their safety and development requirements the existing ratio for this age group felt right and should not be adjusted to meet any additional requirement for staff flexibility or cost saving. Secondly, English ratios for this age group are broadly in line with those of other countries, including Scotland. Changing this would also have been hugely contentious with stakeholders and parents, and so the Department agreed with HMT that these ratios would not be amended.

Option 3

64. An alternative option was to reform ratios for children aged over 2 years old (3-4 year olds), again with the aim of increasing flexibility and reducing cost of childcare.
65. However, given there are already flexibilities in place (i.e. enabling settings with higher qualified staff to unlock a staff:child ratio of 1:13, an increase of the usual 1:8 ratio for children aged 3 years and over) it was felt that the best way to achieve flexibility was to amend ratios for the 2-year-old age group. Whilst some cost savings could be generated, they tended to be lower than any savings that could have been generated for the 2-year-old age group. These ratios are also broadly similar to Scotland with both utilising a ratio of 1:8 for 3 to 4-year-olds (with some exceptions in England for the Level 6 qualified 1:13 ratio, and in Scotland the 1:10 ratio for 3- to 4-year-olds who attend settings for no more than 4 hours per day) these ratios felt broadly aligned. In addition, as part of the consultation process the Department asked about whether moving to a similar mechanism would be beneficial for the sector regarding the 1:10 ratio (see option 4 below). Given the negative response from the consultation findings, this has further evidenced why this option would not be a useful regulatory flexibility for settings.

Option 4

66. Following on from the consultation on ratio/regulatory reform, the consultation document asked non-consultation questions to determine whether there were additional elements of regulatory flexibility that the Department should consider to better support providers. The

answers to these questions were designed to inform the Minister of options for further reform as we continue to work collaboratively with parents and the sector to shape the regulatory framework. These questions included matching Scotland's ratios for 3- to 4-year-olds and allowing those children attending a setting for less than 4 hours per day, the ratio of 1:8 can be increased to 1:10 (as in Scotland), although where staff are qualified to Level 6, the ratio of 1:13 would continue to apply. Further flexibilities also included:

- Creating greater flexibilities within the ratios for group-based provision, for example when looking after mixed age groups.
 - Revising the existing qualification requirements needed to be included within the ratio. Examples could include (and are not limited to):
 - Allowing staff working towards a qualification to be included within the ratio at the qualification level they are working towards (e.g., a member of staff working towards a Level 3 qualification can be included in ratio as a Level 3, not a Level 2).
 - Revising the number of Level 2 and/or Level 3 staff required per ratio under the current rules
 -
67. Analysis of the consultation by Cooper Gibson Research found that there was little appetite from respondents to go further on ratios for children aged 3-4. There was also strong opposition to staff:child ratio flexibilities (increasing from 1:8 to 1:10) for children aged 3 to 4 attending a setting for less than 4 hours per day. Concerns included safety of children, and wellbeing of staff with an increased workload, and quality of provision on offer decreasing.
68. It was announced at Spring Budget that to help increase flexibilities for providers and help them to deliver high quality care, a consultation would be launched in summer 2023 on proposals for the Early Years Foundation Stage framework. This consultation has now been launched ([Early years foundation stage \(EYFS\): regulatory changes - Department for Education - Citizen Space](#)) and its aims are to: offer providers more flexibility, reduce known burdens, enable practitioners to provide high quality early education and make it easier for practitioners to join the workforce and progress their careers. This consultation includes questions on Level 2-qualified staff required per ratio and allowing staff working towards a qualification to be included within the ratio at the qualification level they are working towards. The government will continue to work with the sector to consider what is best to support early years providers.

Option 5- non regulatory options

69. Non regulatory options that could support providers to be more flexible and financially sustainable are likely to be ineffective in achieving this policy objective, as any changes to the EYFS require secondary legislation. A potential non-regulatory option could be to support providers who currently operate at a higher staff:child ratio than the statutory minimum to use this existing spare capacity. However, this would be time consuming as it would rely on government working closely with local authorities across the country to target providers, who we would be reliant on to inform us about their spare capacity. Even with a targeted campaign to help providers use existing spare capacity, there is always the possibility that providers may not implement this, mirroring rationale from the consultation findings which stated the most common reason given by providers who said they were unlikely to change their provision was that they believed relaxing ratios would compromise their quality of care. Also, this option would not help providers who are operating at the current statutory minimum of 1:4. Spare capacity can also vary by the time of day, year etc. so if a provider has spare capacity at one point in time or on average, they may still be operating at statutory minimums at other times.
70. For adequate supervision, a possible non-regulatory option is to do an awareness-raising campaign targeted at settings. The Department has already worked closely with other government departments and external organisations to raise awareness of choking due to food inhalation and the particular risks for babies and children aged 0-5. Various products have been created and promoted to settings, such as posters and a food safety information

page which has been published on the free Help for Early Years providers platform. The department has worked with the NHS to adapt and promote their safe weaning and choking prevention advice. All this information has been disseminated to the sector in various ways via newsletters, webinars and social media. Work in this policy area is ongoing and given the turnover of staff, any awareness campaigns need to be at regular intervals to ensure the message is not lost. Changing the statutory requirement on all early years providers to make sure children are within sight and hearing of a member of staff whilst eating will help keep children safer whilst eating and raise minimum standards of supervision while eating.

4 Policy objective

71. The intended outcome of changing statutory minimums for staff: child ratios is to allow providers to utilise staff more efficiently. These changes would give greater autonomy to settings to exercise professional judgement in the way in which they staff their settings, according to the needs of their children, and in doing so help as many families as possible benefit from affordable, flexible, quality childcare. If fewer staff members are required, this may reduce operating costs or gain additional revenue.
72. When these changes come into legislation, the effects can be measured in part through using responses to the Provider Survey (which monitors how settings implement ratios and whether they over-staff) but measuring cost savings and additional revenue will be more difficult to measure.
73. In relation to the change of wording around childminder ratios, the policy objective is to enable childminders to develop a better understanding of the ratio flexibilities. The outcome of this will be to secure a greater ability to fill all available places or greater flexibility to adapt mixed age groups for siblings in a way that is beneficial to the childminder and to parents seeking accessible childcare.
74. An indicator of success would be that settings who want to, can staff at the new ratios of 1:5 for two-year-olds, that childminders understand and make use of the flexibilities available, and that we receive constructive/positive feedback from providers about the implementation of such ratios.
75. The intended outcome of making the requirement of adequate supervision whilst eating explicit, is to raise awareness of choking prevention within early years settings and therefore ensure the safety of children within early years settings.

5 Summary and preferred option with description of implementation plan

76. The preferred option is option 1, and will be given effect via secondary legislation. Transitional arrangements will be in place to enable the sector adequate time to understand the new legislation and implications of changes on their setting.
77. The intervention will lead to the intended achievement of the policy objective by giving providers the ability to work to a new statutory minimum staff:child ratio should they wish to do so. Whilst these proposed changes to staff:child ratios would amend the existing statutory minimum requirements, providers would continue to be able to staff above these minimum requirements if that is their preference. These changes would give greater autonomy to settings to exercise professional judgement in the way in which they staff their settings, according to the needs of their children, and in doing so to help as many families as possible benefit from affordable, flexible, quality childcare.
78. The impact of competition has also been considered against the competition checklist and there is unlikely to be a restriction of competition. The preferred option may lead to additional

places, additional revenue for providers, and more choice for parents, potentially increasing competition between providers.

79. Impacts on trade and investment have also been considered: this is unlikely to affect international trade in services, will not grant monopoly rights, is unlikely to substantially prevent competition and will not alter the definition of a natural person with permanent residence rights in the UK.

