

By David Foster
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Childcare funding in England



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Summary

In this briefing ‘childcare’ is used to refer to early education and childcare for children from infancy until they start school (around age five).

Entitlement to free childcare

Before April 2024, most Government funding for childcare providers in England was delivered via three free childcare entitlements:

- [15 hours a week universal entitlement](#) for all three and four-year-olds.
- [15 hours a week entitlement for disadvantaged two-year-olds](#).
- [Extended 30 hours a week entitlement](#) for three and four-year-olds from eligible working families.

Expanding the 30 hours entitlement

At the [2023 Spring Budget](#), the Government announced the 30 hours entitlement will be extended to children aged nine months to three years in England, with the same eligibility criteria. The extension is happening in stages:

- From 1 April 2024, eligible families of two-year-olds have been able to access 15 hours a week.
- From September 2024, eligible families of children aged nine months to two years will also be able to access 15 hours a week.
- From September 2025, all eligible families with children aged nine months to three years will be able to access 30 hours a week.

The Government estimates the expansion will cost £4.1 billion a year by 2027/28. By this time, the Government expects to be spending around £8 billion on the early years entitlements in total, around double what it spent in 2023/24.

Funding rates

Funding for the childcare entitlements is distributed to childcare providers in two stages:

1. The Department for Education (DfE) provides funding to local authorities in the ‘early years block’ of each authority’s dedicated schools grant.
2. Local authorities then distribute funding to providers in their areas, within a framework set by the DfE.

The national average hourly funding rates for local authorities in 2024/25 are:

- Three and four-year-olds: £5.88 per hour. This is an increase of 16.7% in cash terms since 2022/23. However, the rate fell by 9.3% in real terms between 2017/18 and 2022/23 (in 2022/23 prices).
- Two-year-olds: £8.28 per hour. The rate has increased by 43.5% in cash terms since 2022/23. However, it fell by 2.9% in real terms between 2017/18 and 2022/23.
- Children under two (from September 2025): £11.22 per hour.

At the [2024 Spring Budget](#), the Government confirmed it would increase the hourly funding rates in line with its forecast of cost increases in 2025/26 and 2026/27 (based on average earnings growth, the National Living Wage, and the Consumer Price Index measure of inflation).

Commentary on funding levels

[DfE analysis published in December 2023](#) suggested the mean income-to-cost-ratio (total weekly income divided by total weekly cost) for early years providers in 2022 was £1.15 of income per £1 of cost. The median income-to-cost ratio was £1 of income per £1 of cost, meaning half of providers reported income that did not fully cover their costs.

The [Institute for Fiscal Studies \(IFS\) think tank has estimated](#) that core funding for three and four-year olds will be 12% lower in 2024/25 than in 2012/13, once childcare providers’ specific costs are taken into account. In comparison, it estimates that providers catering for two-year-olds will “have more resources compared with 2017/18, when core funding per-hour peaked”.

The IFS also highlighted that the Government will control the price of around 80% of pre-school childcare (up from around 50% now) once the expanded 30 hours entitlement is fully implemented. This, it says, increases the importance of getting the funding rates right. It says the Government’s planned funding rates for two-year-olds and under twos “are well above market prices”. However, the funding rate for three and four-year-olds “aligns more closely with existing market rates, posing potential challenges in areas where funding and provider costs diverge.”

1 Introduction

This briefing provides an overview of public funding for childcare providers in England since financial year 2017/18. It focuses on funding for the free childcare entitlements.

The Government also provides funding indirectly to the childcare sector via the support given to parents and carers with childcare costs – for example, the Tax Free Childcare scheme and the childcare element of Universal Credit. Further information on this support is available in the [Library briefing on help with childcare costs in England](#).¹

1.1 The free childcare entitlements

Prior to April 2024, most Government funding for childcare providers was delivered via three free 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
 - This entitlement was introduced under the Coalition Government. Some two-year-olds are eligible for “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 for three and four year-olds from working households
 - This was 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

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.

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

Expansion of 30 hours entitlement to younger children from April 2024

At the 2023 Spring Budget, 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 is happening in stages:

- Since April 2024, eligible two-year-olds have been 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.⁵

1.2

Funding allocations for the entitlements

Funding for the childcare entitlements is distributed to childcare providers via a two-stage process:

1. The Department for Education (DfE) provides funding to local authorities in the ‘early years block’ of each 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.⁶
2. Local authorities then distribute funding to providers in their areas. Although the DSG itself is ring-fenced (and there are limits on how much money can be moved out of the schools funding block), local authorities are responsible for determining how much funding to allocate to childcare in their area as a whole, and the funding rate paid to individual providers.

⁴ [30 hours free childcare](#), Gov.uk.

⁵ HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.46-3.47.

⁶ [Get extra funding for your early years provider](#), Gov.uk.

In 2023/24 the initial funding allocation for the early years block was around £3.9 billion.⁷ However, the Government also provided an additional £204 million of funding for childcare providers outside of the DSG (see section 3.2 below).⁸ Early years block allocations for [2017/18](#), [2018/19](#), [2019/20](#), [2020/21](#), [2021/22](#), and [2022/23](#) are available on Gov.uk.

The extension of the 30 hours entitlement to younger children will lead to a significant increase in early years block funding. The Government expects to provide £1.7 billion in 2024/25 to fund the expansion, followed by £3.3 billion in 2025/26, £4.1 billion in 2026/27 and £4.1 billion in 2027/28.⁹ It expects to be providing more than £8 billion a year for the early years block in total by 2028, around double what it spent in 2023/24.¹⁰

The initial early years block allocation for 2024/25 is £6.2 billion.¹¹ The table below shows the funding allocations for the different components.

