



Department
for Education

Spring Budget 2023 Childcare Expansion

Policy costing information note

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Introduction

1. In the spring budget of 2023, the Chancellor announced that funded childcare hours would be extended to children of eligible working parents in England from nine months old to support increased parental engagement in the labour market.
2. The measures announced will expand the existing system¹ by offering up to 30 funded hours of childcare per week over 38 weeks of the year to children aged nine months and over whose parents meet the same income eligibility criteria as applied to the existing 30 hours entitlement for three and four-year-olds. The policy will have a phased rollout, with 15 hours per week for 38 weeks a year offered to eligible two-year-olds from April 2024 and to eligible children under two from September 2024. The new entitlement will be offered in full from September 2025.
3. This note describes the approach taken to costing the expansion of funded early education childcare entitlements. It is a standalone briefing note that explains how the total estimated cost of the policy was calculated. As the entitlement will be new, and because all figures used to form the calculation were estimates, this involved a degree of uncertainty which is explained throughout the note.
4. This document sets out assumptions and methodologies for costing the 2023 Spring Budget announcement. Funding decisions beyond this Spending Review period are subject to HMT agreement.

Costing the new childcare entitlement

Volumes

5. To estimate the overall cost of the new entitlement the Department for Education (DfE) considered the following factors:
 - a. The size of the population of children within the age range of the new policy.
 - b. The proportion of this population that will be eligible for the new policy.
 - c. The proportion of the eligible population that will take up the new policy.
 - d. The average number of hours that parents using the new policy will take.
 - e. The funding rate per hour of childcare that the DfE will pay to local authorities so that they can fund providers in their area to provide the new entitlement.

¹ The current system provides 15 hours of funded early education to three and four-year-olds per week for 38 weeks of the year, and a further 15 hours to those of the same age whose parents meet income eligibility criteria (known as 30 hours). 15 hours a week over 38 weeks of the year are also available to disadvantaged children aged two.

Population

6. The population of children within the age range of the new entitlement was based on Office for National Statistics (ONS) 2020-based interim population projections². These projections were adjusted to reflect deviations from projected births in 2021 and then adjusted to a financial year basis.

Table 1 - Financial year EY population projections

Age group	2024-25	2025-26	2026-27	2027-28
9-month-olds to 12-month-olds	151,000	151,000	150,000	149,000
One-year-olds	605,000	606,000	606,000	604,000
Two-year-olds	608,000	610,000	611,000	611,000

Eligibility

7. Data from the Family Resource Survey³ (FRS) and Survey of Personal Incomes⁴ (SPI) was used to estimate the proportion of parents who would fall within the eligibility criteria of the new entitlement⁵.
8. The earnings thresholds for the existing 30 hours entitlement for three- and four-year-olds were used to estimate the size of the cohort who will be eligible for the new entitlement:
- the lower earnings threshold is set at the equivalent of 16 hours worked at the national minimum/living wage per week⁶.). Historic FRS data shows the proportion of parents earning above the lower threshold was estimated to be between 48% and 51% between 2017-18 and 2021-22; and
 - the upper earnings threshold is set at £100,000 adjusted net income per year. Analysis of 2020-21 SPI data shows that 98% parents of children aged two to four-years-old earned below the upper threshold.
9. This produced an overall eligibility rate around half. Sensitivity analysis confirmed that the proportion of parents earning above the lower threshold does not vary substantially by the age of the child or over time and therefore we did not estimate eligibility rates that are age or time specific.

² [National Population Projections - 2020 Based Interim \(www.ons.gov.uk\)](http://www.ons.gov.uk)

³ [households-below-average-income-for-financial-years-ending-1995-to-2022 \(www.gov.uk\)](http://www.gov.uk)

⁴ [Personal income by tax year \(www.gov.uk\)](http://www.gov.uk)

⁵ At the time of the spring budget announcement, income eligibility criteria for working parents were set to match the existing 30 hours entitlement for working parents of three and four-year-olds.

⁶ In a two-parent household, both the earnings thresholds apply to both parents unless one is in receipt of certain benefits such as carers' allowance: see [30 hours free childcare - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

Take-up rates

10. To inform our estimates we drew on a range of sources: take up rates of the existing entitlements⁷; use of formal and informal childcare by parents of young children; use of formal and informal childcare by working parents⁸. From these sources we estimated that take-up would be between around 30% and 90%, with variation substantially driven by parents' likelihood of using formal childcare depending on the age of their child.
11. For the purposes of calculating costs, we estimated a take-up rate for each age group of eligible children:
 - a. Take-up by two-year-olds would be at the higher end of the range, based on take up of existing entitlements offers for three- and four-year-olds (around 75%)
 - b. Take-up by one-year-olds would be in the middle of this range (around 60%)
 - c. Take-up by children aged 9-12 months would be at lower end of the range, based on low use of formal childcare (around 35%)
12. While the same take-up rates were used for each year, in practice, take-up of the entitlement may be lower at initial rollout and increase over time as working parents are incentivised to use formal childcare and as the new entitlement reduces childcare costs as a barrier to work. Take-up is likely to remain lower for younger than older children given parents' reasons for using/not using childcare are not purely based on costs.