80. The changes will come into force in September 2023, subject to Parliamentary procedure.

81. The Department for Education will be responsible for setting the staff:child ratio statutory minimums and Ofsted will be responsible for inspecting against these new standards. However, settings will have the responsibility/decision to staff above these minimum requirements if they wish. Piloting and training is not applicable.

6 Affected Stakeholders, Organisations and Sectors

82. The main groups to be affected by the policy change are:

- i. Early Years Providers
- ii. Childminders
- iii. Parents

83. Other groups may also be affected due to increased uptake in childcare entitlements schemes:

- i. Government

7 Appraisal

7.1 Cost-Benefit Analysis of the preferred option

7.1.1 Evidence base

Survey of Childcare and Early Years Providers 2022

84. The Survey of Childcare and Early Years Providers (SCEYP) covers group-based providers (private, voluntary and school/college/LA/other unclassified¹⁸), school-based providers (those offering nursery provision and maintained nursery schools) and childminders, it provides a representative snapshot of early years provision in England. It helps the Government, including the Department for Education (DfE), understand the issues that providers face, informing development of early years and childcare policy.

85. The DfE commissioned IFF Research and London Economics to conduct SCEYP in 2022¹⁹. The programme of research entailed two surveys. The main SCEYP 2022 entailed a large mixed-mode survey, which could be completed either online or on the telephone. It collected data on a variety of topics such as staff-to-child ratios, delivery of Government policies including funded entitlements and Tax-Free Childcare (TFC), children with Special Educational Needs and Disabilities (SEND), staff qualifications and pay, and the financial side of providing childcare such as costs, incomes and fees. There were also a number of core questions such as the number of children registered at the setting. The short SCEYP was delivered online and on paper, and included questions on fees and Government funding received, as well as a small number of core questions, such as the number of children

¹⁸ All group-based providers that are not voluntary or private have been recorded in this third category, of which most are either school run, college run or local authority run group-based providers. Although this category is included in the group-based provider total, it is not reported on in the official statistics publication

¹⁹ [Childcare and early years provider survey, Reporting Year 2022 – Explore education statistics – GOV.UK \(explore-education-statistics.service.gov.uk\)](https://www.gov.uk/explore-education-statistics)

registered at the setting. The purpose of this short survey was to provide robust fee and funding estimates at a local authority (LA) level by aggregating data collected across this and the main SCEYP.

86. Alongside a report on the survey findings, DfE publishes another report that presents an analysis of early years providers' finances using combined data from the main and short surveys. The latest version of this report is for 2021²⁰. The objectives of this work were:
- a. To present the total cost of delivering childcare for all ages of children in the setting and the total income received by settings, together with breakdowns into their constituent parts, for different types of providers;
 - b. To explore providers' costs by describing the patterns in the unit cost (cost per child per hour) and staff hourly pay across different types of providers.
 - c. To explore providers' income by describing the patterns in the underlying parent-paid hourly fees and additional charges for parents across different types of providers;

Early Years Staff:Child Ratio Consultation Survey

87. Alongside the broader consultation, Government collected quantitative evidence from a representative sample of providers on the likelihood of them adopting the proposed changes and the predicted effect of the proposed changes on income, costs and parental fees. A total of 842 providers (85 SBPs, 589 GBPs and 168 CMs) responded to the online consultation survey. The data has been weighted to be representative of the population of early years providers in England in 2022.
88. In relation to the proposed change to the two-year-old ratio limit, the survey asked providers a number of questions to understand how they might use the change in their business, whether they may: a) increase the number of childcare places, or b) reducing staffing hours. Where possible and appropriate, the survey asked providers to estimate the costs and benefits to their business, including any potential savings they expect to be able to pass on to parents.

Early Years Provider Cost Pressures Model

89. The main evidence base used for the estimating the costs/benefit to businesses of the proposed changes is the Department's Early Years Provider Cost Pressures Model (EYPCPM)²¹. This model has been developed internally with the main purpose of forecasting the rate at which the average costs of delivering childcare entitlements are going to change.
90. The model uses underlying data from the 2021 SCEYP. This data includes the average staff-to-child ratios by age of child, which can be altered to estimate the impact on the cost of delivering an hour of childcare at different ratios.
91. Based on the 2021 SCEYP, we assume providers are operating at or below current staff-to-child ratios:

²⁰ [Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2021 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

²¹ For a more detailed explanation of the model see 'Early years funded entitlement cost changes forecasts, England: spending round 2021 to 2022' <https://www.gov.uk/government/publications/early-years-funding-2021-2022/early-years-funded-entitlement-cost-changes-forecasts-england-spending-round-2021-to-2022>

Table 2: Average two-year-old staff-to-child ratio by provider type, SCEYP 2021

Provider type	Average two-year-old staff-to-child ratio
Voluntary Group Based	3.69
Private Group Based	3.80
Nursery Provision in Schools	3.62
Independent Schools	4.00
Maintained Nursery Schools	3.87

7.1.2 Assumptions used in the analysis

92. Better Regulation principles state that an Impact Assessment (IA) should only capture those costs which are in addition to the current regulatory framework and any IA should assume 100% compliance with the proposed changes for any costs and benefits estimates, unless there is evidence to the contrary. It is therefore assumed that industry is compliant with the current legislative requirements of the EYFS and only costs directly related to the additional requirements stemming from implementing the amendments will be considered in this assessment.
93. This IA follows the procedures and criteria set out in the Better Regulation Framework Manual²² and is consistent with HM Treasury's Green Book²³. Where costs and benefits have been quantified, they have been discounted by 3.5%, also in line with the Green Book.
94. Analysts have selected a default timeline of 10 years for modelling this IA. This is on the basis that we expect for those providers that decide to change to the new ratios, they will do so almost immediately. Therefore, any costs and benefits would be realised straight away. As such, we do not believe a longer appraisal period would be appropriate.
95. The analysis assumes that every provider will familiarise themselves with the changes, regardless of whether they will or will not implement the changes. The benefits analysis then uses data from the NatCen survey on likelihood of implementing the changes when estimating the total benefits to business.
96. The results of the analysis are expressed in 2023 prices, 2023 present value throughout this RIA to reflect the year when the regulation changes first come into effect. This is except for the table at the top of page 1 (and Table 16 in the main body of the text) which are expressed in 2019 prices and 2020 present value, this ensures that these measures are compared like for like with other measures across the term of the Parliament²⁴.
97. To reflect uncertainty in behavioural responses, a set of low and higher estimates have been made around those calculated from the survey evidence. These have made using a value judgement, on a case-by-case basis, depending on the magnitude of the central estimate, so there is uncertainty around these estimates.

Data sources from SCEYP

Number of Providers

98. The survey gathers data on the number of providers and childminder, and the number of registered childcare places for each. These data will be essential for the IA and used throughout the analysis to estimate the impact of the regulation change across the whole sector.

²² <https://www.gov.uk/government/publications/better-regulation-framework#full-publication-update-history>

²³ <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

²⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128456/impact-assessment-calculator-guide.pdf

99. Currently there are:

- a. 21,600 Group-Based Providers (GBPs) with a total of 1,044,500 places
- b. 9,600 School-Based Providers (SBPs) with a total of 327,900 places
- c. 28,200 registered Childminders (CMs) with a total of 170,700 places

100. Due to the small base size of SBPs in the NatCen survey, the analysis will combine GBPs and SBPs in the calculations, and will be referred to as 'providers' throughout.

