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By David Foster
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Early years funding in England

Summary
1 Introduction
2 Funding for the childcare entitlements
3 Extension of 30 hours entitlement
4 Other sources of early years funding
5 Maintained Nursery Schools
6 Commentary and reports on early years funding

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Contents

Summary **5**

1 Introduction **9**

2 Funding for the childcare entitlements **11**

2.1 Funding from the DfE to local authorities 11

Funding for three and four-year-olds 12

Funding for two-year-olds 13

Update to funding formulas for 2023-24 14

2.2 Funding of childcare providers by local authorities 14

Three and four-year-olds 15

Two-year-olds 16

2.3 Funding rates from 2017-18 to 2022-23 17

2017-18 17

2018-19 and 2019-20 18

2020-21 18

2021-22 18

2022-23 19

2.4 Funding from 2023-24 19

Increase in funding rates from September 2023 20

3 Extension of 30 hours entitlement **21**

3.1 Consultation on funding the new entitlement 22

New funding formula 22

Rules for local authority funding formulae 23

4 Other sources of early years funding **24**

4.1 Early Years Pupil Premium 24

4.2 Disability Access Fund 25

4.3 Special Educational Needs (SEN) Inclusion Funds 26

4.4	Covid catch-up funding	27
5	**Maintained Nursery Schools**	**29**
5.1	Background	29
5.2	Supplementary funding	29
	Funding for 2020-21	30
	Funding for 2021-22	30
	Funding for 2022-23	31
5.3	Funding for 2023-24	31
5.4	Education Committee report	32
6	**Commentary and reports on early years funding**	**33**
6.1	Early years funding levels	33
	DfE's 2021 provider finances report	34
	DfE research on cost pressures	35
	IFS analysis of early years funding	36
6.2	Childcare sufficiency	37
6.3	Extension of 30 hours entitlement	38
6.4	Education Committee report	39

Summary

How is early years provision funded?

The majority of Government funding for early years providers in England is delivered via three childcare entitlements:

- 15 hours universal entitlement for all three and four-year-olds.
- 15 hours entitlement for disadvantaged two-year-olds.
- Extended 30 hours entitlement for three and four-years-olds of eligible working parents.

Funding for the entitlements is included in the Early Years Block of each local authority's Dedicated Schools Grant (DSG). Additional Government funding for disadvantaged children (Early Years Pupil Premium) and children with additional needs (Disability Access Fund) is also included in the Early Years Block, along with supplementary funding for maintained nursery schools.

In financial year 2023-24 the initial funding allocation for the Early Years Block was around £3.9 billion.

Funding rates

Government funding for the three childcare entitlements is determined using two separate funding formulas:

- Funding for the 15 and 30 hours entitlements for three and four-year-olds is determined using the Early Years National Funding Formula (EYNFF).
- A separate formula is used to determine funding for the two-year-old entitlement.

The formulas determine the hourly per-child funding rate each local authority is paid in respect of the entitlements. This is then multiplied by the number of children taking up the entitlements to determine a local authority's funding allocation.

The spreadsheet published alongside this briefing details the funding rates for individual local authorities for each financial year from 2019-20 to 2022-23.

The actual funding rate paid to early years providers in an area is determined by the local authority, within a statutory framework.

Increase in funding rates

At the Spring Budget 2023, the Government said it would provide additional funding to increase the hourly funding rate for the existing childcare entitlements. £204 million will be provided in 2023-24 (paid from September 2023 via the Early Years Supplementary Grant) and £288 million will be provided in 2024-25.

As a result of the additional funding, the national average funding rate for the three and four-year-old entitlements increased from £5.29 per hour to £5.62 per hour from September 2023. The national average funding rate for two-year-olds increased from £6.00 per hour to £7.95 per hour.

Extension of 30 hours entitlement

At the Spring Budget 2023, the Government announced the 30 hours entitlement will be extended in stages from April 2024 to children aged nine months to three years in England. Eligibility will match the existing entitlement: it will be available only for the children of working families.

By 2027-28, the Government will provide around £4.1 billion to fund the extension of the 30 hours entitlement.

In July 2023 the Government published a consultation on funding the extension of the entitlements. The consultation closed on 8 September 2023 and the Government is yet to respond.

While the extension of the 30 hours entitlement to younger children was broadly welcomed, concerns have been raised that the funding committed may not be sufficient. It has also been highlighted that, as the Government becomes responsible for funding a greater proportion of pre-school childcare, the importance of getting the funding rate right increases.

Funding for maintained nursery schools

Since the introduction of the EYNFF in financial year 2017-18 the Government has provided additional funding for maintained nursery schools (MNS) in recognition of the higher costs they face. The Government made changes to the way this supplementary funding for MNS is distributed from 2023-24. An additional £10 million of supplementary funding was also provided.

Further information on other sources of funding for early years provides, including the Early Years Pupil Premium, is provided in section four of the briefing.

Commentary on funding levels

Whether early years funding is high enough has been the subject of debate since well before the Covid-19 pandemic. The Institute for Fiscal Studies (IFS) has said this is "an extremely difficult question to answer, not least because there are different definitions of 'high enough'."

Department for Education analysis published in April 2022 suggested the mean income-to-cost-ratio (total weekly income divided by total weekly cost) for early years providers was 1.25 in 2021. The median income-to-cost ratio was 0.96, meaning half of providers were at or around the breakeven point.

The Institute for Fiscal Studies (IFS) has said that prices faced by early years providers have increased more quickly than those faced by households or the economy as a whole. It estimated that since its peak in financial year 2017-18, the core hourly funding rate for three and four-year-olds had fallen by 14% in real terms by 2022-23 when provider-specific costs pressures are taken into account.

Childcare sufficiency

There is a debate as to whether financial pressures in the early years sector are forcing providers to close and negatively affecting childcare sufficiency.

The number of registered early years providers has fallen steadily since 2015 and there was a net overall decrease of around 5,410 providers between 31 August 2021 and 31 August 2022. This was the largest annual decrease since academic year 2015/16, most of which was due to a fall in the number of childminders. The number of places offered by providers on the early years register has also declined, but at a slower rate than the number of providers.

Ofsted has said the decrease in the number of childcare providers may "in part be caused by the considerable decrease in the birth rate. There are also more parents working from home, which may reduce demand for childcare places."

The Government has said the number of places offered by providers has remained broadly stable and it has regular contact with local authorities about their sufficiency of childcare and any issues they are facing.

Education Committee report

In July 2023, the Education Committee published a report on support for childcare and the early years. The report said the free entitlements are "chronically underfunded" and this "is a significant causal factor in the increasing rate of provider closures."

While the Committee welcomed the extension of the 30 hours entitlement, it said the sector needs "a sufficient funding rate" in order to successfully deliver the proposals.

Among other things, the report recommended the Government work with childcare providers and local authorities to set the funding rates at a sufficient level.

1 Introduction

This briefing provides an overview of public funding for early years providers in England since financial year 2017-18. Information on support with childcare costs for parents and carers is provided in a separate briefing: Help with childcare costs in England.[1]

Most Government funding for early years providers is currently delivered via three childcare entitlements:

- **15 hours universal entitlement for three and four-year-olds**: all three and four-year-olds are entitled to 570 hours of Government-funded childcare a year, commonly taken as 15 hours a week for 38 weeks of the year (and often referred to as "15 hours of free childcare"). The entitlement is universal and applies irrespective of income.[2]
- **15 hours entitlement for disadvantaged two-year-olds:** introduced under the Coalition Government, some two-year-olds are eligible for the "15 hours of free childcare" if certain conditions are met, including if their parents receive specified benefits, they are a looked after child, or they have an Education, Health and Care Plan.[3]
- **Extended 30 hours entitlement:** introduced in September 2017, some three and four-year-olds qualify for a further 570 hours of funded childcare on top of the "15 hours of free childcare". This, together with the universal entitlement, is commonly taken as 30 hours a week for 38 weeks of the year (and often referred to as "30 hours of free childcare"). Only three and four-year-olds from working households and certain other households specified in regulations qualify for the extended entitlement.[4]

Funding for the childcare entitlements is included in the Early Years Block of each local authority's Dedicated Schools Grant (DSG). Additional Government funding for disadvantaged children (Early Years Pupil Premium) and children with additional needs (Disability Access Fund) is also included in the Early Years Block, along with supplementary funding for maintained nursery schools.[5]

Although the DSG itself is ring-fenced (and there are limits on how much money can be moved out of the Schools Block), local authorities determine

1 Commons Library briefing CBP-8054, Help with childcare costs in England.
2 15 hours free childcare for 3 and 4-year olds, Gov.uk.
3 Free education and childcare for 2-year-olds, Gov.uk.
4 30 hours free childcare, Gov.uk.
5 Get extra funding for your early years provider, Gov.uk.

how much funding to allocate to early years as a whole, and the funding rate paid to individual providers.