Early years block, initial allocations, 2024/25	
Universal 15 hours entitlement for three and four-year-olds	£2.6 billion
Additional 15 hours for three and four-year-olds eligible for 30 hours entitlement	£1.1 billion
15 hours entitlement for disadvantaged two-year-olds	£575 million
Two-year-olds eligible for 30 hours entitlement (15 hours from April 2024)	£942 million
Children aged under two eligible for 30 hours entitlement (15 hours from September 2024)	£768 million
Early Years Pupil Premium	£70 million
Disability Access Fund	£39 million
Supplementary funding for maintained nursery schools	£85 million
Total early years block	£6.2 billion

Source: ESFA, [Dedicated schools grant \(DSG\) 2024 to 2025](#), 25 March 2024.

⁷ ESFA, [Dedicated schools grant \(DSG\) 2023 to 2024](#), 16 November 2023.

⁸ ESFA, [Early years supplementary grant 2023 to 2024](#), September 2023.

⁹ HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.46.

¹⁰ [HC Deb 28 June 2023, c308](#); DfE, [Early education entitlements and funding update: March 2023](#), 21 July 2023; [PQ 2098 \[on Childcare: Finance\]](#), 20 November 2023.

¹¹ ESFA, [Dedicated schools grant \(DSG\) 2024 to 2025](#), 25 March 2023.

2

The funding formulas

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

- A formula for the 15 and 30 hours entitlements for three and four-year olds (previously referred to as the ‘early years national funding formula’).¹² The national funding formula was introduced at the same time as the 30 hours extended entitlement in 2017 and replaced a system based on historic local authority expenditure.¹³ The funding rate for both entitlements is the same.
- A separate formula is used to determine funding for children aged under three. This formula was previously only used to calculate funding for the entitlement for disadvantaged two-year-olds. Following the expansion of the 30 hours entitlement to younger children from 2024/25, however, the formula has been revised and is used for all entitlements for children under three. There are separate funding rates for two-year-olds and children younger than two.

The formulas determine the hourly per-child funding rate that each local authority is paid for each of the entitlements. These rates are then multiplied by the number of part-time-equivalent children¹⁴ claiming the entitlements (based on the January school, early years, and alternative provision censuses). This determines the funding to be included in the early years block of the local authority’s DSG.¹⁵

Detailed guidance on the funding formulae for 2024/25 is available at: [Early years funding: 2024 to 2025](#).¹⁶ Guidance for earlier years is available via the following links:

- [Early years funding: 2023 to 2024](#).¹⁷
- [Early years funding: 2022 to 2023](#).¹⁸

¹² ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 29 November 2023.

¹³ DfE, [Early years funding formulae: Government consultation](#) (PDF), July 2022, p4.

¹⁴ One part-time equivalent (PTE) is defined as a child taking up 15 hours a week over 38 weeks. Thus, a child taking up 12 hours a week is counted as 0.8 PTE (see ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 24 January 2024).

¹⁵ 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.

¹⁶ ESFA, [Early years funding: 2024 to 2025](#), last updated 24 January 2024.

¹⁷ ESFA, [Early years funding: 2023 to 2024](#), 19 June 2023.

¹⁸ ESFA, [Early years funding: 2022 to 2023](#), 25 November 2021.

- [Early years funding: 2021/2022](#).¹⁹
- [Early years funding: 2020/2021](#).²⁰
- Guidance for 2017/18, 2018/19 and 2019/20 is available at [EYNFF: funding rates and guidance](#).²¹

2.1 Funding formula for three and four-year-olds

The funding formula for three and four-year-olds 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 measure).
- 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).²²
- The proportion of children in a local area with English as an additional language 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 measure).²³

¹⁹ ESFA, [Early years funding: 2021-2022](#), last updated 25 November 2021.

²⁰ ESFA, [Early years funding: 2020-2021](#), last updated 19 December 2019.

²¹ ESFA, [Early years national funding formula: funding rates and guidance](#), last updated 22 November 2018.

²² Prior to 2023/23, the proxy measure was based on the proportion of all children aged 0 to 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.

²³ 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 area cost adjustment reflects “the relative difference in costs in different areas of the country”. It primarily reflects staff costs (based on the general labour market measure) but it is adjusted for relative nursery premises costs (based on [rateable values](#)).²⁴

Further adjustments can then be made as a result of the operation of a minimum funding floor. In each year since the introduction of the national funding formula for three and four-year-olds, the DfE has guaranteed each local authority will receive a minimum level of per hourly funding. The minimum funding floor for 2024/25 is £5.47.²⁵

Update to funding formula from 2023/24

Following a consultation, for 2023/24 the Government updated the datasets used in the formula for three and four-year-olds (and the formula then used for the two-year-old disadvantaged entitlement) 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 rates were updated).²⁶ The base rates had not previously been updated since the formula for three and four-year-olds was introduced in 2017. Instead, funding increases from 2020/21 (see section 3.1 below) were provided by giving local authorities fixed pence uplifts to their hourly rate from the previous year, rather than by using the formula to produce a new funding rate.²⁷

Protections and cap on gains

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 three and four-year-olds formula and the formula for the two-year-old disadvantaged entitlement in 2023/24. The Government also applied a gains caps of 4.9% for three and four-year-olds and 10.0% for the two-year-olds.²⁸

Similar protections were applied for the three and four-year-olds formula for 2024/25.²⁹

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; ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 24 January 2024.

