



Department
for Education

Spring Budget 2023 Childcare Expansion

Policy costing information note: update

April 2024

Contents

Table of figures	3
Update	4
Costing the new childcare entitlement	5
Volumes	5
Population	5
Eligibility	5
Take-up rates	6
Hours used	7
Funding rates	7
Principles for funding rates	8
Overall settlement funding	9
Annex	10
Children	10
Hours	10
Places	11
Workforce	12
Timing	13

Table of figures

Table 1: Financial year population projections	5
Table 2: Statutory staff to child ratio limits in early years childcare	8
Table 3: Hourly parent paid childcare fees for all provider types	8
Table 4: New entitlement costing	9

Update

This publication was originally published in July 2023 following that year's spring budget and all underlying data and assumptions included in this document are as they were at that time. An annex was added to this publication in March 2024 to provide additional detail about place and workforce requirements during delivery of the entitlements.

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.

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.

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.

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 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

Source: ONS 2020-based population projections

Eligibility

7. Data from the Family Resource Survey² (FRS) and Survey of Personal Incomes³ (SPI) was used to estimate the proportion of parents who would fall within the eligibility criteria of the new entitlement⁴.
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

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)

new entitlement:

- the lower earnings threshold is set at the equivalent of 16 hours worked at the national minimum/living wage per week⁵. 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.

Take-up rates

10. To inform our estimates we drew on a range of sources: take up rates of the existing entitlements⁶; use of formal and informal childcare by parents of young children; use of formal and informal childcare by working parents⁷. 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

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

⁷ 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 \(www.gov.uk\)](https://www.gov.uk/30-hours-free-childcare)

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.
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)⁸ 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.

⁸ [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)

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 ⁹)

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.

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

⁹ 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://publishing.service.gov.uk)

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

Annex

This annex provides additional detail on modelling of numbers of children using the new childcare entitlement. Specifically, it describes how estimates of the increase in workforce and supply of childcare places, due to these children using the new entitlement, have been calculated.

As with the estimates presented in the main body of this document, there is inherent uncertainty in the estimates derived from this modelling as they are based on a series of assumptions around which there are ranges of uncertainty. The annex provides national level estimates of the additional childcare places and workforce required to meet expected levels of demand, and there will be substantial variation at a local level. Any funding decisions beyond this Spending Review period are subject to HMT agreement.

Children

The methods described in sections 5-12 of the document above produce an estimate of the number of children taking up the new entitlement offer in each age group. These estimates are uncertain and will depend on the actual level of take-up of the offer amongst eligible parents.

From September 2025, DfE currently estimates the numbers of children taking a place funded through the new entitlement to be:

- 9-month- to 12-month-olds: 30,000
- 12-month- to 24-month-olds: 180,000
- 24-month- to 36-month-olds: 230,000

These estimates include an adjustment to eligibility accounting for parents changing their current work patterns to qualify for the new entitlement. In September 2025, eligibility is expected to marginally increase due to the new entitlement, with a continual marginal increase in eligibility factored in until 2027-28 in line with the Office for Budget Responsibility's assessment of this policy in March 2023¹⁰.

Hours

Paragraphs 13-16 describe the number of hours that we expect these children to use. To understand the level of additional demand for childcare that the new entitlement adds to the sector, we make an estimate of how many of these children are new childcare users.

¹⁰ <https://obr.uk/economic-and-fiscal-outlooks/>

New childcare users create a demand for new childcare provider hours. Children taking the new entitlement who are not new users are assumed to be children whose parents would have used childcare anyway, in the absence of the entitlement. In effect, these are parents who switch from parent-paid childcare to entitlement funded childcare.

To estimate the number of children who switch from parent-paid childcare to the new entitlement, we use underlying data on formal childcare use amongst working parents from the 2022 Childcare and Early Years Survey of Parents. This survey suggests around half of working parents of under-two-year-olds use formal childcare, the equivalent for two-year-olds is around 60%¹¹.

We expect all users of the new childcare entitlement to take advantage of around 26 hours of funded childcare on average¹². We expect users who are switching from parent-paid childcare to entitlement funded childcare to increase the hours they use by around four. These expectations are also inherently uncertain and will depend on parental behavior.