In 2023-24 the initial funding allocation for the Early Years Block was around £3.9 billion.[6] However, the Government has also provided an additional £204 million of funding for early years providers outside of the DSG (see section 2.4 below).[7] Early Years Block allocations for 2017-18, 2018-19; 2019-20, 2020-21, 2021-22, and 2022-23 are available on Gov.uk.

The Government also provides funding indirectly to the early years sector via support provided to parents with childcare costs – for example, via Tax Free Childcare and through the benefits system. Further information on this support is available in the Library briefing on help with childcare costs.[8]

6 ESFA, Dedicated schools grant (DSG) 2023 to 2024, 20 July 2023.
7 ESFA, Early years supplementary grant 2023 to 2024, September 2023.
8 Commons Library briefing CBP-8054, Help with childcare costs in England.

2 Funding for the childcare entitlements

2.1 Funding from the DfE to local authorities

Government funding for the three childcare entitlements is determined using two funding formulas:

- Funding for the 15 and 30 hours entitlements for three and four-year-olds is determined using the Early Years National Funding Formula (EYNFF). This was introduced at the same time as the extended entitlement in 2017 and replaced a system based on historic local authority expenditure.[9]

- A separate formula is used to determine funding for the two-year-old entitlement.

The formulas determine the hourly per-child funding rate each local authority is paid in respect of the entitlements (the funding rate for both three and four-year-old entitlements is the same). This is then multiplied by the number of part-time equivalent children taking up the entitlements (based on the January early years census) to determine the funding to be included in the Early Years Block of the local authority's DSG.[10]

The actual funding rate paid to early years providers in an area is determined by the local authority, within a statutory framework (see section 2.2 below).

In financial year 2023-24, the initial funding allocation for the universal entitlement for three and four-year-olds was around £2.37 billion. The initial allocation for the extended 30 hours entitlement was £978 million. The initial allocation for the two-year-old entitlement was £413 million.[11]

Detailed guidance on the funding formulae for 2023-24 is available at: Early years funding: 2023 to 2024.[12] Guidance for earlier years is available via the following links:

- Early years funding: 2022 to 2023.[13]

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9 DfE, Early years funding formulae: Government consultation (PDF), July 2022, p4.

10 The funding allocations for local authorities are based on actual take up of the entitlement hours and as a result, initial allocations are subsequently updated using more recent census data. PQ30811 provides more detail on how this happens in a typical year.

11 ESFA, Dedicated schools grant (DSG) 2023 to 2024, 20 July 2023.

12 ESFA, Early years funding: 2023 to 2024, 19 June 2023.

13 ESFA, Early years funding: 2022 to 2023, 25 November 2021.

- Early years funding: 2021-2022.[14]
- Early years funding: 2020-2021.[15]
- Guidance for 2017-18, 2018-19 and 2019-20 is available at EYNFF: funding rates and guidance.[16]

Funding for three and four-year-olds

The EYNFF is composed of three parts:

> Local authority hourly per-child funding rate = (base rate + additional needs) x area cost adjustment.

The **base rate** is funding for each child that does not vary across local authorities. A large majority (89.5%) of total funding under the formula is allocated through the base rate.

The **additional needs factor** aims to reflect "the additional costs of providing quality early education for children with additional needs. It accounts for 10.5% of formula funding and is made up of three proxy measures:

- The proportion of children receiving free school meals in a local area at Key Stages 1 and 2 as a "proxy measure for the additional costs of providing for children with disadvantage or low-level special educational needs" (8% of total formula funding is allocated using this metric).
- The proportion of children aged three and four in receipt of Disability Living Allowance in a local area as "a proxy measure for children with more complex special educational needs" (1% of total funding is allocated using this metric).[17]
- The proportion of children in a local area with English as an additional language (EAL) at Key Stages 1 and 2, as "a proxy measure for the costs of additional support for children who do not have English as a first language" (1.5% of total funding formula is allocated using this metric).[18]

The **area cost adjustment** reflects ""the relative difference in costs in different areas of the country". It is based primarily on staff costs (based on

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[14] ESFA, Early years funding: 2021-2022, last updated 25 November 2021.

[15] ESFA, Early years funding: 2020-2021, last updated 19 December 2019.

[16] ESFA, Early years national funding formula: funding rates and guidance, last updated 22 November 2018.

[17] Prior to 2023/23, the proxy measure was based on the proportion of all children aged 0-5 in receipt of DLA. However, this was changed to children aged three and four following the July 2022 consultation. DfE, Early years funding – Changes to funding for three- and four-year olds: Government consultation response (PDF), December 2016, p13.

[18] DfE, Early years funding – Changes to funding for three- and four-year olds: Government consultation response (PDF), December 2016, pp12-14; DfE, Early years funding formulae: Government consultation, July 2022, pp12-14.

the general labour market measure) but adjusted for relative nursery premises costs (based on rateable values).[19]

Further adjustments may then be made as a result of the operation of a **minimum funding floor**. In each year since the introduction of the EYNFF, the DfE has guaranteed each local authority will receive a minimum level of per hourly funding. This was originally set at £4.30 an hour but was increased to £4.38 in 2020-21, £4.44 in 2021-22 and £4.61 for 2022-23.[20] It was initially set at £4.87 in 2023-24 but, as a result of the additional funding announced at the Spring Budget 2023 (see section 2.4 below), it increased to £5.20 from September 2023.[21]

Box 1: Transition to the EYNFF

To limit the overall funding reductions individual local authorities could face as a result of the introduction of the EYNFF, a funding floor was put in place to ensure no authority faced a reduction in its hourly funding rate of greater than 10% against its 2016-17 baseline.

In addition to this overall protection, the Department for Education (DfE) also proposed to protect local authorities on an annual basis as they transitioned to their new funding rates under the formula. Local authorities' annual reductions in their hourly rates were limited at 5% in both 2017-18 and 2018-19.[22]

Funding for two-year-olds

The funding formula for the two-year-old entitlement is made up of two parts:

> Local authority hourly per-child funding rate = base rate x area costs adjustment.[23]

19 Department for Education (DfE), Early years funding – Changes to funding for three- and four-year olds: Government consultation response (PDF), December 2016, pp14-15; DfE, Early years funding formulae: Government consultation (PDF), July 2022, pp15-16.

20 ESFA, Early years funding: technical note for 2021 to 2022, 22 April 2021. HCWS421 [Early Years Education Entitlements: Hourly Funding Rates], 25 November 2021.

21 DfE, Early years funding formulae: Government consultation response (PDF), December 2022, pp23 & 7.

22 DfE, An early years national funding formula and changes to the way the three- and four-year-old entitlements to childcare are funded – Government consultation (PDF), August 2016, p52, para 213 and p53, para 216, and DfE, Early years funding – Changes to funding for three- and four-year olds: Government consultation response (PDF), December 2016, p5.

23 DfE, Early years funding formulae: Government consultation (PDF), July 2022, p21.

As for the EYNFF, the area costs adjustment acts as a multiplier and is primarily based on staff costs (based on the general labour market measure) but adjusted for relative nursery premises costs (based on rateable values).[24]

Update to funding formulas for 2023-24

Following a consultation, for 2023-24 the Government updated the data sets used in the two funding formulas and made some technical changes to the way some of the factors are calculated. No major alterations were made to the structure or composition of the formulas, however. The Government plans to update the data annually in the future.

In addition, for 2023-24 the formulas were used to calculate updated funding rates for local authorities (that is, the base rate was altered).[25] The base rates had not previously been updated since the EYNFF was introduced in 2017. Funding increases from 2020-21 (see section 2.3 below) were provided by giving local authorities fixed pence uplifts to their hourly rates rather than using the formula to calculate an updated rate.[26]

Transitional protections

The updates to the formulas resulted in changes to local authorities' funding rates, with some seeing a reduction. To mitigate this, a year-to-year protection of +1% applied for both the EYNFF and the two-year-old formula in 2023-24. In addition, gains caps of 4.9% for the EYNFF and 10.0% for the two-year-old formula were applied.[27]

2.2 Funding of childcare providers by local authorities

While the EYNFF and the two-year-old formula determine local authority funding allocations in respect of the three childcare entitlements, local authorities determine the hourly rate paid to providers in their areas (they may also retain some of funding for central administration costs).