²⁵ ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 24 January 2024.

²⁶ DfE, [Early years funding formulae: Government consultation \(PDF\)](#), July 2022, pp13-18.

²⁷ 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.

²⁸ DfE, [Early years funding formulae: Government consultation response \(PDF\)](#), December 2022, p8.

²⁹ ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 24 January 2024.

2.2

Funding formula for younger children

Previously, a separate formula was used just to calculate funding for the 15 hours entitlement for disadvantaged two-year-olds.³⁰ However, in light of the extension of the 30 hours entitlement to younger children, the Government has introduced a new formula from 2024/25 which is used to calculate funding rates for all children aged from nine months to two years.³¹

The formula applies regardless of whether a child is accessing the existing entitlement for disadvantaged two-year-olds or the newly extended 30 hours entitlement. However, the funding rates vary by age, with a higher rate for children younger than two.

As a result, from 2024/25 local authorities will be provided with three separate hourly funding rates for their childcare funding:

- An hourly funding rate for three and four-year-olds for the 15 hours universal entitlement and the 30 hours extended entitlement (see section above).
- An hourly funding rate for two-year-olds, which is for both the disadvantaged and the working parent entitlements.
- An hourly funding rate for children aged between nine months and two years, but not including two-year-olds.

The new formula for children aged from nine months to two years is similar to the formula for three and four-year-olds and features:

- A universal base rate that does not vary across local authorities. As with the formula for three and four-year-olds, 89.5% of total funding under the proposed formula is allocated through the base rate.
- An additional needs factor, which accounts for 10.5% of formula funding. This is similar to the additional needs factor in the three and four-year-olds formula but uses the Income Deprivation Affecting Children Index (IDACI) as an additional proxy measure for deprivation, alongside the measures used in the three and four-year-old formula.

³⁰ 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.

³¹ DfE, [Early years funding – extension of the entitlements: Government consultation response](#), November 2023, p2.

- An area costs adjustment to take account of the relative difference in costs in different areas of the country.³²

2.3 Local authority funding formulas

While the funding formulas described above determine local authority funding allocations in respect of the childcare entitlements, local authorities determine the hourly rate paid to providers in their areas using a locally determined formula (they may also retain some funding for central administration costs).

The DfE sets out several requirements that local authorities must follow when funding providers. The detailed rules are set out in guidance: [Early years funding: 2024 to 2025](#).³³

Previously, there were several differences between how local authorities were expected to fund providers for the entitlement for disadvantaged two-year-olds and the entitlements for three and four-year-olds.³⁴ However, with the extension of the 30 hours entitlement to younger children, from 2024/25 the vast majority of rules have been applied to all the entitlements (with a couple of exceptions).³⁵

Minimum pass through

Local authorities are required to pass through a minimum proportion of the funding they receive from central government for the childcare entitlements to providers. The pass-through funding level was set at 93% in 2017/18 and has been 95% since 2018/19. Previously, only funding for three and four-year-olds was subject to this requirement, but it now applies to each of the entitlements.³⁶

The Government has said it intends to increase the pass-through rate to 97% once the roll-out of the 30 hours entitlement to younger children “is sufficiently progressed to allow this”.³⁷

³² DfE, [Early years funding – extension of the entitlements: Government consultation](#), 21 July 2023, pp12-15; DfE, [Early years funding – extension of the entitlements: Government consultation response](#), November 2023, p18; ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 24 January 2024.

³³ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

³⁴ ESFA, [Early years funding: 2023 to 2024](#), 19 June 2023.

³⁵ DfE, [Early years funding – extension of the entitlements: Government consultation](#), 21 July 2023, p6; DfE, [Early years funding – extension of the entitlements: Government consultation response](#), November 2023, p10.

³⁶ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

³⁷ DfE, [Early years funding – extension of the entitlements: Government consultation](#), 21 July 2023, pp19-20; DfE, [Early years funding – extension of the entitlements: Government consultation response](#), November 2023, p10.

Universal base rate

Previously, some local authorities paid different hourly rates to childcare providers based on the setting type. For example, maintained nursery schools could be funded at a different rate to childminders.

Since 2019/20, however, authorities have been required to use the same base funding rate (a universal base rate) for all childcare providers for each of the entitlements. This applies to all providers, but local authorities can use “lump sums” to distribute additional funding to maintained nursery schools (see section 6 for more information on maintained nursery schools).³⁸

In addition:

- The funding rate for the entitlement for disadvantaged two-year-olds must be the same or higher than the rate for the two-year-old working parent entitlement.
- Local authorities should fund providers in the same way for both the 15 and 30 hours entitlements for three and four-year-olds. This includes using the same universal base rate and the same supplements (see below).³⁹

Supplements

Local authorities can 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.⁴⁰ Before 2023/24, the supplements cap was 10%.⁴¹

Local authorities must have a deprivation supplement for the three and four-year-old entitlements. This is discretionary for two-year-olds and children aged under two.

Authorities are also 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”.

³⁸ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

³⁹ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

⁴⁰ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

⁴¹ ESFA, [Early years entitlements: local authority funding of providers operational guide 2022 to 2023](#), 25 November 2021.

