Impact of more flexible ratios on costs to parents

1. It will be up to nurseries how they use the extra revenue gained from operating higher ratios. They could use this extra revenue to cut costs for parents, or to increase salaries for staff, or – and we think this is most likely – a combination of the two. Our internal analysis suggests that using the extra revenue from higher ratios both to increase salaries and to reduce fees could cut costs for parents by 12% (from £4 an hour to £3.49 an hour). If the extra revenue was used solely to reduce costs for parents, this could yield cost savings of up to 28%. The note below sets out the calculations behind this 28% figure.

2. The following illustration is based on a full-day care (FDC) nursery which employs 11 full-time equivalent (FTE) staff: 3 childcare workers and a further 8 supervisory level staff. 1 x FTE time accounts for managerial / administrative duties and staff cover. Initially, 10 FTE staff could deliver up to 24 places to over 3s (using 3 FTEs), 12 places to 2 year olds (3 FTEs), and 12 places to under 2s (4 FTEs). Initially, none of the staff are qualified to graduate level[i].

3. Under a scenario where (a) legal ratios are relaxed for under 3s and (b) the setting moves from a ratio of 1:8 to 1:13 for over threes, the number of full-time places could be expanded to 73, a 52% increase (Table 1)[ii].

4. This increase in places creates a gross revenue increase of around £200,000 (Table 2), based on the nursery charging £4 an hour and assuming the places are filled on a full-time basis.

5. Around 60% of this increase comes from using the 1:13 ratio for three and four year olds. In order to do so the setting must employ a graduate, we therefore need to subtract from the gross revenue the increase in pay for one of the supervisors from £16,850 to £33,250[iii]. In this instance, we assume that pay for other staff remains the same. We also subtract non-staff costs associated with increasing places (higher utility and food bills etc.)[iv].

6. This generates a net increase (revenue over costs) of £166,400. Distributing this over the 73 childcare places for 52 weeks a year and 39 hours a week means the nursery could reduce its fees from £4 an hour to £2.88 an hour, which is a reduction of 28%[v].

Table 1 Potential expansion in places

	Age group			
	Over 3s	**2 year olds**	**Under 2s**	**Total**
FTE staff time	3	3	4	10
Places per staff member (before)	8	4	3	
Maximum places (before)	24	12	12	48
Places per staff member (after)	13	6	4	
Maximum places (after)	39	18	16	73
Potential increase in places	**15**	**6**	**4**	**25**
% increase in places	63%	50%	33%	52%

Table 2 Potential increase in revenue and costs

Increase in gross revenue	£202,800
Minus cost of increasing pay of 1 supervisor to graduate level of £33,250	£16,400
Minus increase in non-staff costs (food, utilities etc)	£20,000
Net increase (revenue over costs)	**166,400**

[i] This is broadly in line from the Childcare and Early Years Provider Survey (DfE, 2011), which indicated a mean of 11.2 paid staff in an FDC, of which we estimate that around 10% were managerial, 60% supervisory and around 30% are “other paid” (non-supervisory). Staff responsibilities are based on the following definitions. Senior managers: overall responsibility for managing the provision in a setting. Supervisory staff: defined as those who are qualified to supervise a group of children on their own. They do not necessarily supervise other members of staff. Other paid childcare staff / other paid early years support staff: defined as other members of paid staff who are not qualified to supervise a group of children on their own but who are involved in running the childcare sessions. These may include classroom assistants or other support staff.

[ii] This approximates for the mean distribution of places by age in FDCs - internal estimates based on the provider survey suggest 50% of FDC places are delivered to over 3s, 28% to 2 year olds and 22% to under 2s.

[iii] Pay benchmarks are based on Figure 3, *More Great Childcare*. They consider the average full-time childcare worker in England, working 39 hours per week and 52 weeks per year. The higher benchmark for graduates (£33,250) is based on Primary School Teacher pay in England.

[iv] Non-staff costs" might be expected to increase as the nursery delivers more places. If the setting already has spare capacity, then cost increases could be kept to a minimum. A setting reaching its capacity limits would need to invest more heavily to meet the expansion in places. Based on survey evidence, we assume non-staff costs represent 18% of total costs and rise in proportion with the increase in the number of places, by 52%.

[v] It should be stressed that the above example is stylised. Most settings do not operate at full child occupancy rates year round, and there are other constraints on offering places up to the capacity implied by legal maximum ratios. However this serves to illustrate how the regulatory framework sets the conditions under which providers operate, with greater flexibility in the adult to child ratios providing considerable potential for expansion and investment.