Number of paid staff

- In England there are:
 - a. 248,200 paid staff members in all Group-Based Providers
 - b. 52,300 paid staff members in School-Based Providers
 - c. 33,900 Childminders (this figure includes assistants)

Proportion of providers that offer places to two-year-olds

101. Currently, the follow proportion of providers offers places to two-year olds:

- a. 88% of Group-Based Providers
- b. 26% of School-Based Providers
- c. 71% of Childminders

7.1.3 Option 1a - Two-Year-Old Ratios

102. This change affects all Group-Based Providers and School-Based Providers with places for 2-year-olds, so 21,500 providers will be within scope.

7.1.3.1 Costs to Providers

Familiarisation costs

103. There will be costs to providers who spend time familiarising with the changes in regulatory requirements and associated Approved Codes of Practice (ACOP) and guidance, and determining what actions, if any, are needed. These costs will depend on several factors: the size of the provider; the way they receive information about regulatory changes and how engaged they are with regulatory developments.

104. Familiarisation costs would be one-off, transitional costs, which we estimate will occur in the first year of the appraisal period. We estimate additional costs for existing organisations only; new entrants would, without the regulatory change, still need to familiarise with duties of a similar nature and complexity to those proposed, so the amount of resource expended in familiarising would be equivalent.

105. There will be familiarisation costs for providers as they better understand the changes to the ratios for two-year olds. However, we do not expect it will take providers long to understand the changes, as we already expect they will be aware of the increase in the ratios from media coverage, and what this will mean in practice for their business. It is unlikely that staff members will spend a significant amount of time familiarising themselves with the changes given that this is a small change the guidance. It's also unlikely that every staff member will spend the time reading the updated guidance; instead, it's more likely that managers will read the updated guidance, understand the changes and cascade the information down through the business.

106. DfE estimates that the guidance on changes to statutory ratios will take staff between 30 and 90 minutes, with a central estimate of 1 hour, to familiarise themselves with and disseminate to other staff and parents. In the low scenario it is assumed that only one member of staff needs to familiarise themselves with the guidance, in the central and high

scenario it is assumed to be two and three members of staff. This is then multiplied by the total number of settings to arrive at the total familiarisation time for the sector.

Table 3: Estimated number of staff needed to familiarise themselves with guidance on 2-year-old ratio changes

	Number of staff per setting	Familiarisation time per setting (hours)	Total familiarisation time (hours)
Low	1	0.5	10,700
Central	2	1	42,900
High	3	1.5	96,600

107. It is assumed an average hourly salary of a worker is £14.38²⁵. The non-wage uplift of 25% is applied to calculate the full economic cost of time²⁶. The full labour costs are assumed to be £17.92 per hour. Multiplying this by the total hours in the table above estimates the total familiarisation costs to be between £192,000 and £1.73 million with a central estimate of £770,000, in year 1 only.

7.1.3.2 Benefits to Providers

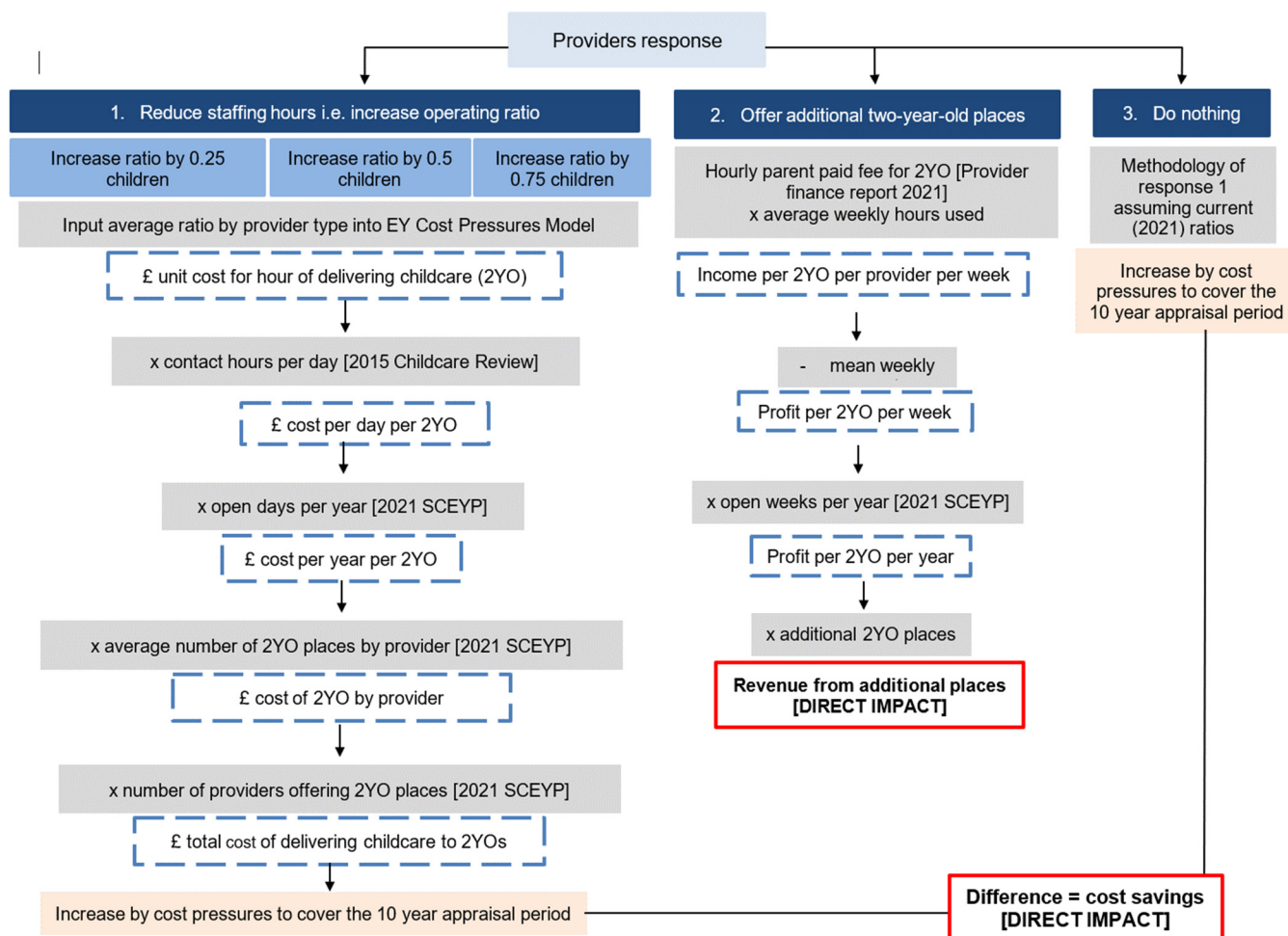
108. There are three main responses providers could make to the change in statutory two-year-old ratios:

- i. Reduce staffing hours and thus staff costs
- ii. Offer an additional two-year-old place
- iii. Do nothing i.e. not change their operating ratio

²⁵ According to the SCEYP 2021 the average hourly pay of a worker in the Early Years sector was £12.94. This is inflated by to 2023 prices using OBR forecasts correct as of 15 March 2023. [GDP deflators at market prices, and money GDP March 2023 \(Spring Budget\)](#)

²⁶ The ONS now monitor total labour costs and income in the education sector of the British labour market. The 2022 statistics show that the uplift for non-wage costs is 25%. [Index of Labour Costs per Hour, seasonally adjusted - Office for National Statistics \(ons.gov.uk\)](#) for people working in the education sector

Figure 1: Methodology for estimating the impact of the behavioural response of providers to the change in two-year-old ratios – please note that the 2022 SCEYP has been used in place of the 2021 SCEYP, where noted below.