- English as an additional language (EAL): “to recognise differences in attainment [...] between children whose first language is English, and those who have 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.”⁴²

⁴² ESFA, [Early years funding: 2024 to 2025](#), January 2024.

3 Funding rates

3.1 Funding rates from 2017/18 to 2022/23

After additional funding was provided in 2017/18 to accompany the introduction of the new national funding formula for three and four-year-olds, the funding rates paid to local authorities for the childcare entitlements were not changed in 2018/19 or 2019/20. In 2020/21 and 2021/22, additional funding was provided to increase the rates:

Average national funding rate for 3 and 4-year-olds (cash terms):

2017/18: £4.76

2018/19: £4.75

2019/20: £4.75

2020/21: £4.83

2021/22: £4.88

2022/23: £5.04⁴³

- 2017/18: at the [2015 Spending Review](#), an additional £300 million was provided following a [review of childcare costs](#) undertaken by the Department for Education (DfE).⁴⁴ In its [response to the consultation on the Early Years National Funding Formula](#) (PDF), the DfE said it would provide further additional funding in order to guarantee every local authority would receive a minimum funding rate of at least £4.30 an hour from 2017/18.⁴⁵
- 2020/21: at the [2019 Spending Round](#), the Government announced it would “increase early years spending by £66 million” to increase the hourly rate paid to childcare providers.⁴⁶
- 2021/22: at the [2020 Spending Review](#), 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 the 2019 Spending Round.⁴⁷

2022/23

At the [2021 Autumn Budget and Spending Review](#), the Government said it would provide £170 million by 2024/25 to increase the hourly funding rate paid to childcare providers.⁴⁸ The day after the Budget, the then DfE minister Will

⁴³ [PQ 1144](#), 13 May 2021; [PQ 166196 \[Childcare: Fees and Charges\]](#), 15 March 2023; [HCWS78 \[Early Years Update\]](#), 29 November 2023.

⁴⁴ 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](#); DfE, [Review of childcare costs](#), 25 November 2015.

⁴⁵ DfE, [Early years funding – Changes to funding for three- and four-year olds: Government consultation response](#) (PDF), December 2016, pp5-6.

⁴⁶ HM Treasury, [Spending Round 2019](#) (PDF), CP170, September 2019, para 2.10.

⁴⁷ HM Treasury, [Spending Review 2020](#) (PDF), CP330, November 2020, para 6.19.

⁴⁸ HM Treasury, [Autumn Budget and Spending Review 2021](#), 27 October 2021, para 4.14.

Average funding rate for 2 year-olds (cash terms):

2017/18: £5.39

2018/19: £5.39

2019/20: £5.39

2020/21: £5.48

2021/22: £5.56

2022/23: £5.77

Quince confirmed additional funding of £160 million in 2022/23, £180 million in 2023/24 and £170 million in 2024/25.⁴⁹

The DfE subsequently clarified that the annual additional funding figures were based on a 2021/22 baseline and were not cumulative (that is, funding in 2024/25 would be £10 million lower than in 2023/24). The department was reported as saying the funding levels reflected “cost pressures as well as anticipated changes in the number of eligible children”.⁵⁰ Further details on the population estimates underlying the funding levels was provided [in response to a parliamentary question on 2 February 2022](#).⁵¹

Changes in funding rates

The national average hourly funding rate for three and four-year-olds increased from £4.76 to £5.04 between 2017/18 and 2022/23. This was a 5.9% increase in cash terms but a 9.3% decrease when adjusted for inflation (in 2022/23 prices).

The national average hourly funding rate for disadvantaged two-year-olds increased from £5.39 to £5.77 over the same period. This was a real-terms fall of 8.3%.⁵²

The figures above refer to the national average hourly funding rate. The rates received by an individual local authority or an individual childcare provider may differ from the national average. It also does not include additional early years block funding streams such the Early Years Pupil Premium, the Disability Access Fund, and supplementary funding for maintained nursery schools.

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

⁴⁹ Children and Young People Now, [Children’s minister confirms £340m funding boost for early years not announced in Spending Review](#), 28 October 2021.

⁵⁰ Children and Young People Now, [Early years funding significantly less than expected](#), sector fears, 27 January 2022.

⁵¹ [PQ 120848 \[Pre-school Education: Finance\]](#), 21 February 2022.

⁵² HM Treasury, [GDP deflators at market prices, and money GDP March 2024 \(Budget 2024\)](#), 8 March 2024; DfE, [An early years national funding formula: Government consultation \(PDF\)](#), August 2016, p32; [PQ 166196 \[Childcare: Fees and Charges\]](#), 15 March 2023.

3.2

Funding for 2023/24

In December 2022, 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 meet the cost of increases in the National Living Wage.⁵⁴ 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 £6.00.⁵⁵

Average national funding rate for 3 and 4-year-olds (cash terms):

2022/23: £5.04

2023/24 (Apr–Sep): £5.29

2023/24 (Sep–Mar): £5.62

2024/25: £5.88.⁵³

Increase in funding rates from September 2023

In addition to announcing plans to extend the 30 hours entitlement to younger children (see section below), at the [2023 Spring Budget](#) the Government said it would provide funding to increase the hourly funding rate for the existing childcare entitlements. £204 million was provided in 2023/24 (paid from September 2023) and £288 million will be provided in 2024/25.⁵⁶ This funding is additional to the funding to expand the 30 hours entitlement.⁵⁷

As a result of the additional funding, the national average funding rate for three and four-year-olds increased from £5.29 per hour to £5.62 per hour from September 2023.⁵⁸

The national average funding rate for two-year-olds increased from £6.00 per hour to £7.95 per hour.⁵⁹

3.3

Funding from 2024/25

Cost of expanding 30 hours entitlement

As set out in section 1.1 above, at the 2023 Spring Budget the Government announced that the 30 hours entitlement would be extended in stages from April 2024 to children aged nine months to three years in England.⁶⁰

The Government expects to provide £1.7 billion in 2024/25 to fund the expansion, followed by £3.3 billion in 2025/26, £4.1 billion in 2026/27 and £4.1

⁵³ [PQ 1144](#), 13 May 2021; [PQ 166196 \[Childcare: Fees and Charges\]](#), 15 March 2023; [HCWS78 \[Early Years Update\]](#), 29 November 2023.