Detailed information on the requirements for 2023-24 is provided in DfE guidance: Early years funding: 2023 to 2024.[28]

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24 Department for Education (DfE), Early years funding – Changes to funding for three- and four-year olds: Government consultation response (PDF), December 2016, pp14-15; DfE, Early years funding formulae: Government consultation (PDF), July 2022, pp15-16.

25 DfE, Early years funding formulae: Government consultation (PDF), July 2022, pp13-18.

26 DfE, Early years funding formulae: Government consultation (PDF), July 2022; HC Deb 4 July 2022, cc42-44WS; DfE, 2023-24 Early years funding formulae: technical note (PDF), July 2022; DfE, Early years funding formulae: Government consultation response (PDF), December 2022.

27 DfE, Early years funding formulae: Government consultation response (PDF), December 2022, p8.

28 ESFA, Early years funding: 2023 to 2024, 19 June 2023.

Three and four-year-olds

The DfE sets out several requirements that local authorities must follow when funding providers for the 15 hours universal entitlement and the 30 hours extended entitlement.

It expects local authorities to fund providers in the same way for both entitlements. They must therefore use the same hourly rate and same supplements (see below) for both.

Minimum pass-through

Local authorities are required to pass through a minimum proportion of their EYNFF funding to providers to ensure "the vast majority of government funding reaches providers so that they can deliver the government's free entitlements." The pass-through funding level was set at 93% in 2017-18 and has been 95% since 2018-19.[29] This means centrally retained funding (for central services or services in-kind), combined with any funding movement out of the Early Years Block, has been limited to a maximum of 5% since 2018/19.

In "exceptional circumstances" the DfE will consider requests from local authorities to disapply the pass-through requirement. However, it says it does not expect many local authorities will need to do this.

Only funding allocated under the EYNFF is subject to the pass-through rule. It does not currently apply to other Early Years Block funding streams, including funding for the two-year-old entitlement.[30]

Universal base rate

Previously, some local authorities paid different hourly rates to childcare providers based on the setting type. Since 2019-20 authorities have been required to use the same base funding rate (a universal base rate) for all childcare providers in their three and four-year-olds funding formula. While this applies to maintained nursery schools (MNS) as to other providers, local authorities may use "lump sums" to distribute additional funding to MNS.[31]

Supplements

Local authorities may apply supplements in addition to the base rate. However, the total value of any supplements must not be more than 12% of the total planned formula funding for providers.[32] Prior to 2023-24, the supplements cap was 10%.[33]

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29 DfE, Early years funding: Changes to funding for three- and four-year olds: Government consultation response (PDF), December 2016, p5.

30 ESFA, Early years funding: 2023 to 2024, 19 June 2023.

31 ESFA, Early years funding: 2023 to 2024, 19 June 2023.

32 ESFA, Early years funding: 2023 to 2024, 19 June 2023.

33 ESFA, Early years entitlements: local authority funding of providers operational guide 2022 to 2023, 25 November 2021.

Local authorities must have a deprivation supplement and are permitted to use other funding supplements provided they fall within the categories below:

- **Sparsity/rurality**: “to support providers serving rural areas less likely to benefit from economies of scale.”
- **Flexibility**: “to support providers in offering flexible provision for parents” (for example, wraparound care and out-of-hours provision).
- **Quality**: “to support workforce qualifications, or system leadership”.
- **English as an additional language (EAL)**: “to recognise differences in attainment [...] between children whose first language is English, and those who have English as an additional language (EAL)”.

For all supplements, local authorities “have the freedom to choose the appropriate metric for allocating funding but should be transparent about the metric chosen.”[34]

Two-year-olds

There are differences between how local authorities are currently expected to fund providers for the two-year-old entitlement compared to the entitlements for three and four-year-olds. This includes:

- There is currently no requirement to pass through a set amount of Government funding to providers. The Government says this is because data shows most of the funding is already being passed through to providers.
- There are no compulsory supplements for two-year-olds. Local authorities are “encouraged to fund providers based on a flat hourly rate for all providers”.[35]

However, from 2024-25 the Government is proposing that the same rules will apply for both three and four-year-old funding and two-year-old funding (see section 3.1).[36]

34 ESFA, Early years funding: 2023 to 2024, 19 June 2023.
35 ESFA, Early years funding: 2023 to 2024, 19 June 2023.
36 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023, p6.

2.3 Funding rates from 2017-18 to 2022-23

Average national funding rate for 3 and 4 year olds:

2017-18: £4.76

2018-19: £4.75

2019-20: £4.75

2020-21: £4.83

2021-22: £4.88

2022-23: £5.04

2023-24 (Apr-Sep): £5.29

2023-24 (Sep-Mar): £5.62.[37]

2017-18

Funding for three and four-year-olds

At the 2015 Spending Review, the Government announced that from 2017-18 it would "invest £300 million to increase the average hourly rate childcare providers receive".[38] This followed a review of childcare costs undertaken by the DfE, which was published in November 2015.[39]

In its response to the consultation on the EYNFF (PDF), published in December 2016, the DfE additionally said it would guarantee every local authority would receive a minimum funding rate of at least £4.30 an hour from 2017-18. This would be paid for by an additional investment on top of the £300 million announced at the Spending Review.

The consultation response said that, as a result of the additional investments, the national average hourly funding rate would increase to £4.94 for 2017-18, from £4.56 in 2016-17. This figure included the Early Years Pupil Premium, the Disability Access Fund, supplementary funding for maintained nursery schools, and quality and expertise funding.[40] The average rate excluding these additional funding streams was £4.76 in 2017-18.[41] Any references to average funding rates in the remainder of this section also exclude these additional funding streams.

It should be noted that references in this section to average hourly funding rates refer to the national average rate. The rates received by an individual local authority or an individual childcare provider may differ from the national average.

The spreadsheet published alongside the briefing paper details the funding rates for individual local authorities for the three and four-year-old entitlements, and the two-year-old entitlement, for each year from 2019/20 to 2022/23.

Funding for two-year-olds

In its 2016 consultation on the EYNFF (PDF), the DfE said funding for disadvantaged two-year-olds was "already allocated on a fair and formulaic basis" and it did not propose any changes. It did, however, say the additional

37 PQ 1144, 13 May 2021; PQ 166196 [Childcare: Fees and Charges], 15 March 2023.

38 HM Treasury, Spending Review and Autumn Statement 2015, Cm9162, November 2015, p44. The then Education Secretary stated that this meant that the cost of the extended entitlement policy would be "more than £1 billion a year" by 2019-20, HC Deb 25 November 2015, c1416.

39 DfE, Review of childcare costs, 25 November 2015.

40 DfE, Early years funding – Changes to funding for three- and four-year olds: Government consultation response (PDF), December 2016, pp5-6.

41 PQ 1144, 13 May 2021.

funding announced at the 2015 Spending Review would be used to increase the average hourly funding rate for two-year-olds from £5.09 to £5.39 from 2017-18.[42]

Average funding rate for 2 year-old entitlement:

2016-17: £5.09

2017-18: £5.39

2018-19: £5.39

2019-20: £5.39

2020-21: £5.48

2021-22: £5.56

2022-23: £5.77

2023-24 (Apr-Sep): £6.00

2023-24 (Sep-Mar): £7.95

2018-19 and 2019-20

No major changes were made to the hourly funding rates paid to local authorities in 2018-19 or 2019-20. The only reason for any changes in a local authority's rates compared to 2017-18 was the operation of the transitional protections (and the corresponding cap on gains in 2018-19) for three and four-year-olds funding.[43]

The national average funding rate for three and four-year-olds was £4.75 in both 2018-19 and 2019-20.[44] The average funding rate for two-year-olds remained unchanged at £5.39.