Reduction in staff costs

109. Providers could respond to the ratio change by keeping the number of childcare places they offer constant and reducing the number of staffing hours needed.
110. As such, providers may be able to save income that they would have otherwise spent on staff costs, such as wages and National Insurance contributions.
111. In the absence of firm evidence about the extent to which reductions in staffing levels change ratios, it is assumed the central increase in additional children to every member of staff is 0.5, within a range of 0.25 to 0.75.

Table 4: Average two-year-old staff-to-child ratio for providers who have altered their ratios, by scenario and provider type

Provider type	Two year old staff-to-child ratio		
	Low	Central	High
Voluntary Group Based	3.94	4.19	4.44
Private Group Based	4.05	4.30	4.55
Nursery Provision in Schools	3.87	4.12	4.37
Independent Schools	4.25	4.50	4.75
Maintained Nursery Schools	4.12	4.37	4.62

112. The assumed changed in ratios from their 2021 levels are shown in Table 3. Inputting these average ratios by provider type into the EYPCPM results in the following average unit costs for providers who have altered their ratios as a result of the change to regulation (Table 4):

Table 5: Average cost for delivering an hour of childcare to two-year-olds by provider type, for providers who have altered their ratios, 2021

Provider type	Average Two-year-old unit cost		
	Low	Central	High
Voluntary Group Based	£6.29	£5.96	£5.66
Private Group Based	£6.98	£6.64	£6.33
Nursery Provision in Schools	£11.41	£10.77	£10.20
Independent Schools	£13.31	£12.74	£12.22
Maintained Nursery Schools	£10.46	£9.90	£9.40

113. This unit cost is then scaled up to estimate the cost for the entire sector. The unit cost is multiplied by contact hours per day²⁷ and days per year²⁸ to get the cost of delivering childcare to one two-year-old for one year. This is then multiplied by the average number of two-year-old places per provider type and the total number of providers offering places to two-year-olds²⁹ to estimate the total cost of delivering a year of childcare for all two-year-olds in provision under the new ratios. This new cost of delivery is subtracted from the cost of delivery under the original ratios, to estimate cost savings if all providers were to reduce staffing levels.

114. Evidence from the NatCen survey suggests of the 28% of providers 'likely' or 'very likely' to make a change as a result of the new ratios, 69% will change staffing levels. This represents 19% of all providers, within a range of 14% to 24% to reflect inherent uncertainty in survey intentions data corresponding to actions. Multiplying total cost savings if all providers were to reduce staffing levels, by the proportion who are 'likely' or 'very likely' to make a change and change staffing levels, the 2023 present value, 2023 prices cost savings from providers reducing staff costs in response to the ratios change are estimated as £500 million within a range of £197 million to £897 million.

Additional revenue from childcare places

115. Given the increase in the number of children per adult, providers may respond to the regulation change by offering additional childcare places, subject to building restrictions and statutory floor space ratios as set out in the EYFS³⁰. As such, it would be reasonable to assume that some providers would experience additional revenue from the increase in childcare places. The NatCen survey asks providers whether they intend to do this, and we use this to estimate how much additional revenue they may receive.

116. Current evidence from the 2022 Survey of Childcare and Early Years Providers suggests that 77% of GBPs are working to the current 1:4 ratio for two-year olds, and 21% are working below.

117. Whilst this may be possible for some providers, given building restrictions and preferences over capacity, not all providers nationally will be able and willing to offer additional places. Also, even though providers may be willing and able to offer additional places there may not be the demand for places given overall demand being fixed by demographics and with current birth rates being low³¹.

118. Evidence from the NatCen survey suggests of the 28% of providers 'likely' or 'very likely' to make change to provision, 62% will increase care delivered to 2-year-olds, of which 98%

²⁷ Contact hours are taken from the 'Review of childcare costs', 2015. <https://www.gov.uk/government/publications/review-of-childcare-costs>

²⁸ Assumes 5 days per week and providers are open 38 weeks during term time.

²⁹ Average number of two-year-old places by provider and total number of providers offering two-year-old places comes from the SCEYP 2022. <https://www.gov.uk/government/statistics/childcare-and-early-years-providers-survey-2021>

³⁰ Providers must meet the following indoor space requirements where indoor activity in a building(s) forms the main part of (or is integral) to the provision:

- Children under two years: 3.5 m2 per child
- Two-year-olds: 2.5 m2 per child
- Children aged three to five years: 2.3 m2 per child

[Statutory framework for the early years foundation stage \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

³¹ The total fertility rate (TFR) reached a record low in 2020, decreasing to 1.58 children per woman. [ONS: Births in England and Wales: 2020](https://www.ons.gov.uk/peoplepopulationandcommunity/healthandlife/birthsdeathsandmarriages/births)

will offer more places for 2 years. Multiplying these percentages together, suggests 17% of providers are expected to increase their number of 2-year-old places. The NatCen survey further estimates a median increase in the number of 2-year-olds per provider of 33%.

119. Using data from the 2022 SCEYP on the average number of 2-year-old registered with a provider type, the number of providers, a 33% increase in places, and multiplying by 17% for those expected to increase places; this suggests there will be an additional 14,700 places in total at providers who currently have 2-year-olds in the central scenario, within a range of 6,000 to 23,200.
120. In addition, evidence from the NatCen survey suggests that between 3% and 9% (with a central estimate of 6%) of providers not currently offering places to 2-year-olds may start offering 2 year old places; these estimates are based on 3% reporting that they will 'definitely' do so, and a further 6% reporting that they will 'probably' do so. Multiplying these percentages by 2022 SCEYP data on the number of providers not offering 2-year-olds, and the average number of places that existing providers with 2 year olds offer, this is estimated as between 1,100 and 3,400 new places, with a central estimate of 2,300.
121. Table 6 gives low, central and high estimates for the total additional places for 2-year-olds.

Table 6: Assumptions made on the number of providers offering additional two-year-old places

	Proportion of providers offering additional 2-year-olds places	Median number of additional 2 year old places offered by providers	Total additional two-year-old places
Low	7%	33%	7,200
Central	17%	33%	16,900
High	27%	33%	26,700

122. It is assumed that the revenue providers get from these additional places is equal to income from parent paid fees minus the additional cost of food for the additional place. It is assumed staff costs and all other costs (e.g., rents, utilities, additional costs to cover childcare such as nappies/wipes/food etc.) remain constant. Parent-paid fees and food costs are assumed to increase in line with cost pressures as forecasted by the EYCPM (see section 7.1.1 for more detail). See Table 7 for forecasted parents paid fees and Table 8 for food costs by provider type.
123. Multiplying the number of additional two-year-old places by the hourly parent paid fees, number of contact hours per day and weeks per year gives a total present value, in 2023 prices revenue of £1.3 billion over the 10-year appraisal period, with a lower bound of £550 million and upper bound of £2.0 billion.