⁵⁴ DfE, [Early years funding formulae: Government consultation response](#) (PDF), December 2022, pp23 & 7.

⁵⁵ [PQ 166196 \[Childcare: Fees and Charges\]](#), 15 March 2023.

⁵⁶ HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.48. The additional funding for 2023-24 was provided through a separate grant – the [Early Years Supplementary Grant \(EYSG\)](#).

⁵⁷ [PQ HL10334 \[on Childcare: Finance\]](#), 27 September 2023.

⁵⁸ [HCWS923 \[on Early Years Funding\]](#), 10 July 2023.

⁵⁹ [HCWS923 \[on Early Years Funding\]](#), 10 July 2023.

⁶⁰ HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.46-3.47.

billion in 2027/28.⁶¹ It expects to be providing more than £8 billion a year for the early years block in total by 2028, around double what it spent in 2023/24.⁶²

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 also based on:

- around half of parents with children aged from nine months to two being eligible for the new entitlement.
- 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.⁶³

Further information on how the Government calculated the estimated cost of the expansion is available in a policy note published by the DfE: [Spring Budget 2023 Childcare Expansion](#) (PDF).⁶⁴

The DfE has also provided £12 million to local authorities to support with meeting programme and delivery costs associated with the expansion.⁶⁵

⁶¹ HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.46.

⁶² [HC Deb 28 June 2023, c308](#); DfE, [Early education entitlements and funding update: March 2023](#), 21 July 2023; [PQ 2098 \[on Childcare: Finance\]](#), 20 November 2023.

⁶³ DfE, [Spring Budget 2023 Childcare Expansion: Policy costing information note](#) (PDF), July 2023, pp3-7.

⁶⁴ DfE, [Spring Budget 2023 Childcare Expansion: Policy costing information note](#) (PDF), July 2023.

⁶⁵ Department for Education, [Local authority delivery support funding](#), February 2024.

3.4

Funding rates from 2024/25

Average funding rate for 2-year-olds (cash terms):

2022/23: £5.77

2023/24 (Apr–Sep):
£6.00

2023/24 (Sep–Mar):
£7.95

2024/25: £8.28.

In November 2023, the Government announced it would provide [additional funding to increase the funding rates for the childcare entitlements in 2024/25](#). This comprised £67 million to reflect the increase in the National Living Wage from April 2023 and £57 million in recognition of teacher pay and pension costs. This funding is in addition to the £288 million of funding for 2024/25 announced at the 2023 Spring Budget (see section 3.2 above).⁶⁶

The Government also [confirmed the per-child funding rates for the 2024/25 financial year](#):

- The national average funding rate for the three and four-year-old entitlements increased from £5.62 per hour to £5.88 per hour. The rate has increased by 16.7% in cash terms between 2022/23 and 2024/25.
- The national average funding rate for two-year-olds increased from £7.95 per hour to £8.28 per hour. The rate has increased by 43.5% between 2022/23 and 2024/25.
- The national average funding rate for children aged under two will be £11.22 per hour.⁶⁷

Details of the funding rates for individual local authorities, including technical information on how the rates were calculated, is available at: [Early years funding: 2024 to 2025](#).⁶⁸

3.5

Funding from 2025/26

At the [2024 Spring Budget](#), the Government confirmed it would increase the hourly funding rates “in line with the metric used at Spring Budget 2023” in 2025/26 and 2026/27.⁶⁹ That is, funding rates will increase in line with the Government’s forecast of cost increases.

A [response to a parliamentary question explained](#) the DfE “will use average earnings growth and National Living Wage to forecast how staff costs are changing for providers and CPI (a general measure of inflation) to forecast how non-staff costs will change”.⁷⁰

⁶⁶ [HCWS78 \[Early Years Update\]](#), 29 November 2023; DfE, [Date set for new childcare offer applications](#), 29 November 2023.

⁶⁷ [HCWS78 \[Early Years Update\]](#), 29 November 2023; ESFA, [Early years funding: 2024 to 2025](#), 29 November 2023.

⁶⁸ ESFA, [Early years funding: 2024 to 2025](#), 29 November 2023.

⁶⁹ HM Treasury, [Spring Budget 2024](#), HC 560, March 2024, para 2.8.

⁷⁰ [PQ 17553 \[Childcare: Finance\]](#), 12 March 2024.

The Government estimates that increasing the rates using this metric will cost £500 million over the two years, based on current forecasts, compared with if funding rates were kept at 2024/25 levels. A portion of this funding is reflected in the Government's estimates of the cost of expanding the 30 hours entitlement that were set out at Spring budget 2023. As set out in section 3.3 above, these estimates were based on the funding rates increasing annually to account for cost pressures.⁷¹

⁷¹ DfE, [Spring Budget 2023 Childcare Expansion: Policy costing information note](#) (PDF), July 2023, pp3-7.