2020-21

At Spending Round 2019, the Government announced it would "increase early years spending by £66 million" to increase the hourly rate paid to childcare providers.[45] As a result, the hourly funding rates for three and four-year-olds and for two-year-olds were increased by eight pence for all areas (except those local authorities which had had their three and four-year-old funding protected by the loss cap).[46]

The national average funding rate for three and four-year-olds increased to £4.83.[47] The average funding rate for two-year-olds increased to £5.48.[48]

2021-22

At the 2020 Spending Review (PDF), the Government announced it would provide £44 million for early years education to increase the hourly rate paid to childcare providers. It added this was on top of the £66 million announced at Spending Round 2019.[49]

As a result, the hourly funding rate for the three and four-year-old entitlements increased by six pence in all areas (apart from those authorities

42 DfE, An early years national funding formula: Government consultation (PDF), August 2016, p32.
43 DfE, EYNFF: technical note for 2018 to 2019 (Word), November 2017, p4.
44 PQ 1144, 13 May 2021.
45 HM Treasury, Spending Round 2019 (PDF), CP170, September 2019, para 2.10.
46 Thirteen local authorities which had had their 2019/20 hourly funding rate protected by the loss cap received either the same funding rate in 2020/21 or an increase of less than eight pence. HCWS56, 31 October 2019; ESFA, Early years national funding formula: funding rates and step-by-step calculation for 2020-21, December 2019.
47 PQ 1144, 13 May 2021.
48 HCWS56, 31 October 2019; PQ 1144, 13 May 2021.
49 HM Treasury, Spending Review 2020 (PDF), CP330, November 2020, para 6.19.

which had had their funding rates protected by the loss cap).[50] The national average funding rate increased to £4.88.[51]

The funding rate for two-year-olds was increased by eight pence, taking the national average funding rate to £5.56.[52]

2022-23

At the Autumn Budget and Spending Review 2021, the Government said it would provide £170 million by 2024-25 to increase the hourly funding rate paid to early years providers.[53] The day after the Budget, the then Minister, Will Quince, confirmed additional funding of £160 million in 2022-23, £180 million in 2023-24 and £170 million in 2024-25.[54]

The DfE subsequently clarified that the additional funding each year is based on a 2021-22 baseline and is not cumulative (that is, funding in 2024-25 will be £10 million lower than in 2022-23). The Department was reported as saying the funding levels reflect "cost pressures as well as anticipated changes in the number of eligible children".[55] Further details on the population estimates underlying the funding levels was provided in response to a parliamentary question on 2 February 2022.[56]

The hourly funding rate for the three and four-year-old entitlements in 2022-23 increased by seventeen pence "in the vast majority of areas".[57] The average national average funding rate increased to £5.04.[58]

The funding rate for the two-year-olds increased by 21 pence in all local authorities and the national average rate increased to £5.77.[59]

2.4 Funding from 2023-24

In its response to the 2022 consultation on the funding formulae (see section 2.1 above), the Government said it would provide an additional £20 million in 2023-24 on top of the funding announced at the 2021 Spending Review, to help

50 PQ 130188, 15 December 2020. For further details, see Early years national funding formula: funding rates and step-by-step calculation for 2021-22.
51 PQ 1144, 13 May 2021.
52 PQ 130188, 15 December 2020. For further details, see Early years national funding formula: funding rates and step-by-step calculation for 2021-22; PQ 1144, 13 May 2021.
53 HM Treasury, Autumn Budget and Spending Review 2021, 27 October 2021, para 4.14.
54 Children and Young People Now, Children's minister confirms £340m funding boost for early years not announced in Spending Review, 28 October 2021.
55 Children and Young People Now, Early years funding significantly less than expected, sector fears, 27 January 2022.
56 PQ 120848 [Pre-school Education: Finance], 21 February 2022.
57 HCWS421 [Early Years Education Entitlements: Hourly Funding Rates], 25 November 2021.
58 PQ 166196 [Childcare: Fees and Charges], 15 March 2023.
59 HCWS421 [Early Years Education Entitlements: Hourly Funding Rates], 25 November 2021; PQ 166196 [Childcare: Fees and Charges], 15 March 2023.

meet the cost of increases in the National Living Wage.[60] As a result, the national average funding rate for the three and four-year-old entitlements increased to £5.29 and the average rate for two-year olds increased to £6.00.[61]

Increase in funding rates from September 2023

In addition to announcing plans to extend the 30 hours entitlement to younger children (see section three below), at the Spring Budget 2023 the Government said it would provide additional funding to increase the hourly funding rate for the existing childcare entitlements. £204 million will be provided in 2023-24 (paid from September 2023) and £288 million will be provided in 2024-25.[62]

The additional funding for 2023-24 was provided through a separate grant – the Early Years Supplementary Grant (EYSG). Broadly, the amount of EYSG funding local authorities received was calculated using the formulae, formula weightings and formula factors used to calculate the original 2023-24 funding rates.[63]

As a result of the additional funding, the national average funding rate for the three and four-year-old entitlements increased from £5.29 per hour to £5.62 per hour from September 2023. The minimum funding floor for three and four-year-olds increased from £4.87 to £5.20.[64]

The national average funding rate for two-year-olds increased from £6.00 per hour to £7.95 per hour.[65]

The additional funding for 2024-25 will be provided through the Early Years Block in the usual way (that is, there will not be a separate grant).[66]

60 DfE, Early years funding formulae: Government consultation response (PDF), December 2022, pp23 & 7.
61 PQ 166196 [Childcare: Fees and Charges], 15 March 2023.
62 HM Treasury, Spring Budget 2023, HC 1183, March 2023, para 3.48.
63 DfE, Early years supplementary grant 2023 to 2024: methodology, 1 September 2023.
64 HCWS923 [on Early Years Funding], 10 July 2023.
65 HCWS923 [on Early Years Funding], 10 July 2023.
66 HCWS923 [on Early Years Funding], 10 July 2023.

3 Extension of 30 hours entitlement

At the Spring Budget 2023, delivered on 15 March, the Government announced the 30 hours entitlement will be extended to children aged nine months to three years in England. Eligibility will match the existing entitlement (it will be available only for the children of working families). The extension will happen in stages:

- From April 2024, eligible two-year-olds will be able to access 15 hours a week.
- From September 2024, the 15 hours will be extended to eligible families of children aged nine months to two years.
- From September 2025, all eligible families with children aged nine months to three years will be able to access 30 hours a week.[67]

By 2027-28, the Government will provide around £4.1 billion to fund the extension of the 30 hours entitlement.[68] It expects to be spending more than £8 billion a year on early years education by 2028, around double what it spends now.[69]

The following funding rates were used to calculate the estimated cost of the policy:

- Nine months up to two years: £11.06 an hour in 2024-25, adapted annually to account for cost pressures.
- Two-year-olds: £8.17 an hour in 2024-25, adapted annually to account for cost pressures.

The DfE said it had sought to set funding rates that meet the cost to providers of providing the entitlement; which are higher for younger children where costs are greater; and are high enough to allow local authorities to retain the funding needed to deliver the new entitlement.

The cost estimate was additionally based on:

- Around half of parents with children aged from nine months to two being eligible for the new entitlement.

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67 HM Treasury, Spring Budget 2023, HC 1183, March 2023, para 3.46-3.47.

68 HM Treasury, Spring Budget 2023, HC 1183, March 2023, para 3.46.

69 HC Deb 28 June 2023, c308; DfE, Early education entitlements and funding update: March 2023, 21 July 2023.

- Take-up rates varying with the age of the child: around 75% for two-year-olds; 60% for one-year-olds; and 35% for children aged nine to twelve months.
- Parents using 26 hours of the new entitlement on average.[70]

Further information on how the Government calculated the estimated cost of the expansion is available in a policy note published by the Department for Education: Spring Budget 2023 Childcare Expansion (PDF).[71]

3.1 Consultation on funding the new entitlement

In July 2023, the Government published a consultation on funding the extension of the entitlements.[72]

New funding formula

The consultation proposes introducing a new formula to calculate funding rates for all children aged from nine months up to two years old. The formula will apply regardless of whether a child is accessing the existing entitlement for disadvantaged two-year-olds or the new entitlement. The funding rates will vary by age, with a higher rate for younger children.

Under the proposals, each local authority will be provided with three separate hourly funding rates for their early years funding:

- An hourly funding rate for three and four-year-olds for the universal and additional hours entitlements (no change from the existing approach).
- An hourly funding rate for two-year-olds, which will be for both the disadvantaged and the working parent entitlements.
- An hourly funding rate for children aged between nine months and two, but not including two-year-olds.