Table 7: Mean hourly two-year-old fees charged to parents, (SCEYP 2021 Finance Report), forecasted over 10-year appraisal period (nominal, undiscounted)

Provider Type	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Voluntary Group Based	£5.56	£5.96	£6.32	£6.50	£6.58	£6.68	£6.81	£6.91	£7.03	£7.15	£7.26	£7.38
Private Group Based	£6.21	£6.66	£7.06	£7.26	£7.35	£7.46	£7.60	£7.72	£7.85	£7.98	£8.11	£8.25
Nursery Provision in Schools	£5.24	£5.62	£5.96	£6.13	£6.20	£6.30	£6.42	£6.51	£6.62	£6.73	£6.84	£6.96
Independent Schools	£5.53	£5.93	£6.29	£6.47	£6.54	£6.65	£6.77	£6.87	£6.99	£7.11	£7.22	£7.34
Maintained Nursery Schools	£6.15	£6.60	£6.99	£7.19	£7.28	£7.39	£7.53	£7.65	£7.77	£7.90	£8.03	£8.17

Table 8: Mean food unit cost by provider type, forecasted over 10-year appraisal period (nominal, undiscounted)

Provider Type	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Voluntary Group Based	£0.10	£0.11	£0.11	£0.12	£0.12	£0.12	£0.12	£0.12	£0.13	£0.13	£0.13	£0.13
Private Group Based	£0.27	£0.29	£0.31	£0.32	£0.32	£0.32	£0.33	£0.34	£0.34	£0.35	£0.35	£0.36
Nursery Provision in Schools	£0.18	£0.19	£0.20	£0.21	£0.21	£0.22	£0.22	£0.22	£0.23	£0.23	£0.24	£0.24
Independent Schools	£0.97	£1.04	£1.10	£1.13	£1.15	£1.17	£1.19	£1.21	£1.23	£1.25	£1.27	£1.29
Maintained Nursery Schools	£0.07	£0.08	£0.08	£0.08	£0.08	£0.08	£0.09	£0.09	£0.09	£0.09	£0.09	£0.09

7.1.3.3 Benefits to Parents

Reduction in parent paid fees

124. Given the potential for reduction in staff costs and/or additional revenue (see section 7.1.3.2), it is possible that providers will pass some of this onto parents in the form of reduced prices for childcare.
125. Evidence from the NatCen survey suggests 28% of providers expect to see a financial gain as a result of the ratios changes, of which 36% will pass on at least some of it to parents. This gives a central estimate of 10% of all providers passing on financial gains to parents, with a range of 8% to 12% to reflect inherent uncertainty underpinning the survey evidence.
126. Using further evidence from the Natcen survey, it's assumed that between 3% and 8%, with a central estimate of 5% of savings to providers are passed onto parents. The proportions are applied to the average parent-paid fees (see Table 76 for forecasted two-year-old parent paid fees).
127. The reduction in hourly parent-paid fees is then scaled up to an annual reduction in fees by multiplying by the number of contact hours per day, the number of days per week and the number of weeks per year. This is then scaled up to the whole sector by multiplying by the average number of two-year-old places and, the number of providers offering two-year-old places. Finally, this is multiplied by the proportion of providers it is assumed pass on a financial gain to parents (8% to 12%%). This gives a total discounted, 2023 prices reduction in parent paid fees of £108 million over the 10-year appraisal period, with a lower bound of £54 million and upper bound of £195 million.

7.1.3.4 Summary

128. Table 99 below summarises the monetised costs and benefits for option 1a. To note: these costs assume a proportion of providers will choose to reduce staff costs and reduce fees, others will provide additional places, and some will not respond to the regulation change. We have based our assumptions for the central scenario on evidence from the NatCen survey, which suggests that among all SBPs and GBPs, 19% are likely to reduce their staffing level; 17% will likely increase the number of places offered to 2-year-olds; 10% will likely pass on savings to parents through hourly fee reductions; and a total of 28% are 'likely' or 'very likely' to respond to the regulation change by adjusting their ratios.

Table 9: Summary of present value monetised costs and benefits for Option 1a for the low, central and high scenario¹

	Low	Central	High
Costs			
<i>Familiarisation costs</i>	£0.2 m	£0.8 m	£1.7 m
Total costs	£0.2m	£0.8 m	£1.7 m
Benefits			
<i>Financial gains (passed on to parents)</i>	£54.2 m	£108.5 m	£195.0 m
<i>Cost savings (excluding those passed on to parents)</i>	£197.0 m	£499.5 m	£896.9 m
<i>Additional revenue</i>	£549.6 m	£1,294.4 m	£2,036.4 m
Total benefits	£746.5 m	£1,793.9 m	£2,933.3 m

7.1.4 Option 1b - Childminders flexibility change

129. This change affects all Childminders, so 28,200 providers will be within scope.

¹ Totals may not sum due to rounding

7.1.4.1 Costs to Providers

Familiarisation costs

130. As discussed in section 7.1.3.1, there will be familiarisation costs for providers as they better understand the flexibility changes for CMs. However, we expect these costs to be small across the sector, as the changes to the guidance are likely to be small. As such, it is possible that providers will be aware of the increase in the ratios, and what this will mean in practice for their business.
131. DfE estimates that the guidance on changes to statutory staff:child ratios will take staff between 30 and 90 minutes, with a central estimate of 1 hour, to familiarise themselves with and disseminate to other staff and parents. In all scenarios it is assumed that only one member of staff needs to familiarise themselves with the guidance (as only around 17% of CMs hire assistants).

Table 10: Estimated number of staff needed to familiarise themselves with guidance on childminder flexibility change

	Number of staff per setting	Familiarisation time per setting (hours)	Total familiarisation time (hours)
Low	1	0.5	14,100
Central	1	1	28,200
High	1	1.5	50,850

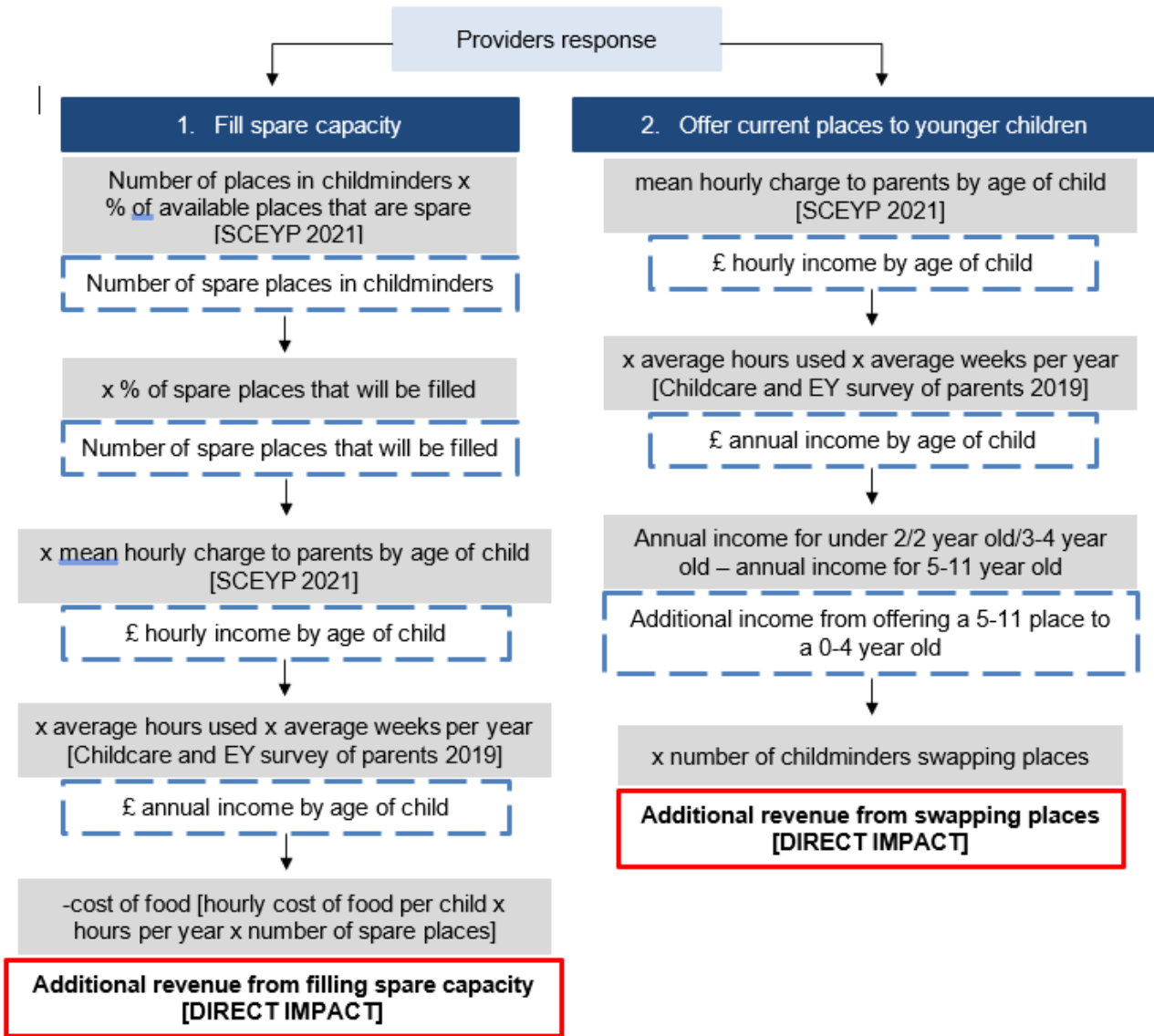
132. Using SCEYP 2021 data and OBR GDP deflators, it is assumed an average hourly salary of a childminder in 2023 is £9.14. An uplift of 25% is applied to account for non-wage costs, calculated using ONS figures for the education sector. The average full labour cost of time is estimated as £11.40 per hour. Multiplying this by the total hours in the table above estimates the total familiarisation costs to be between £161,000 and £580,000 with a central estimate of £321,000, in year 1 only.
133. Note that, according to the 2021 Provider Finance Report, some 63% of childminders report charging parents separately for the cost of unarranged late pickups, meals, snacks, regular activities etc. We account for these likely extra costs to childminders by subtracting additional charges from our estimates of additional revenue (Table 12).