From September 2025, DfE estimates the number of additional hours that the childcare sector needs to deliver to be around:

- 9-month- to 12-month-olds: 190,000
 - (90,000 from new childcare users; 100,000 from parents switching)
- 12-month- to 24-month-olds: 1,400,000
 - (800,000 from new childcare users; 600,000 from parents switching)
- 24-month- to 36-month-olds: 2,000,000
 - (1,300,000 from new childcare users; 700,000 from parents switching)

Please note: these estimates of hours of childcare demand are not directly comparable to the Office for Budget Responsibility's assessment of the labour market impact of this policy published in March 2023. The estimates above were made in late 2023 prior to the initial phase of roll-out of the offer.

Places

Converting estimates of hours needed to the number of places that need to be added to the childcare sector depends on how many hours each place can offer. If we assume that

¹¹ <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-survey-of-parents>

¹² 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 3 to 4-year olds. 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.

each current “place” provides 21 hours of childcare (based on the median use of childcare amongst 2-year-olds¹³ as a proxy) then the calculations above translate to an equivalent need for around 170,000 places. This means we expect that on average children benefitting from the new entitlement who would not otherwise have attended will add more demand than the equivalent of one place. However, children who benefit from the new entitlement who would otherwise already be using childcare will add less new demand onto the system.

It is important to note, however, that this estimate does not take account of any existing capacity in the childcare system¹⁴. Based on modelling of data on places from Ofsted’s early years provider register and from the school census on school-based early years provision, we have estimated that at a local level around half of the demand for 170,000 places can be met by existing provision. This means approximately an additional 5% of places are needed across the sector, based on 1.56m registered childcare places in England in 2023¹⁵. This survey estimated that the number of registered places in early years providers increased by 1% (15,000) between 2022 and 2023.

Workforce

Alongside the need to create childcare places, the increase in demand due to the new entitlement will mean more workers are needed. How many workers are needed to look after a given number of children depends on how old those children are and the requirements of the Early Years Foundation Stage (EYFS) Statutory Framework¹⁶. In practice, however, settings operate within these ratios and not at them¹⁷. To estimate the increase in the workforce needed to meet the new demand we account for operating ratios¹⁸.

Finally, to convert our estimates into the level of workforce increase needed, we divide the hours we need by the operating ratio of staff to children and an assumed 35-hour full-time equivalent week.

This produces the following estimates of workers needed¹⁹:

¹³ [Childcare and early years survey of parents, 2022](#)

¹⁴ [Occupancy and staff ratios at early years providers - GOV.UK \(www.gov.uk\)](#)

¹⁵ [Childcare and early years provider survey, 2023](#)

¹⁶ <https://www.gov.uk/government/publications/early-years-foundation-stage-framework--2>

¹⁷ [Childcare and early years provider survey, 2022](#)

¹⁸ We also increase the number of hours needed to be added to the sector by a third to account for non-child-contact time (not covered by statutory ratios). This accounts for holidays, sickness, training and other general non-contact activity.

¹⁹ Figures do not sum to 40,000 due to rounding

- 9-month- to 12-month-olds: 2,000
- 12-month- to 24-month-olds: 18,000
- 24-month- to 36-month-olds: 19,000

In total, we estimate the new entitlement to create an increased need for workers in the region of 40,000 additional staff from September 2025 when the entitlement is rolled out nationally. Based on 2023 Early years provider survey estimates, this represents an increase of 11.5% to the number of paid childcare staff. For context, this survey estimated that the number of paid childcare staff increased by 4% (13,000) between 2022 and 2023.

Timing

The figures discussed above relate to workforce and places needed by September 2025 when the 30 hours entitlement is first offered in full across England. During the rollout period, where 15 hours will be offered to two-year olds in April 2024 and extended to under-twos from September 2024, place and workforce requirements are likely to be substantially lower. Based on assumptions around take-up, likely hours used and whether children are new or existing users of childcare, there is estimated to be demand for the equivalent of 30,000 places in April 2024 rising to 40,000 in September 2024 before 170,000 in September 2025. Taking into account existing capacity using the local level modelling as outlined above, this means that from the December 2023 baseline²⁰, approximately an additional 7,000 places are required in April 2024, rising to around 15,000 in September 2024 and finally rising to around 85,000 by September 2025.

The corresponding workforce requirements are approximately 4,000 in April 2024, rising to around 9,000 in September 2024 and to around 40,000 by September 2025.

All figures are uncertain and depend on predictions of parental behavior. These estimates will change significantly if more or fewer parents take up the offer, and if parents taking the offer use more or fewer hours. They also do not take account of any change to operating staff to child ratio that providers may make to meet new demand; workforce estimates could be lower if providers choose to operate closer to the statutory limits.

²⁰ <https://www.gov.uk/government/statistical-data-sets/childcare-providers-and-inspections-management-information>



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