The proposed new formula will be similar to the existing EYNFF for three and four-year-olds and will feature:

- A universal base rate that does not vary across local authorities. As with the EYNFF, 89.5% of total funding under the proposed formula will be allocated through the base rate.
- An additional needs factor, which will account for 10.5% of formula funding. This will be similar to the additional needs factor in the EYNFF

70 DfE, Spring Budget 2023 Childcare Expansion: Policy costing information note (PDF), July 2023, pp3-7.
71 DfE, Spring Budget 2023 Childcare Expansion: Policy costing information note (PDF), July 2023.
72 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023.

but the Government proposes using the Income Deprivation Affecting Children Index (IDACI) as an additional proxy measure for deprivation, alongside the free school meals data used in the EYNFF.[73]

- An area costs adjustment to take account of the relative difference in costs in different areas of the country.[74]

The Government expects a national average funding rate for two-year-olds of around £8.17 per hour when the new entitlement is introduced from 2024/25. It expects the average funding rate for children under two to be around £11.06 per hour. However, these are only illustrative rates based on Government modelling and are subject to change.[75]

Rules for local authority funding formulae

Regarding how local authorities distribute the funding to providers, the consultation proposes extending all the current rules for the three and four-year-old entitlements (see section 2.1 above) to the existing entitlement for disadvantaged two-year-olds and the new entitlement for working parents of children aged two and under.[76]

The Government proposes setting a specific pass through rate for each of the three funding streams (for three and four-year-olds, two-year-olds, and under twos). It proposes this to be set at 95% in 2024/25 for all three streams, but to increase it to 97% “once the roll-out of the new entitlements is sufficiently progressed to allow this.”[77]

The consultation closed on 8 September 2023 and the Government has not yet responded.

73 DfE, Early years funding – Changes to funding for three- and four-year olds: Government consultation response (PDF), December 2016, pp12-14.

74 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023, pp14-15.

75 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023, p17.

76 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023, p6.

77 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023, pp19-20.

4 Other sources of early years funding

This section provides information on several sources of funding for early years providers outside of the core funding for the childcare entitlements. Further information on this funding is available at: Sources of income for early years providers.[78]

4.1 Early Years Pupil Premium

The Early Years Pupil Premium (EYPP), introduced in April 2015, is additional funding for three and four-year-olds who are receiving any number of hours of state-funded early education and:

- meet the benefit-related criteria for free school meals; or
- are currently looked after by a local authority in England or Wales; or
- have left care in England and Wales through adoption, a special guardianship order, a child arrangements order, or a residence order. [79]

EYPP is payable on the universal 15 hours entitlement and not on the extended 30 hours entitlement.[80]

In 2023-24, around £40 million of EYPP funding was allocated to local authorities as part of the initial Early Years Block allocation.[81]

The national rate for the EYPP in 2023-24 is 62 pence per hour per eligible child up to a maximum of 570 hours (£353 a year). Local authorities are expected to fund all providers in their area at this rate.[82]

78 DfE, Sources of income for early years providers, 7 September 2018.

79 ESFA, Early years entitlements: local authority funding of providers: Operational guide 2020-21 (PDF), December 2019, pp22-6.

80 ESFA, Early years entitlements: local authority funding operational guide 2023 to 2024, 19 June 2023.

81 ESFA, Dedicated schools grant (DSG) 2023 to 2024, 20 July 2023.

82 While the regulations only require local authorities to fund providers at a rate of 60 pence an hour, the Government expects them to fund providers at 62 pence per hour. ESFA, Early years entitlements: local authority funding operational guide 2023 to 2024, 19 June 2023.

The national rate was 53 pence per hour between 2015-16 and 2021-22.[83] However, the rate was increased to 60 pence per hour from 2022-23 and to 62 pence per hour from 2023-24.[84]

In its consultation on funding the expansion of the 30 hours entitlement (see section 3.1 above), the Government proposed expanding eligibility for the EYPP to all children eligible accessing a free childcare entitlement from April 2024 (that is, children aged nine months up to four years old).[85]

4.2 Disability Access Fund

The Disability Access Fund was introduced in 2017-18 following the DfE's consultation on the EYNFF. It is intended to support disabled children to access the free childcare entitlements for three and four-year-olds – for example, by helping providers make reasonable adjustments to their settings.[86]

Local authorities receive disability access funding as part of the Early Years Block of the DSG and are responsible for passing the money to providers for each eligible child. Any early years setting which provides places for three or four-year-olds in receipt of Disability Living Allowance accessing the 15 hours universal entitlement is eligible to receive disability access funding of £828 per child in 2023-24.[87]

The funding rate was £615 per eligible child between 2017-18 and 2021-22. It increased to £800 per child from 2022-23 and to £828 per child from 2023-24.[88]

In 2023-24, around £21.3 million of disability access funding was allocated to local authorities as part of the initial Early Years Block allocation.[89]

In its consultation on funding the expansion of the 30 hours entitlement (see section 3.1 above), the Government proposed expanding eligibility for the Disability Access Fund to all eligible children accessing a free childcare

83 DfE, Early Years Pupil Premium and funding for two-year-olds (PDF), June 2014, p5.

84 HCWS421 [Early Years Education Entitlements: Hourly Funding Rates], 25 November 2021; DfE, Early years 2022 to 2023 hourly funding rates for 2, 3 and 4-year-olds: technical note, 25 November 2021; HCWS457 [Education Funding Update], 19 December 2022.

85 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023, p16.

86 ESFA, Early years entitlements: local authority funding operational guide 2023 to 2024, 19 June 2023.

87 Although the regulations only require local authorities to pay DAF at a rate of £800 per eligible child, the Government expects them to pay it at a rate of £828 per child. ESFA, Early years entitlements: local authority funding operational guide 2023 to 2024, 19 June 2023.

88 HCWS421 [Early Years Education Entitlements: Hourly Funding Rates], 25 November 2021; DfE, Early years 2022 to 2023 hourly funding rates for 2, 3 and 4-year-olds: technical note, 25 November 2021; HCWS457 [Education Funding Update], 19 December 2022.

89 ESFA, Dedicated schools grant (DSG) 2023 to 2024, 20 July 2023.

entitlement from April 2024 (that is, children aged nine months up to four years old in receipt of Disability Living Allowance).[90]

Additional funding for ongoing support for disabled young children is also available from the high needs block of the DSG, including for children with Education, Health and Care (EHC) plans.

4.3 Special Educational Needs (SEN) Inclusion Funds

Since April 2017, the Government has required local authorities to establish SEN inclusion funds for three and four-year olds who are taking up any number of free entitlement hours.[91]

Local authorities are responsible for deciding the amount of money (pooled from either or both of their early years and high needs DSG funding) they set aside for their SEN inclusion fund, and how the funding will be allocated to providers. Eligibility for funding is similarly determined by local authorities, in consultation with their local early years providers, parents and SEN specialists.

In its response to the 2016 consultation on the EYNFF (PDF), the DfE said "the fund would be best focused on children with lower level or emerging SEN, since those with more complex SEN (broadly those children in receipt of an Education, Health and Care (EHC) plan) can receive additional funding via the high needs DSG block".[92]

Currently, local authorities are not required to establish a SEN inclusion fund for two-year-olds but they may do so if they wish. However, the Government's consultation on the funding of the new childcare entitlements (see section 3.1 above) proposes that authorities should also have an inclusion fund for children aged nine months to two years who are taking up the free entitlements.[93]

In its Special Educational Needs and Disabilities (SEND) and Alternative Provision Improvement Plan, published in March 2023, the Government said it would "work with local authorities, early years providers and stakeholders to consider whether changes to the [SEN inclusion fund] and other associated elements of the wider current early years funding system are needed, to

90 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023, p16.
91 ESFA, Early years funding: 2023 to 2024, 19 June 2023.
92 DfE, An early years national funding formula: Government consultation (PDF), August 2016, p50-1; DfE, Early years funding: Government consultation response (PDF), December 2016, pp30-1.
93 DfE, Early years funding – extension of the entitlements: Government consultation, 21 July 2023, p21.

ensure early years SEND funding arrangements are appropriate and well-targeted to…improve outcomes for all pre-school children with SEND."[94]

4.4 Covid catch-up funding

The Government is providing additional funding to support education to recover from the impact of the Covid-19 pandemic in England. This includes the following funding for the early years announced in 2021 (not including children in reception):

- £10 million for a pre-Reception early language continued professional development programme, to support early years staff to work with disadvantaged children who are at risk of falling behind. [95]
- £153 million to fund training for early years staff, including new programmes focusing on speech and development. [96]