7.1.4.2 Benefits to Providers

Additional revenue from increased flexibility

134. Given the increased flexibility around the number of children CMs can have in each age range, there are a couple of ways they could respond to the regulation change:
1. If CMs do not currently operate at full capacity as they are unable to fill a place, they may now be able to offer a place to a sibling of another child
 2. If they already operate at full capacity, then a place they used for an older child before the regulation change could now be given to a younger child, at a higher hourly fee.
135. The following sections explain the methodology for estimating the impact of these responses, which is summarised in figure 2 below.

Figure 2: Methodology for estimating the impact of the behavioural response of providers to the change in CM flexibility



– note where appropriate that the SCEYP 2021 has been replaced with the SCEYP 2022 as a source for model inputs; similarly the 2019 parents’ survey has been replaced with the 2021 parents’ survey

136. The NatCen survey asked CMs whether they had any current spare capacity, and whether they would swap a place used for an older child for a younger child. The survey also asked how much additional revenue CMs might gain from the regulation change.

137. It is also important to note that any changes to how many children of each age CMs care for, will also be dependent on demand from parents. Although some CMs may want more younger-aged children to maximise revenue, demand from parents may not make this possible.

138. The 2021 SCEYP Finance Report provides data on the mean hourly fee charged to parents for children of different ages, from under 2 to ages 3 and 4. On average, childminders charge more (albeit marginally) for younger children, than they do preschool aged children, see Table 12 for a breakdown.

139. The 2022 Coram Family and Childcare Survey² also produces data on weekly costs of a CM for children ages 5 to 11 in England, which is £71.21. This is based on childcare up to 6pm, during term time (38 weeks per year)

² Coram Childcare Survey - 2022.pdf

Childminders that can now fill spare capacity

140. As discussed above, there may be situations where CMs have some capacity due to being unable to fill a space under the status quo regulations. As such, the increased flexibility will allow them to offer childcare places to siblings of any child in their care. The additional revenue for this will depend on the age of the child they take on.
141. Table 120 provides data on the mean hourly fee charged to parents by CMs, from the 2021 Provider finance report. For the purpose of this analysis and IA, these figures have been forecasted over 10 years from 2023 to 2032 using data the department has on the estimated annual increase in the unit cost for delivering an hour of childcare for a 2-year-old.
142. As discussed above, there are around 171,000 CM childcare places, of which, data from the 2022 Providers survey reports around 22% are spare. This equates to around 38,000 available spare places.

Table 11: Assumptions used in spare capacity analysis

Scenario	Proportion of Childminders that will fill spare capacity places	Number of spare places filled	Hours of childcare used per week	Weeks per year of childcare usage
Low	9%	3,281	15	38
Central	11%	4,101	15	38
High	13%	4,921	15	38

143. Using data from the NatCen survey, our central estimate is that 11% of childminders will fill spare places as a result of the proposed changes. In the survey, 42% of childminders said if they were to make changes, they would fill spare places – we then multiply this by the 26% of childminders who said they were either ‘likely’ or ‘very likely’ to make changes to arrive at a central estimate of 11%. A range of 9% to 13% is also estimated to reflect inherent uncertainty associated with provider intentions versus actual behaviour. It is assumed that the number of childminders stays constant over the 10-year appraisal period, and the proportion of CMs that offer places to each age group remains unchanged. The analysis also assumes that there are on average 15 hours of childcare used per week, for around 38 weeks per year.
144. Although there will be additional income from spare places being filled, there will also be some additional costs to CMs for other things such as food or items to support childcare such as nappies etc. Table 122 also provides data across the appraisal period on the hourly unit cost of food per child. This has been used in the calculations to estimate the additional revenue (income minus costs) for filling spare capacity places.
145. The survey was not able to capture the age groups of the spare places, therefore this analysis assumes CMs offer them for all 3 age groups equally. The present value, 2023 prices estimate of the total additional revenue from CMs filling spare capacity places, across the appraisal period is £125 million, with a low estimate of £100 million and a high estimate of £150 million. It is also worth noting that any new spare capacity will vary locally, and therefore likely lead to imperfect matching. A limitation of the survey evidence is that it does not disaggregate provider responses by region; as a result, our modelling is unable to estimate these differential geographical impacts.

Table 12: Mean hourly fees charged to parents, by age of child (SCEYP 2021 Finance Report) and unit cost of food per child, forecasted over 10 year appraisal period (2023 to 2032) (nominal, undiscounted)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Mean hourly charge fees under 2	£ 5.23	£ 5.61	£ 5.95	£ 6.12	£ 6.19	£ 6.29	£ 6.40	£ 6.50	£ 6.61	£ 6.72	£ 6.83	£ 6.95
Mean hourly charge fees aged 2	£ 5.16	£ 5.53	£ 5.87	£ 6.03	£ 6.10	£ 6.20	£ 6.32	£ 6.41	£ 6.52	£ 6.63	£ 6.74	£ 6.85
Mean hourly charge fees aged 3-4	£ 5.09	£ 5.46	£ 5.79	£ 5.95	£ 6.02	£ 6.12	£ 6.23	£ 6.33	£ 6.43	£ 6.54	£ 6.65	£ 6.76
Mean hourly cost of food per child	£ 0.78	£ 0.84	£ 0.89	£ 0.91	£ 0.92	£ 0.94	£ 0.95	£ 0.97	£ 0.99	£ 1.00	£ 1.02	£ 1.04

Childminders offer current places to younger children

146. Under the proposed changes, discussed throughout this IA, CMs will have additional flexibility in how many of each age group they offer childcare to. One possible way CMs may gain additional revenue, if they already operate at full capacity, is to offer more places to younger children – at a higher hourly rate.
147. The NatCen survey found that, of childminders who said they would likely change their provision in line with the proposed changes, 42% said the regulation change would enable them to fill spare capacity spaces. This equates to around 3,100 childminders, 11% of the whole population of CMs.
148. The assumptions used in the analysis below in Table 133.