4 Commentary and reports on childcare funding

Some stakeholders have expressed concerns that the funding provided for the childcare entitlements is not sufficient to cover providers' costs.⁷² For example, data obtained from the Department for Education (DfE) by the Early Years Alliance (a membership organisation representing childcare providers) suggested the average funding rate paid to local authorities for the three and four-year-old entitlements in 2020/21 was two thirds (£4.81 per hour) of what the Government had previously estimated would be needed to fully fund the scheme (£7.49).⁷³

Among other things, it has been contended that funding issues could pose a risk to the successful implementation of the expansion of the 30 hours entitlement to younger children.⁷⁴ It has additionally been highlighted that, as the Government becomes responsible for funding a greater proportion of pre-school childcare as a result of the expansion, the importance of getting the funding rates right increases as there will be less scope for providers to cover increasing costs by changing the fees paid by parents.⁷⁵

This section provides a summary of selected recent reports and analysis on childcare funding in England.

4.1 DfE provider finances report 2022

In December 2023, the DfE published an [analysis of the finances of early years providers](#) using data from the [2022 annual childcare and early years providers survey](#).⁷⁶

The report said the mean income-to-cost ratio (total weekly income divided by total weekly cost) for all providers fell from £1.25 of income per £1 of cost in 2021 to £1.15 of income per £1 of cost in 2022. The median income-to-cost ratio

⁷² Kitty Stewart, [A half-baked early years funding policy risks negatively impacting children](#), 20 March 2023.

⁷³ Early Years Alliance, [New data shows ministers knew early years was underfunded](#), 14 June 2021.

⁷⁴ Early Years Alliance, [Alliance warns expansion is 'unworkable' as applications date for second phase is confirmed](#), 15 March 2024.

⁷⁵ Kitty Stewart, [A half-baked early years funding policy risks negatively impacting children](#), 20 March 2023.

⁷⁶ DfE, [Evidence of early years providers' finances from a 2022 survey](#), 8 December 2023; DfE, [Childcare and early years providers survey: 2022](#), December 2022.

was £1 of income per £1 of cost. This means half of providers reported income that did not fully cover their costs.

The report's other findings included:

- Staffing costs made up the majority of providers' costs (70% on average).
- The proportion of income from different income sources varied considerably between provider types. For example, parent-paid fees made up 71% of childminders' income on average, while 85% of income for nursery classes in schools came from free entitlement funding.
- The median unit cost (an approximate measure of a provider's average cost per child per hour for all children in the setting) for childcare providers in 2022 was £5.21 per hour.
- Nursery classes in schools and maintained nursery schools had the highest median unit costs (£7.64 and £5.41 respectively). This was consistent with higher hourly pay for staff. Private providers had the lowest median unit cost of £4.57 per hour.
- The mean hourly fees paid by parents were £5.68 for children under two, £5.72 for two-year-olds and £5.60 for three and four-year-olds.⁷⁷ Fees tended to be highest among private group-based providers (for example, nurseries) and lowest among childminders.
- The mean free entitlement funding rate for two-year-olds across all providers was £5.38 per hour, 34p lower than the mean parent-paid fee. The mean free entitlement funding rate for three and four-year-olds was 95p per hour lower than the mean parent-paid fee (£4.65 versus £5.60).⁷⁸

The report noted several caveats associated with the findings, including regarding the quality of information collected from providers. It noted, for example, that there is less confidence in estimates of providers' incomes and costs than for estimates for hourly parent-paid fees and free entitlement rates.⁷⁹

4.2 IFS analysis of childcare funding

In December 2023, the Institute for Fiscal Studies (IFS) published its [annual report on education spending in England 2023](#).⁸⁰

⁷⁷ DfE, [Evidence of early years providers' finances from a 2022 survey](#), 8 December 2023, pp50-52.

⁷⁸ DfE, [Evidence of early years providers' finances from a 2022 survey](#), 8 December 2023, pp56-57.

⁷⁹ DfE, [Evidence of early years providers' finances from a 2022 survey](#), 8 December 2023, pp8-10.

⁸⁰ IFS, [Annual report on education spending in England: 2023](#), 11 December 2023.

Early education and childcare spending since 2001/02

The report set out that total spending on early years education and childcare, including free entitlement spending and childcare subsidies via the tax and benefit system, quadrupled between 2001/02 and 2018/19 to £6.6 billion in 2023/24 prices. While total spending subsequently fell to £5.6 billion in 2022/23, the report said this “still represents a major increase in resources at a time when other stages of education have been squeezed.”

The report added that the growth in total real-terms spending is set to continue with the expansion of the 30 hours entitlement to younger children. It noted that spending is set to rise in real terms for only three other areas of public spending (NHS England, Defence and the Foreign, Commonwealth and Development Office) between 2024/25 and 2028/29 under current spending plans. This is, it said, “a signal of the government’s prioritisation of childcare.”