Prior to this, in June 2020, the Government announced £350 million for a National Tutoring Programme, which included around £17 million of funding for the Nuffield Early Language Intervention Programme for reception-aged children.[97]

Further information on the £153 million of funding for staff training was provided in a DfE press release in October 2022: £180 million to improve children's development in the early years. The press release also set out that funding would be provided for a third phase of the Professional development programme and to continue the Nuffield Early Language Intervention Programme for another year.[98] Guidance published by the DfE provided additional details: Early years education recovery programme: supporting the sector.[99]

Sutton Trust report

On 20 May 2021, the Sutton Trust published Fairness First: Social Mobility, Covid and Education Recovery. The report argued that "much focus over the past year has been on what has happened in schools, but we cannot afford to

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94 DfE, SEND and alternative provision improvement plan, March 2023, p87.
95 DfE, New education recovery package for children and young people, 25 February 2021. PQ12949, 9 June 2021; DfE, Targeted training for staff to teach early language and numeracy skills, 6 September 2021.
96 DfE, Huge expansion of tutoring in next step of education recovery, 2 June 2021; Schools Week, DfE's £1.4bn education recovery plan: what you need to know, 2 June 2021; DfE, Factsheet: Early Years Recovery Package (PDF).
97 DfE, Billion pound Covid catch-up plan to tackle impact of lost teaching time, 19 June 2020; DfE, Catch-up Premium, 27 April 2021; DfE, Factsheet: Early Years Recovery Package (PDF).
98 DfE, £180 million to improve children's development in the early years, 20 October 2022.
99 DfE, Early years education recovery programme: supporting the sector, 1 December 2022.

forget the youngest and oldest children." [100] It added the pandemic had "laid bare the fragility of a sector which comprises many small and poorly funded private and voluntary providers, particularly those in less well-off areas." [101]

The report said early years should "form a central plank of recovery" and recommended:

- Eligibility for funded early education for three-and four-year-olds should be increased, with a focus on those from less well-off homes. A phased introduction to a universal offer of 30 hours, similar to that being applied in Scotland, should be considered.

- An increase in the Early Years Pupil Premium to the levels of primary schools should form part of a new funding settlement that ensures small early years settings and those in less affluent areas can survive and deliver high quality provision. [102]

Education Policy Institute report

On 14 May 2021, the Education Policy Institute published Education recovery and resilience in England. The report set out the financial impact of the Covid-19 pandemic on early years providers and noted the role of high quality early education in raising attainment and narrowing the attainment gap.

The report recommended:

- The Early Years Pupil Premium should be increased to the same level as the rate for primary aged pupils. The EPI estimated that this would cost £400 million over three years.

- A pilot study should fund early education and childcare at a higher rate than currently in around 200 settings in disadvantaged areas. The report said there is little evidence of the impact of high quality provision funded at a higher rate. [103]

100 Sutton Trust, Fairness First: Social Mobility, Covid and Education Recovery, May 2021, p2.
101 Sutton Trust, Fairness First: Social Mobility, Covid and Education Recovery, May 2021, p3.
102 Sutton Trust, Fairness First: Social Mobility, Covid and Education Recovery, May 2021, p3.
103 Education Policy Institute, Education recovery and resilience in England: Phase one report, May 2021, pp36-8.

5 Maintained Nursery Schools

5.1 Background

Maintained nursery schools (MNS) are local authority run schools for two, three and four-year-olds. Like other early years settings, MNS receive funding from central government (via their local authority) for the three childcare entitlements. However, their status as schools means they are required to have a headteacher, a governing body, a SENCO (Special Educational Needs Coordinator) and at least one qualified teacher. As a result, they can face higher costs than other early years settings.[104]

5.2 Supplementary funding

In the 2016 consultation on the EYNFF, the DfE acknowledged MNS face "costs over and above other providers because of their structure", which would not be accounted for in the EYNFF. In recognition of this, the consultation proposed supplementary funding of £55 million a year for at least two years to "provide much needed stability to the nursery school sector while they explore how to become more sustainable in the longer term, including exploiting scope for efficiencies."[105]

The extra funding would, the consultation said, be available to local authorities to provide a higher hourly funding rate for MNS if they wished:

> For at least two years, local authorities will continue to have the autonomy, should they wish to, to fund maintained nursery schools at a different rate to maintain their stability. This means that the indicative average hourly rates for providers we have published are unlikely to be relevant to most maintained nursery schools. Instead, a reasonable planning assumption might be for continuation of similar funding levels.[106]

Following some criticism of the proposals, in its December 2016 response to the consultation, the DfE committed to provide the £55 million of additional annual funding to "at least" the end of the then Parliament (2019-20).[107] This

104 DfE, Early years funding formulae: Government consultation, 4 July 2022, p27.
105 DfE, An early years national funding formula: Government consultation (PDF), August 2016, pp37 & 58.
106 DfE, An early years national funding formula: Government consultation (PDF), August 2016, p58.
107 DfE, Early years funding: Government consultation response (PDF), December 2016, pp3 & 8.

commitment was subsequently reaffirmed following the 2017 general election.[108]

Information on how local authority allocations of the supplementary funding were calculated in 2017-18, 2018-19 and 2019-20 is available in the technical notes for the relevant year, available at: Early years national funding formula: funding rates and guidance.[109]

Funding for 2020-21

In October 2019, the Government confirmed supplementary funding for MNS would "continue, at its current rate, for the whole of the 2020/21 financial year." The statement added, "the government remains committed to funding for MNS in the longer term; and that any reform to the way they are funded in future will be accompanied with funding protections."[110]

Around £55 million of supplementary funding for MNS was allocated in 2020-21.[111]

On 24 August 2020, the Government confirmed "supplementary funding worth up to £23 million for Maintained Nursery Schools will be continued through the summer term of 2021 (that is, for the whole of the 2020/21 academic year) to enable local authorities to provide them with reassurance while the Department confirms a long-term solution."[112]

Funding for 2021-22

In light of the Covid-19 pandemic, the Government conducted a one-year Spending Review in 2020 rather than a multi-year review.[113]

In a letter to the Chief Secretary to the Treasury on 11 November 2020, the All-Party Parliamentary Group for Nursery Schools, Nursery and Reception Classes expressed concern about the "stop-gap" nature of funding for MNS and said the one-year timeframe of the Spending Review "must not cause further delays" to putting funding for MNS "on a long-term basis". MNS are, the letter said, the "only part of the education system whose funding has to be negotiated on a term-by-term and year-by-year basis".[114]

In response to a parliamentary question in November 2020, the then Minister, Vicky Ford, said the DfE had "secured a continuation of around £60 million of supplementary funding for MNS in the 2021-22 financial year, as part of [the

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108 PQ1778, 3 July 2017.

109 ESFA, Early years national funding formula: funding rates and guidance, November 2018.

110 HCWS56, 31 October 2019. See also, DfE press release, Funding boost to support childcare and early education, 31 October 2019.

111 ESFA, Dedicated schools grant (DSG) 2020 to 2021, 18 November 2021.

112 DfE, Early years support package to help close Covid language gap, 24 August 2020.

113 HM Treasury, Spending Review to conclude late November, 21 October 2020.

114 APPG for Nursery Schools, Nursery and Reception Classes, Letter to Rt Hon Stephen Barclay, Chief Secretary to the Treasury, 11 November 2020.

2020 Spending Review].” She added: “The department continues to consider what is required to ensure a clear, long-term picture of funding for all MNS…We will say more about this soon.” [115]

Around £50 million of supplementary funding for MNS was allocated in 2021-22.[116]

Funding for 2022-23

In a written statement in November 2021, the then Minister, Will Quince, confirmed “the supplementary funding hourly rate for maintained nursery schools [in 2022-23] will increase by 3.5%, equivalent to the increase in the three and four-year-old hourly funding rates.”[117] Total supplementary funding for MNS in 2022-23 was around £51.3 million.[118]

5.3 Funding for 2023-24

As set out in section 2.1 above, in July 2022 the DfE published a consultation on the early years funding formulae.[119]

The consultation said the Government remained committed to continuing to provide additional funding to support MNS.[120] It added, however, that supplementary funding is currently very unevenly distributed as a result of being based purely on the amount each local authority was spending on its MNSs in 2016-17.

The consultation proposed reforms to the way supplementary funding is distributed aimed at correcting the most extreme outliers. This included the introduction of a minimum funding floor and a cap on the MNS supplementary funding hourly rate.