Table 13: Assumptions used in Scenario B

<u>Scenario</u>	<u>Proportion of Childminders in scope</u>	<u>Hours of childcare used per week</u>	<u>Weeks per year of childcare usage</u>
Low	9%	15	38
Central	11%	15	38
High	13%	15	38

149. This option assumes that all additional income is profit, as CMs will not be offering additional places. To estimate the additional revenue, the analysis models the difference between income per child of a 5–11-year-old, and income per child for under 5's. We then calculate from the NatCen survey evidence¹ that 11% of childminders will swap a place for an under 5, but evenly across the age groups. The total discounted, 2023 prices additional revenue, across the 10-year appraisal period is estimated to be between £6 million and £9 million, with a central estimate of £7 million.

7.1.5 Option 1c – Adequate supervision whilst eating

150. This change affects all Group-Based Providers, School-Based Providers and Childminders, so 59,400 providers will be within scope.

7.1.5.1 Costs to Providers

Familiarisation costs

151. Like options 1A&B, there will be familiarisation costs to providers to understand the proposed changes to adequate supervision whilst eating. Providers will need to read the updated guidance to understand what the changes mean in practice and will need to cascade the information throughout the business.
152. As this change affects all childcare settings, all 59,400 current childcare settings will be in scope of this change. Similar to the other changes, it is unlikely that staff members will spend a significant amount of time familiarising themselves with the changes given that this is a small change to the guidance. It's also unlikely that every staff member will spend the time reading the updated guidance, instead its more likely that managers will read the updated guidance, understand the changes and cascade the information down through the business.
153. As such, DfE estimates that the wording change to EYFS on supervision while eating will take staff between 30 to 90 minutes, with a central estimate of around 60 minutes to familiarise themselves and disseminate to other staff.

¹ 42% of childminders in the NatCen survey results suggested that if they were to make a change, they would reallocate places to younger children – we again multiply this by the 26% who said they were 'likely' or 'very likely' to make a change to arrive at a central estimate of 11%.

154. In the low scenario it is assumed that only one member of staff needs to familiarise themselves with the guidance, in the central and high scenario it is assumed to be two members of staff. This is then multiplied by the total number of settings to get the total familiarisation time for the sector.

Table 14: Estimated number of staff needed to familiarise themselves with guidance changes to the supervision while eating element of EYSF

	Number of staff per setting	Familiarisation time per setting (hours)	Total familiarisation time (hours)
Low	1	0.5	29,700
Central	2	1	118,800
High	3	1.5	267,300

- The average hourly salary of an early years worker in 2021 is £12.50², the non-wage uplift of 25% is applied to calculate the full economic cost of time inflated to 2023 prices using the OBR GDO deflator forecast as £17.31. Multiplying this by the total hours in the table above estimates the total familiarisation costs to be between £514,000 and £4.63 million with a central estimate of £2.07 million in year 1 only.

7.1.5.2 Benefits to providers

155. Having tighter regulations on supervision whilst eating will help reduce the risk of children choking to death and increase safety in settings: a benefit to providers, children and parents.

156. A death of a child in a childcare setting premises will involve investigation into the incident, and negligence by the provider may result in a lawsuit against them, and a possible pay-out to parents. Having increased regulation on supervision whilst eating may reduce the number of lawsuits taken out by parents of children who have died whilst in a childcare premises.

157. The department does not gather any data on lawsuits due to choking, and therefore has no evidence on the average costs of these cases, or how many there has been. The department's legal team was unable to find any court judgements, which therefore means any cases that have arisen may have been settled before they reached court and as such will not appear in any law judgements.

7.1.5.3 Benefits to society

158. Fatalities due to choking on food and from allergic reactions are often preventable when acted upon swiftly. Strengthening the supervision whilst eating requirement may therefore prevent some unnecessary deaths.

159. News coverage of children dying due to choking may make parents anxious or uneasy leaving their child with a provider. Strengthening the supervision whilst eating requirement will encourage parents to continue to use childcare providers by alleviating any concerns they may have.

7.2 Summary of results

160. At present, there is some evidence to fully understand the impact the proposed changes will have on providers, as we have the NatCen survey data to inform this. This said, it is still highly uncertain, as reflected by presenting a low, central and high estimate.

² [Provider finance report 2021, Table 12](#)

161. The NatCen survey and consultation has provided analysts with some evidence and data to be able to support a more robust quantification of how many providers will make changes to their ratios/flexibility, and how they will make use of the proposed changes.
162. Tables 15 and 16 summarise the final results of the analysis. Table 15 provides a high-level breakdown of total present value costs and benefits (in 2023 prices, 2023 present value). It also includes an estimate of the Net Present Value to Business (subtracting costs from benefits) and Equivalent Annual Net Direct Cost to Business (EANDCB) from running these numbers through the impact assessment calculator.³ Table 16 then summarises the Net Present Value to Business and EANDCB numbers in 2019 prices and 2020 present value, adjusting the parameters in the impact assessment calculator. These numbers enable the estimates of these measures impacts to be compared like for like with other measures across the term of the Parliament

Table 15: Total present value costs, benefits, NPV and EANDCB (2023 prices and 2023 present value) by scenario

	Low	Central	High
Total Costs	£0.9m	£3.1m	£6.9m
Two-Year Old Ratio Change	£0.2m	£0.8m	£1.7m
Childminders	£0.2m	£0.3m	£0.6m
Supervision whilst eating	£0.5m	£2.1m	£4.6m
Total Benefits	£878.2m	£1,971.2m	£3,195.7m
Provider cost savings	£197.0	£499.5m	£896.9
Additional revenue	£681.3	£1,471.8m	£2,298.7
Business Net Present Value	£871.3m	£1,968.1m	£3,194.8m
EANDCB	-£101.9m	-£228.6m	-£370.5m

Table 16: NPV and EANDCB (2019 prices and 2020 present value, rounded to nearest £100m) by scenario

	Low	Central	High
Business Net Present Value	£700m	£1,500m	£2,500m
EANDCB	-£100m	-£200m	-£300m

7.3 Small and Micro Business Assessment (SaMBA)

163. The department gathered data on the number of paid staff per setting by provider type in the 2022 SCEYP, see Table 16. Based on the data, the vast majority of childcare provider settings are either small or micro business (less than 50 employees). However, we must caveat that this data is at a setting level and doesn't identify those GBPs which are part of a larger chain (therefore business) or in the case of SBPs offering nursery, part of the school. Furthermore, the majority of CMs do not employ any assistants⁴, and those that do may only work with up to two other people (other CMs and/or assistants), so are also considered to be micro businesses.
164. These policy changes should not cause disproportionate burdens on medium-sized businesses (50 to 499 employees) as they are only a small part of the market (at least looking at the setting level). Whilst for small and micro businesses it would not be possible to achieve the policy's objectives if they were to be exempted. Furthermore, as the ratio changes are permissive and deregulatory measures, they are likely to be beneficial to business, rather than burdensome.