Hours used

13. Data collected in the Early Years Census (2022) reveals that usage of the existing 30 hours entitlement for three- and four-year-olds is typically below the full 30 hours available: Around 78% of children use between 12.5 and 15 hours (on top of the 15 hours that are universally available) per week of childcare through the extended entitlement for working parents of three- to four-year olds.
14. For the children using the new entitlement, the average number of hours used is assumed to fall somewhere between 24 hours per week and 28 hours per week to reflect younger children of working parents using fewer hours of childcare on average (lower range) and all older children using the full hours entitled under the universal 15 hours entitlement (upper range). This assumption is not varied by age of child within the new entitlement.

⁷ [Education provision: children under 5 years of age, Reporting year 2022 – Explore education statistics – GOV.UK \(explore-education-statistics.service.gov.uk\)](https://explore-education-statistics.service.gov.uk)

⁸ [Childcare and early years survey of parents, Reporting year 2021 – Explore education statistics – GOV.UK \(explore-education-statistics.service.gov.uk\)](https://explore-education-statistics.service.gov.uk)

15. To calculate the overall costing of the new entitlement a fixed estimate of 26 hours was used from September 2025. During the roll out phase between April 2024 and September 2025 the age groups that can access the offer and the hours available have been staggered. During the phases where an age group has access to 15 hours we assume the full 15 hours are used.
16. We calculated the number of hours to be funded by multiplying the numbers of children using the new entitlement by the number of hours they are expected to take on average.

Funding rates

17. The calculations and figures set out above imply that DfE will substantially increase the proportion of the childcare market that it buys. In this context it is important for DfE to set funding rates for different age groups that reflect the variation in the cost of delivery, and which therefore encourage sustainability of provision and the overall financial health of the childcare sector.
18. The Survey of Childcare and Early Years Providers (SCEYP)⁹ shows that most of the cost incurred by childcare providers is due to staffing. In the latest SCEYP (2022) staffing costs averaged between 66% and 81% of total costs, depending on the type of provider.
19. A key factor in the cost of childcare is the statutory ratios of staff to children. These ratios vary according to the age of children being looked after.

Table 2 - Statutory staff to child ratio limits in early years childcare

Age group	Statutory ratio limit
Under two	One member of staff to three children
Two-year-olds	One member of staff to four children (one member of staff to five children from September 2023)
Three and four-year-olds	One member of staff for every eight children (one member of staff to thirteen children if led by a teacher ¹⁰)

20. The majority of costs are therefore driven by paying staff, and staff to child ratios mean more staff are required when providing childcare to younger children. This suggests that costs are greater for childcare of younger children, and that the costs reduce as the child gets older.
21. However, data from the SCEYP (2022) shows that the average fee charged to parents by providers does not vary significantly with age of child.

⁹ [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/service.gov.uk)

¹⁰ Qualified Teacher Status, Early Years Professional Status, Early Years Teacher Status or another approved level 6 qualification [Statutory framework for the early years foundation stage \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk)

Table 3 - Hourly parent paid childcare fees for all provider types

Age group	Mean hourly fee	Median Hourly fee
Under two	£5.68	£5.25
Two-year-olds	£5.72	£5.25
Three and four-year-olds	£5.60	£5.00

Source: Survey of Childcare and Early Years Providers 2022

Principles for funding rates

22. With fees relatively similar across the age range of pre-school children, costs highest for the youngest children, and DfE buying a greater proportion of the childcare hours used by parents, DfE has sought to set funding rates that achieve the following:
- Meet the cost to providers of providing entitlement funded hours.
 - Funding rates that are higher for younger children where costs are greater.
 - Are set high enough to allow local authorities to retain the funding needed locally to deliver the new entitlement.
23. Choosing an approximate funding rate at this stage was necessary to enable the policy to be costed. The actual national average of the rates paid to local authorities will differ from the rates used here as the national early years funding formulae determines individual authorities' rates based on measures of relative need. The rates that providers receive will again be different due to the application of local funding formulae.
24. The following rates were used in spring budget 2023:
- 9-months up to two years: starting point of £11.06/hour in 2024-25, adapted annually to account for cost pressures
 - two-year-olds: starting point of £8.17/hour in 2024-25, adapted annually to account for cost pressures.

Overall settlement funding

25. Having estimated the total number of hours to be funded and establishing funding rates to cost the policy, multiplying these factors allowed the total cost of the policy to be calculated. This is estimated to be around £4.1bn by 2027-28. This costing takes account of the phased roll out described in the introduction.

Table 4 - New entitlement costing

	2024-25	2025-26	2026-27	2027-28
Total	£1,740m	£3,280m	£4,060m	£4,100m

Note: To nearest 10 million. Figures for England only



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