To facilitate the reforms, the consultation said the Government would provide an additional £10 million of MNS supplementary funding in 2023-24 “to ensure that the vast majority of local authorities see their supplementary funding hourly rate increase, with a more generous increase for the lowest funded.”[121]

In its response to the consultation, published in December 2022, the Government confirmed that from 2023-24:

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115 PQ119183, 26 November 2020.
116 ESFA, Dedicated schools grant (DSG) 2021 to 2022, 27 January 2022.
117 HCWS421 [Early Years Education Entitlements: Hourly Funding Rates], 25 November 2021.
118 ESFA, Dedicated schools grant (DSG) 2022 to 2023, 16 December 2021.
119 DfE, Early years funding formulae, 4 July 2022.
120 DfE, Early years funding formulae: Government consultation, 4 July 2022, p27.
121 DfE, Early years funding formulae: Government consultation, 4 July 2022, p28.

- A minimum funding floor for the MNS supplementary funding hourly rate of £3.80 would apply.
- A cap on the MNS supplementary funding hourly rate of £10 would be introduced.[122] The Government has said it intends to maintain the cap at this level in 2024-25.[123]

Around £70 million of supplementary funding for MNS was allocated to local authorities as part of the initial Early Years Block allocation.[124]

5.4 Education Committee report

In its June 2021 report, The forgotten: how White working-class pupils have been let down, and how to change it, the Education Committee cited research published by the DfE in 2019 suggesting MNS tend to have "a higher fraction of children from disadvantaged backgrounds, and "higher structural quality" than other provider types."

The Committee's report concluded MNS "deliver consistently high outcomes for disadvantaged pupils, but they face financial difficulties." While welcoming the announcement of continued supplementary funding, the Committee said the "underlying issue of short-termism and insufficiency remain" and called on the Government to "decide how to guarantee [MNS'] long-term future as soon as possible."[125]

The Government's response to the report did not specifically refer to MNS.[126]

122 DfE, Early years funding formulae: Government consultation response (PDF), December 2022, p8.
123 HCWS457 [Education Funding Update], 19 December 2022.
124 ESFA, Dedicated schools grant (DSG) 2023 to 2024, 20 July 2023.
125 Education Committee, The forgotten: how White working-class pupils have been let down, and how to change it (PDF), 22 June 2021, HC 85 2021-22, p33-5.
126 Education Committee, Strengthening Home Education: Government Response to the Committee's Third Report (PDF), HC 823 2021/22, 4 November 2021.

6 Commentary and reports on early years funding

6.1 Early years funding levels

Whether early years funding is high enough has been the subject of debate since well before the Covid-19 pandemic. "This is an extremely difficult question to answer", the IFS said in 2020, "not least because there are different definitions of 'high enough'."[127]

Data obtained from the DfE by the Early Years Alliance suggested the average funding rate paid to local authorities for the three and four-year-old entitlements in 2020-21 was two-thirds of what the Government previously estimated would be needed to fully fund the scheme. The data showed, the Alliance said, that the DfE estimated a Government-funded place for three and four-year-olds would cost an average of £7.49 per hour by 2020-21. However, the average rate paid for these entitlements was £4.89 per hour.[128]

In March 2023, the Women's Budget Group estimated there was a shortfall of £1.82 billion between Government funding for the existing childcare entitlements and the actual cost to providers of delivering them.[129] It estimates that to cover the cost of provision in 2023-24, the funding rate for three and four-year-olds should be £8.54 and the rate for two-year-olds should be £9.58.[130]

Kitty Stewart, an academic at the LSE, has suggested "it is very clear that the existing "free" hours are significantly underfunded" and that the providers who can manage this are those that can cross-subsidise the free places with additional charges (for example, for extra hours and days).[131]

As mentioned in section 2.4 above, at the Spring Budget 2023 the Government announced additional funding, comprising £204 million in 2023-24 (paid from September 2023) and £288 million in 2024-25, to increase the funding rates for the existing entitlements.[132] The IFS estimated increasing funding by £288 million in 2024-25 would equate to a 7.5% increase on the current budget. It

127 IFS, 2020 annual report on education spending in England, 3 November 2020, p33.
128 Early Years Alliance, New data shows ministers knew early years was underfunded, 14 June 2021.
129 Women's Budget Group, The Chancellor must invest £1.82bn in childcare to help families with the cost-of-living crisis,
130 Women's Budget Group, Are Other Nations Outpacing the UK in Childcare?, 30 September 2023.
131 Kitty Stewart, A half-baked early years funding policy risks negatively impacting children, 20 March 2023.
132 HM Treasury, Spring Budget 2023, HC 1183, March 2023, para 3.48.

said this is "broadly in line with the expected increase in providers' costs over the next two years", but added that "the sector has already absorbed a 13% real cut when adjusted for the cost inflation faced by childcare providers."[133]

DfE's 2021 provider finances report

In April 2022, the DfE published an analysis of the finances of early years providers using data from the survey of childcare and early years providers 2021.[134] It should be noted that the 2021 survey took place between March and July 2021 when early years providers were still experiencing some disruption as a result of the Covid-19 pandemic.[135]

The report's findings included:

- The mean total weekly cost paid by providers (excluding mortgage and rent for childminders) was £2,239 in 2021 (and £4,609 for all providers excluding childminders). For all providers, just under three quarters of the total cost in 2021 was for staff.

- The mean total weekly income for all providers was £2,504 in 2021 (and £5,125 for all providers excluding childminders).

- On average, providers received 55% of their income from parent-paid fees and 33% from free entitlement funding. However, there were substantial differences in the income breakdown across provider types. While private providers received similar proportions of income from parent-paid fees (47%) and free entitlement funding (43%), most income came from free entitlement funding for voluntary providers (63%), nursery classes in schools (75%) and MNS (64%). Childminders received 69% of their income from parent fees.

- The report said the mean income-to-cost-ratio (total weekly income divided by total weekly cost) for all providers was 1.25 in 2021 (1.35 for all providers excluding childminders). The mean ratio was highest for private providers (1.49) and lowest for MNS (1.07). The median income-to-cost ratio (the middle observation when providers are ranked from lowest to highest) was 0.96, indicating that half of providers were around or below the breakeven point where total costs equal total income.

- The mean unit cost (an approximate measure of the average cost per child per hour) for all providers was £4.51 in 2021. The mean cost for all providers was statistically significantly higher in 2021 than in 2019 (an increase of 12%). However, there was no statistically significant

133 IFS, Childcare reforms create a new branch of the welfare state - but also huge risks to the market, 15 March 2023.

134 DfE, Providers' finances: survey of childcare and EY providers 2021, 28 April 2022.

135 DfE, Providers' finances: survey of childcare and EY providers 2021, 28 April 2022, p11.

difference between 2019 and 2021 for any individual provider type apart from childminders.[136]

The report said there had been relatively few changes in the financial measures since the last report in 2019. It added:

- There were no statistically significant changes in the mean income-to-cost ratio.
- The mean unit cost was higher in 2021 than in 2019, but this was not different from the inflation rate and “was solely driven by a substantial increase for childminders.”
- The mean gap between hourly funding rates for free entitlement funding and hourly parent-paid fees widened between 2019 and 2021 for all types of providers.[137]

DfE research on cost pressures

In May 2023, the DfE published a research report on the impact of rising costs on early years providers.[138] The report was based on a survey conducted in November 2022 with 1,857 childcare providers. The survey was the fifth in a series of pulse surveys carried out with the sector since summer 2020.

Although most providers did not anticipate closing in the near future, 47% reported that their income was not sufficient to cover their costs. This was significantly higher than in winter 2021, when wave four of the pulse surveys was carried out (35% reported their income was insufficient).

80% of providers reported that they had made at least one change to help them manage their finances because of rising cost pressures. The most common option was to increase fees (62%). 65% of providers reported they had taken at least one other step to manage their finances. Most commonly, this was to use personal savings (33%) or business contingency reserves (20%).