Regarding spending on the free entitlements, the report said:

- All the increase in overall spending on the free entitlements in the decade since 2012/13 has come from the introduction of the entitlement for disadvantaged two-year-olds and the extended 30 hours entitlement. Meanwhile, spending on the universal 15 hours entitlement fell from £2.9 billion in 2012 to £2.5 billion in 2022/23 (in 2023/24 prices).
- Reduced spending on the universal entitlement for three and four-year-olds since 2016/17 reflects a fall in the number of three and four-year-olds in England.
- Falling populations have also affected real-terms spending on the two-year-old entitlement. However, falling spending in recent years has been driven by a reduction in the proportion of two-year-olds eligible for the entitlement, from 40% in 2015/16 to 27% in 2022/23. This reduction was due in part to frozen benefit thresholds and the transition to Universal Credit.
- Spending on the free entitlements for three and four-year-olds per hour of childcare has grown less quickly than total spending, increasing by 18% in real terms between 2009/10 and 2022/23.
- The growth in hourly spending shows evidence of “a ‘ratchet’ pattern”, where increases in real-terms spending are followed by real-terms decline as later cash-terms funding settlements are eroded by inflation.
- 2022/23 saw a cash-terms increase in funding rates, but high inflation means that real-terms spending per hour fell by 8.6% between 2021/22 and 2022/23.⁸¹

⁸¹ IFS, [Annual report on education spending in England: 2023](#), 11 December 2023, pp20-24.

Funding rates

On funding rates (as opposed to spending)⁸², the report said:

- Core funding per hour for the free entitlements for three and four-year-olds (excluding uplifts such as the Early Years Pupil Premium) increased by 20% in cash terms between 2012/13 and 2023/24. However, it is 9% lower in real terms, based on economy-wide inflation.
- Childcare providers face different costs to the economy as a whole. In particular, around three-quarters of their expenses are for staff costs, and the minimum wage has been rising faster than economy-wide prices.
- Once providers' specific costs are considered, core funding per hour for three and four-year-olds in 2023/24 is around 16% lower than in 2012/13. Core funding per hour in 2024/25 is estimated to be 12% lower than in 2012/13.
- The funding rate for two-year-olds fell less steeply, by 5% between 2015/16 and 2022/23 (in 2023/24 prices). Two-year-olds have also received much bigger increases in funding rates from September 2023. As a result, "providers catering to younger children will have more resources compared with 2017/18, when core funding per hour peaked."⁸³

The report also included a detailed section on the distribution of free entitlement funding for three and four-year-olds across different areas. Among other things, it suggested the allocation of funding is mostly focused on more disadvantaged areas. It also noted, however, that the most deprived places received less of a funding boost than under the school funding system, partly because the additional needs factor is limited to 10.5% of formula funding (see section 2.1 above).⁸⁴

Expanding the 30 hours entitlement to younger children

The IFS report said the expansion of the 30 hours entitlement to younger children will mean funding for the free entitlements more than doubles between 2022/23 and 2027/28. This, it said, is "the largest and fastest expansion on record."⁸⁵

The report also noted that the expansion continues "the trend towards prioritising childcare support for parents who work, rather than universal services or targeted early education for low-income families."

⁸² More detail on how funding rates differ from the figures for spending in the previous section is provided on the IFS's website at: [Methods and data](#).

⁸³ IFS, [Annual report on education spending in England: 2023](#), 11 December 2023, pp25-27.

⁸⁴ IFS, [Annual report on education spending in England: 2023](#), 11 December 2023, pp28-34.

⁸⁵ IFS, [Annual report on education spending in England: 2023](#), 11 December 2023, pp7 and 26.

Once the reforms are fully implemented, the report said, the Government will control the prices of around 80% of pre-school childcare (up from around 50% now). As a result, there are “substantial risks associated with setting the funding rate correctly.” Setting the funding rate too high “could lead to public funds being converted into excessive profits.” However, providers could opt out of delivering the new entitlement if the rate is set too low, “particularly as their ability to cross-subsidise with privately paid hours declines.”

The report said the Government’s planned funding rates for two-year-olds and under-tuos “are well above market prices.” However, the funding rate for three and four-year-olds “aligns more closely with existing market rates, posing potential challenges in areas where funding and provider costs diverge.”

The key issue, the report said, is how funding rates will be adjusted in the future, given that “historically rates have seen extended periods of cash-terms freezes, with inflation eroding providers’ real resources, followed by significant adjustments.” The need to “revise rates in a more consistent and predictable way” is more important when the government is more involved in setting prices in the childcare market, the report said.⁸⁶

A comment piece published by the IFS in March 2024 provided further analysis of the expansion of the extended entitlement, including the funding rates. Among other things, it highlighted that a large portion of two-year-olds who became eligible for the expanded entitlement in April 2024 were already using formal childcare. As a result, it said, this means “the childcare market will need to create far fewer places than the 200,000 2-year-olds the government expects to take up the new offer.”⁸⁷

4.3

Education Committee report

In July 2023, the Education Committee published a [report on support for childcare and the early years](#).⁸⁸

The report said the free entitlements are “chronically underfunded” and providers report “losing £1-2 an hour by delivering the funded places.” It added that this funding gap is “a key contributing factor to the current [Early Childhood Education Care system] market struggles” and “a significant causal factor” in the increasing rate of provider closures.⁸⁹

While witnesses to the inquiry were “broadly supportive of the additional funding announced in the [2023] Spring Budget”, concerns were raised that

⁸⁶ IFS, [Annual report on education spending in England: 2023](#), 11 December 2023, pp27-28.

⁸⁷ IFS, [What you need to know about the new childcare entitlements](#), 28 March 2024.

⁸⁸ Education Committee, [Support for childcare and the early years](#), 26 July 2023.

⁸⁹ Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 25-27.

