

## Women's Budget Group response to the childcare measures Spring Budget 2023

***The Women's Budget Group is very pleased to see the Government finally recognising the Early Years sector as essential infrastructure that underpins the rest of the economy. But the expansion of free hours to younger children must be properly funded, otherwise it risks the financial sustainability of the sector.***

At the Spring Budget 2023 the Government announced a significant expansion of the early years and childcare free hours offer to younger children from working families. The expansion is set to cover 30 hours of free childcare for 38 weeks for children from 9 months (the end of paid maternity leave) to 2-year-olds whose parents meet the working eligibility criteria. This is in addition to the current universal 15 free hours and additional 15 free hours for 3-4-year-olds with working parents.

It is part of a set of measures introduced by the Chancellor in his Spring Budget 2023 to encourage more people into paid work, as the post-pandemic UK economy continues to struggle with a high rate of people who are economically inactive.

***With an increased share of early years and childcare provision costs covered by the Government, it is now even more important that the funding for the free hours covers the true costs of delivering those hours.***

At the moment, it doesn't and this is the reason providers are forced to cross-subsidise the shortfall through higher fees for younger children. With the expansion of the free entitlement, this will no longer be an option and so the financial sustainability of providers will be at greater risk.

The Government has allocated an additional £240 million for 2023/24 to increase funding for the current free hours. But this falls far short of the £1.8bn we had estimated was necessary to make up for the shortfall providers are experiencing.<sup>1</sup>

There is also an underinvestment in the funding for the free hours expansion to younger ages. The Government has allocated £4.2bn in 2025/26, when the expansion is complete.

***The Women's Budget Group estimates for funding to cover the true cost of provision of all free hours in 2025/26 an additional £5.2bn would need to be allocated (£9.4bn in total).***

Anything less risks worsening the sustainability crisis of the Early Years sector, which has been underfunded for too long.

The OBR has stated in its assessment of the Government's Budget that expanding the free entitlement to early years and childcare is the policy with the greatest impact on economic output by far. This is again a reflection of the importance of getting childcare right for the rest of the economy -

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<sup>1</sup> WBG (2023) [The Chancellor must invest £1.82bn in childcare to help families with the cost-of-living crisis](#)

and something we at WBG have been evidencing for years.<sup>2</sup> If this is the case, then it should be invested in properly.

***The tax giveaways announced in this Budget for the richest corporations (£8.6bn) and the richest pensioners (£0.8bn) in 2025/26 will cost the Exchequer more than the proper investment in childcare expansion would.***

In addition to proper funding the current costs of provision, a workforce strategy is needed. If we are to create new early education and childcare places for younger children, **we need an estimated 38,116 more workers** if all providers did adopt the new optional ratios. Upping salaries (1 in 8 workers was earning just £5/hour in 2020)<sup>3</sup> is an urgent matter to not only stem the current haemorrhage of workers from the sector but to also attract (and retain) new ones.

### **WBG's reform package: a universal high-quality system with well-paid staff and free at the point of use**

The acknowledgement in the Spring Budget 2023 that childcare and early years underpins our economic strength is a really important one that WBG has been calling for decades. The recognition that current free hours are underfunded and the support provided to childminders to set up business, as well as the crucial revision of the support for childcare costs in Universal Credit are all steps in the right direction to rescue the sector from the brink.

In the medium term, we need to reform the system, to ensure we have a highly qualified and well-paid staff with low child-to-staff ratios to ensure the best quality in care and education provided, and that it is available to all children on a free-at-the-point-of-use basis. This would ensure all children have access to the benefits and opportunities that high-quality childcare and early education provides, and mothers are not penalised financially for having children.

***Our reform package would have an initial investment cost of 0.7% of GDP (£18bn in 2022 levels), but 61% of that would be recouped through positive impacts on the wider economy.***

It would take our early education and childcare sector in line with Nordic countries which have a higher female participation rate, better salaries and high quality of education and care. Such an investment would increase employment (directly and indirectly in the wider economy) and therefore generate increased tax revenues and reduced social security spending, which would pay for the majority of the investment.<sup>4</sup>

See WBG's initial response to the Spring Budget 2023 [here](#).  
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<sup>2</sup> J. De Henau and S. Himmelweit (2020) [A Care-Led Recovery from Coronavirus](#)

<sup>3</sup> Social Mobility Commission (2020) [The stability of the early years workforce in England](#)

<sup>4</sup> J. De-Henau (2022) [Simulating employment and fiscal effects of public investment in high-quality universal childcare in the UK](#). We use as reference "Scenario 2": average take-up rate of 71% and pay levels equal to those of primary school teachers.

## Technical note

To estimate the real cost of extending the 30 hours of free childcare for children between 9 months and 2-year-old with working parents in 2025/26 we made the following assumptions:

1. The number of children that will benefit from the extension of the provision: Census 2021 figures by aged, adjusted by the estimated population growth from the OBR report (0.07% per year)
2. Take-up rate: it is not clear which take-up rate the government considered for its calculation. Comparing the number of beneficiaries from the Spring Budget 2023 document and the estimated population, we assumed they used a 46% take-up rate, and used that number for our estimation.
3. Rate per hour for 3- and 4-year-olds, to cover the real cost of the current provision: based on the FOI "Real" rate for 2020/2021 adjusted by increases in National Living Wage between 2021 and 2022 and inflation from 2021 to 2025/26 (expected). £9.14 per hour.
4. Rate per hour for 9-months- to 2-year-olds, to cover the real cost of the additional provision: same as above, plus the current difference in % terms of government rates for 2-year-olds and 3- and 4-year-old. £10.26 per hour. We do not have reliable information to account for the higher true cost of provision for children younger than 2-year-old. Hence, our estimation represents the minimum extra funding that the sector needs.

To estimate the additional workers in the sector that would be needed, we considered that a 36% of parents of children between 0 and 2-year-old are currently using formal childcare, according to the [Childcare and early years survey of parents 2021](#). Then, the additional workers should cover the difference between the current use of childcare (36%) and the Government assumed take-up rate (46%). We applied the new ratio (1:5) for 2-year-old children.