Providers experiencing costs pressures picked out staffing costs (46%) and energy bills (31%) as the main drivers.[139]

136 DfE, Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2021, March 2022, pp12-16.

137 DfE, Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2021, March 2022, pp11-12.

138 DfE, The impact of rising costs on childcare and early years providers, May 2023.

139 DfE, The impact of rising costs on childcare and early years providers, May 2023, pp7-11.

IFS analysis of early years funding

In December 2022, the IFS published its 2022 annual report on education spending in England. A comment article published ahead of the Spring Budget in March 2023 provided further analysis.[140]

Trends in early years funding

The IFS noted that funding for the early years entitlements has "grown much more than funding for other stages of education, or for public services more broadly" over the last two decades. This has largely been driven by expansion of the free entitlements (for example, the introduction of the extended 30 hours entitlement from 2017), but spending per hour also increased by 28% in real terms between 2009-10 and 2021-22.[141]

Impact of inflation

While rising costs are a challenge for the entire economy, the IFS said, there are particular pressures on some of the main budget lines of early years providers. For example, wages make up around three quarters of providers' costs and many workers are paid the minimum wage. As a result, changes to the National Living Wage "have been a significant driver of rising costs in the early years sector in recent years."

The IFS estimated that between 2017-18 and 2024-25, the prices facing childcare providers will have grown by 32%. Over the same period the GDP deflator will have grown by 21%. This means, the IFS said, "that analysis of the 'real-terms' change in providers' resources based on the GDP deflator – the standard approach when analysing public spending – will understate the squeeze on resources that providers are likely to face."[142]

While each of the last three Spending Reviews increased core funding for the childcare entitlements, the IFS said, "inflation – and particularly a rising minimum wage – mean that these increases have lagged behind the rise in providers' costs." The IFS estimated that since its peak in 2017-18, the core hourly funding rate for three and four-year-olds had fallen by 14% in real terms by 2022-23 when provider-specific costs pressures are taken into account.[143]

140 IFS, Early years and childcare in England: Public spending, private costs, and the challenges ahead, 8 March 2023.
141 IFS, Annual report on education spending in England: 2022, December 2022, p25.
142 IFS, Annual report on education spending in England: 2022, December 2022, pp27-28.
143 IFS, IFS, Early years and childcare in England: Public spending, private costs, and the challenges ahead, 8 March 2023.

6.2 Childcare sufficiency

There is a debate as to whether financial pressures in the early years sector are forcing providers to close and negatively affecting childcare sufficiency.[144]

The number of registered early years providers has fallen steadily since 2015 and there was a net overall decrease of around 5,410 providers between 31 August 2021 and 31 August 2022. This was the largest annual decrease since 2015/16, most of which was due to a fall in the number of childminders.

The number of places offered by providers on the early years register has also declined, but not at the same rate as the number of providers. While the number of providers fell by 8% between 31 August 2021 and 31 August 2022, the number of places only declined by 2% to 1.28 million.[145]

In its 2021/22 annual report, published in December 2022, Ofsted said the decline in the number of early years providers and available places may "in part be caused by the considerable decrease in the birth rate. There are also more parents working from home, which may reduce demand for childcare places."[146]

In response to a parliamentary question in March 2023, the then Children's Minister, Claire Coutinho, said the number of places offered by childcare providers had remained broadly stable at 1.3 million places since August 2015. The Minister added that the Government "has regular contact with each local authority in England about their sufficiency of childcare and any issues they are facing."[147]

Coram Childcare Survey 2023

Coram's Childcare Survey 2023, published in March 2023, is the latest in a series of annual reports based on surveys sent to Family Information Services of local authorities in Great Britain.

The report noted that childcare sufficiency for young children had decreased since 2022. Its findings included:

- Most local areas were able to say whether there was enough childcare in their area for younger children (that is, they had sufficient data).
- 50% of local authorities said they had enough childcare places in all areas for children aged under two. 62% had enough in all areas for those

144 HC Deb 13 September 2021, cc205WH-230WH.

145 Ofsted, Ofsted Annual Report 2021/22: education, children's services and skills, 13 December 2022, pp25-26; Ofsted, Main findings: Childcare providers and inspections as at 31 August 2022, 30 November 2022.

146 Ofsted, Ofsted Annual Report 2021/22: education, children's services and skills, 13 December 2022, pp25-26.

147 PQ 165329 [on childcare], 14 March 2023.

accessing the two-year-old entitlement; 73% had enough for children accessing the universal entitlement for three and four-year-olds; and 66% had enough for children accessing the 30 hours entitlement for three and four-year-olds.

- 18% of local authorities said they had enough childcare places in all areas for children with disabilities.[148]

6.3 Extension of 30 hours entitlement

While the extension of the 30 hours entitlement to younger children (see section three above) was broadly welcomed, concerns have been raised that the funding committed may not be sufficient.[149] It has also been highlighted that, as the Government becomes responsible for funding a greater proportion of pre-school childcare, the importance of getting the funding rate right increases.

The Local Government Association (LGA), for example, said it was supportive of the reforms but that "while the improved funding rates are helpful, this will not be enough to ensure a universal implementation of the scheme." It also suggested that 88% of councils "fear that nursery closures this year will undermine capacity" ahead of the planned extension.[150]

The Women's Budget Group has estimated that an extra £5.2 billion would need to be allocated in 2025-26 (in addition to the extra £4.2 billion the Government expects to be spending) to cover the true cost of provision for all the funded hours in the Government's plans.[151]

The IFS said the reforms, once fully implemented, will leave the Government in charge of 80% of all pre-school childcare in England (up from just under 50% now). This, it says, "raises the stakes for getting the funding rate right" as providers could opt out of delivering the new entitlement or exit the market entirely if the rate is too low.[152]

Kitty Stewart has also emphasised that the risks of underfunding increase as the number of funded hours increases:

> With greater numbers of funded hours, the risks attached to underfunding become still more serious, because there will be less scope for cross-subsidy.

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[148] Coram, Childcare Survey 2023, March 2023, pp22-26.

[149] Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, para 16.

[150] LGA, Nine in 10 councils concerned about nursery capacity ahead of 30 hours free childcare extension – new LGA research, 6 July 2023.

[151] Women's Budget Group, WBG finds Government funding for early education and childcare falls short by £5.2bn, 16 March 2023; HM Treasury, Spring Budget 2023, HC 1183, March 2023, Table 4.1, p75.

[152] IFS, Childcare reforms create a new branch of the welfare state - but also huge risks to the market, 15 March 2023.

> This means an even higher risk of nurseries going under, and it means further pressures on quality.[153]

However, the IFS has also cautioned against setting the funding rate too high in a childcare market where quality and prices are difficult to observe, as this risks "inefficient public spending without commensurately increasing quality."[154]

The Government has said it has "heard it loud and clear from the sector that getting the funding right is crucial" and that the DfE will "engage extensively with local authorities and their provider base" to understand market challenges.[155]

6.4 Education Committee report

In July 2023, the Education Committee published a report on support for childcare and the early years.[156]

The report said the free entitlements are "chronically underfunded" and providers report "losing £1-2 an hour by delivering the funded places." "This funding gap", it added, "continues to be a key contributing factor to the current [Early Childhood Education Care system] market struggles" and "is a significant causal factor in the increasing rate of provider closures."[157]

While witnesses to the inquiry were "broadly supportive of the additional funding announced in the Spring Budget", concerns were raised "that the level of investment is simply insufficient to achieve the increase in places that the Government is expecting."[158]

The Committee said the announcements were "a welcome sign that the Government has realised that urgent care and attention is needed in the childcare and early years market" and it particularly welcomed "the additional investment in extending the subsidised hours."[159] However, it added that the extension of the 30 hours entitlement places "further demand

153 Kitty Stewart, A half-baked early years funding policy risks negatively impacting children, 20 March 2023.
154 Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, para 29.
155 Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, para 30; HC Deb 28 June 2023, c308.
156 Education Committee, Support for childcare and the early years, 26 July 2023.
157 Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, paras 25-27.
158 Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, paras 14 to 16.
159 Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, paras 18.

on a struggling sector" and the sector needs "a sufficient funding rate for the funded entitlements" in order to successfully deliver the proposals.[160]

The report's recommendations included:

- The DfE should work with childcare providers and local authorities to set the funding rate at a sufficient level.
- The Government should work with local authorities to identify areas where childcare provision is insufficient with a view to increasing provision in these areas.
- The Government should consider the case for greater ring-fencing of the Early Years Block of the Dedicated Schools Grant "to ensure that more is passed on to the early years providers who are delivering the funded hours entitlements."[161]

On early years funding more generally, the Committee recommended the Government grant all early years providers an exemption from business rates and private voluntary and independent settings should be zero-rated for VAT.[162]

The Government has not yet responded to the Committee's report.

160 Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, paras 37.
161 Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, paras 38-41.
162 Education Committee, Support for childcare and the early years, 26 July 2023, HC 969 2022-23, paras 42-48.

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