³ <https://www.gov.uk/government/publications/impact-assessment-calculator--3>

⁴ Internal intelligence from Ofsted

Table 16: Average number of paid staff per setting, by provider type

	School-Based Providers (SBPs)			Group-Based Providers (GBPs)			
	Maintained nursery schools	SBPs offering nursery	All SBPs	Private GBPs	Voluntary GBPs	Other GBPs	All GBPs
Total providers	400	9,200	9,600	13,900	6,500	1,100	21,600
Average number of staff	17	5	5	13	9	12	11
% 0-9 staff	12%	93%	89%	43%	72%	50%	52%
%10-49 staff	87%	7%	11%	57%	28%	50%	48%
%50+ staff	1%	0%	0%	1%	0%	0%	0%

165. Due to building restrictions, there may be some situations in which more micro childcare providers are unable to offer more childcare places, and as such may miss out on some benefits of the policy objective. However, in contrast they would still be able to reduce staffing hours if they wished.

166. As discussed further below, there is some scope for competition between providers to fill the additional places they can now offer, which may drive down costs. If smaller businesses are not able to do this, it may result in parents switching to cheaper providers.

7.4 Risks and Sensitivities

7.4.1 Behavioural response of providers

167. As with deregulatory policies, there is a risk that businesses do not respond to the change and continue working as they did before. As such, it is possible that there will be little to no impact of the proposed changes. We have used the results of the NatCen survey to refine and sense-check our assumptions about how providers may respond to the proposed changes.

168. Deregulation provides the option to use the new 1:5 ratio, or more flexible ratios in the case of childminders, and the decision of this lies with providers. Although ratios are changing, providers are still subject to other regulations such as safeguarding, first aid etc. These regulations are not changing, and as such outcomes relating to these are unchanged.

7.4.2 Sensitivity analysis

169. Throughout the IA, analysts have conducted scenario modelling as a way of providing a picture of potential cost implications of this regulation change. We have used the NatCen survey data throughout the analysis to provide a sensitivity analysis, in which we test the evidence and assumptions used in the scenario modelling calculations.

7.5 Wider impacts

7.5.1 Competition among providers, prices and quality

170. Demand for childcare and therefore the competitive structure of the market tends to be highly localised (reflecting for example distances parents will travel and income levels) and the financial positions of providers differ substantially.⁵ This means the impacts on competition in the sector is likely to vary and be uncertain.

171. For some providers, they will be able to offer more childcare places under these measures, and it is possible that this will drive some competition between providers to fill those spaces, potentially by reducing parent paid fees. Evidence from the NatCen survey suggests 28% of providers expect to see a financial gain as a result of the ratios changes, of

⁵ <https://www.gov.uk/government/publications/providers-finances-survey-of-childcare-and-ey-providers-2021>

which 36% will pass on at least some of it to parents. Overall, the likely impact is that 7 – 12% of all settings with 2-year olds would pass on any savings to parents.

172. Among settings expecting some financial gain and not expecting to pass all the gain on to parents, they could implement changes that lead to an improvement in the quality of provision. For example, of those responding to the NatCen survey who expected a financial gain from changing ratios but not expecting to pass it all on to parents, around half of the settings (53%) said they would use it to pay for additional resources for staff training or career development; and just under half (49%) said they would use the surplus to increase staff salaries. Furthermore, the additional flexibility these measures create for providers may enable them to better compete on quality and flexibility of provision, to the benefit of children.
173. The permissive nature of the staff:child ratio change may disproportionately benefit profitable providers who will be able to keep their staff-to-child ratio low acting as a signal to parents of higher quality provision. Other providers who may already be struggling financially may increase their staff:child ratio and therefore decrease the quality, or perceived quality, of their provision. A key concern of respondents to the consultation with a particular emphasis on how this may impact on child development. Particularly, as unlike the Scottish system that has more qualified staff, there are no requirements associated with staff qualifications and these measures.
174. Underpinning these supply-side changes, the expansion of the entitlements offer announced at the Spring Budget 2023 will lead to an increase in demand for childcare overall. For example, starting from April 2024, working parents of 2-year-olds will be able to access 15 hours of free childcare per week for 38 weeks of the year; this is forecast to benefit parents of up to 285,000 children. Ultimately all working parents with children aged 9 months to 4 years will be able to access 15 hours of free childcare per week for 38 weeks of the year. The flexibility given to providers may allow providers to offer additional places or hours and help to address parental demand for places.
175. Where there is greater flexibility for CMs as they are now able to offer more places to younger children, there may be greater flexibility for parents. Parents could have access to more childcare places closer to home that they may have otherwise had to travel for.

7.5.2 Public Sector Equality Duty (PSED)

176. An equalities impact assessment has been completed for both elements of the consultation for staff:child ratio changes (2-year-olds and childminders) and the adequate supervision element.
177. The evidence suggests that for adequate supervision whilst eating, there are positive impacts for children with a disability, and neutral impacts across the other protected characteristics considered within this EIA. However, there was concern when considering staff with hearing loss in statements about staff being considered within sight and hearing to supervise children whilst eating. We believe providers could mitigate against this by assessing how they deploy their staff during snack and meal times.
178. The evidence suggests that for staff:child ratio changes for 2-year-olds and childminder ratio flexibilities for their own children and siblings of children they are looking after, the overall impact is positive for the sex protected characteristic. For those with protected characteristics related to disabilities, pregnancy and maternity, the changes may have a negative impact. For race and the remaining characteristics there are neutral impacts.
179. The changes may have a negative impact on children with a Special Educational Need and/or Disability (SEND) due it being more difficult to support their needs if staff are caring for greater numbers of children. Changes may also have a negative impact on pregnant staff due to concern they may become tired through caring for more children within a higher staff:child ratio.

180. The health and safety of children is our utmost priority, and to mitigate against any negative impact on equality, we will keep the PSED closely under review. The staff:child ratio changes will continue to be minimum requirements for settings, and there will be no obligation on providers to incorporate them, they will be able to continue to staff to tighter ratios if that is their preference. We trust that providers will adjust their ratios to best meet the needs of their children and staff.

7.5.3 Family Test

181. Following a review of the Family Test to determine how this new and changed policy could impact family life and family relationships, we have determined that families will overall not be affected by this policy. There may be some impacts on families choosing childcare, which could be considered a key transition point, as this policy change could result in there being more choice available to parents due to additional places being available. Alternatively, parents could want to change the setting their child attends, if that setting implemented the new statutory minimum of 1:5.

7.6 Monitoring and Evaluation

182. A post implementation review (PIR) will be carried out on the amending regulations to monitor and evaluate the impact of the change. Whilst the regulations will be subject to a formal statutory review five years from when the regulations come into force (if the EANCB is +/- £5million), DfE will be continually monitoring and evaluating the effectiveness and impact of the changes.

183. The department conducts an annual survey of childcare and early years providers, SCEYP, allowing monitoring of the average staff-to-child ratios providers are operating at (see paragraph 31 for more information). The department intends to use this survey, along with any additional provider surveys such as the Covid-19 provider surveys⁶, to monitor the behavioural response of providers to the ratio change and the impact it has had on their finances.

184. The department intends to use Ofsted's official statistics on childcare providers and inspections⁷ to monitor and evaluate how the change will impact the quality of early years provision. These statistics are released every four months and report the number of inspections of providers on the Early Years Register (EYR) and the outcome of those inspections. This however would not capture providers which are not registered on the EYR.

⁶ <https://www.gov.uk/government/publications/the-impact-of-rising-costs-on-childcare-and-early-years-providers>

⁷ <https://www.gov.uk/government/collections/early-years-and-childcare-statistics>