“the level of investment is simply insufficient” to cover the expected increase in childcare places.⁹⁰

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.⁹¹ However, it added that the extension of the 30 hours entitlement adds “further demand on a struggling sector” and the sector needs “a sufficient funding rate for the funded entitlements” to successfully deliver the proposals.⁹²

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.”⁹³

More generally, the committee recommended the Government grant all childcare providers an exemption from business rates and private voluntary and independent settings should be zero-rated for VAT.⁹⁴

Government response

The [Government’s response to the committee’s report](#) (PDF) was published in October 2023.

The response said the DfE recognised the importance of setting local authority funding rates at levels that “reflect the cost of early years childcare delivery and also encourage sustainability of provision and the overall financial health of the childcare sector.” It added that data from surveys of providers is used to “support [its] understanding of the costs of delivering

⁹⁰ Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 14 to 16.

⁹¹ Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 18.

⁹² Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 37.

⁹³ Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 38-41.

⁹⁴ Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 42-48.

childcare” and helps to inform how much funding is required to deliver the early years entitlements.⁹⁵

The Government’s response to the committee’s other recommendations on funding included:

- On greater ring-fencing, the Government noted it would set a 95% pass through rate for each early years dedicated schools grant funding stream from 2024/25 and intended to increase this to 97% in the future (see section 2.3 above).⁹⁶
- On the sufficiency of childcare provision, the Government said it has “regular contact with each local authority in England about childcare sufficiency in their area and any issues they are facing.” It added it was working to identify what additional support is required ahead of the expansion of the 30 hours entitlement.⁹⁷
- On business rates and VAT, the Government said it had “no plans to make changes to the business rates support provided to early years business or the VAT exemption which nurseries currently enjoy.”⁹⁸

⁹⁵ Education Committee, [Support for childcare and the early years: Government response to the Committee’s Fifth Report](#) (PDF), 17 October 2023, HC 1902 2022-23, paras 15 to 16.

⁹⁶ Education Committee, [Support for childcare and the early years: Government response to the Committee’s Fifth Report](#) (PDF), 17 October 2023, HC 1902 2022-23, paras 22 to 24.

⁹⁷ Education Committee, [Support for childcare and the early years: Government response to the Committee’s Fifth Report](#) (PDF), 17 October 2023, HC 1902 2022-23, paras 25 to 27.

⁹⁸ Education Committee, [Support for childcare and the early years: Government response to the Committee’s Fifth Report](#) (PDF), 17 October 2023, HC 1902 2022-23, paras 34 to 41.

5 Other sources of early years funding

This section provides information on sources of funding for early years providers, paid for children who are disadvantaged or who have special educational needs or disabilities.

Further information on this funding is available at: [Sources of income for early years providers](#).⁹⁹

5.1 Disability Access Fund

Introduced in 2017/18, the Disability Access Fund (DAF) is intended to support disabled children to access the free childcare entitlements – for example, by helping providers make reasonable adjustments to their settings. Previously, disability access funding was only paid in respect of three and four-year-olds. However, from 2024/25 eligibility has been extended to children aged two and under as well.¹⁰⁰

A child is eligible for disability access funding if they receive Disability Living Allowance and are taking up any period of free childcare.¹⁰¹

Local authorities receive disability access funding as part of the early years block of the dedicated schools grant (DSG) and are responsible for passing the money to providers for each eligible child. In 2024/25, around £39 million of disability access funding will be allocated to local authorities.¹⁰²

The DAF funding rate was £615 per eligible child per year between 2017/18 and 2021/22. It increased to £800 per child from 2022/23 and to £828 per child from 2023/24.¹⁰³ It will increase to £910 per child from 2024/25.¹⁰⁴

In its annual report on education spending, published in December 2023, the Institute for Fiscal Studies (IFS) think tank noted that DAF funding rate was 13% higher in real terms in 2023/24 than in 2017/18.¹⁰⁵

⁹⁹ DfE, [Sources of income for early years providers](#), 7 September 2018.

¹⁰⁰ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

¹⁰¹ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

¹⁰² ESFA, [Dedicated schools grant \(DSG\) 2024 to 2025](#), 25 March 2024.

¹⁰³ [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.

¹⁰⁴ ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 29 November 2023.

¹⁰⁵ IFS, [Annual report on education spending in England: 2023](#), 11 December 2023, pp37-38.

Additional funding for ongoing support for disabled young children is also available from the high needs funding block of the DSG, including for children with education, health and care plans (which local authorities provide for children and young people who need more support than is provided through special educational needs programmes).

5.2 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.¹⁰⁶ From 2024/25, the Government has expected local authorities to have SEN inclusion funds for children of all ages taking up the free childcare entitlements.¹⁰⁷

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.

Government guidance says local authorities should target SEN inclusion funding “at children with lower level or emerging SEN.” It notes that children with more complex needs and with an education, health and care plan continue to be eligible to receive funding via the high needs block of the DSG.¹⁰⁸

5.3 Early Years Pupil Premium

The Early Years Pupil Premium, introduced in April 2015, is additional funding for children 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, or a child arrangements order.¹⁰⁹

¹⁰⁶ ESFA, [Early years funding: 2023 to 2024](#), 19 June 2023.

¹⁰⁷ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

¹⁰⁸ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

¹⁰⁹ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

For three and four-year-olds, the premium is payable on the universal 15 hours entitlement and not on the extended 30 hours entitlement.¹¹⁰

Previously, the premium was only paid for eligible three and four-year-olds. However, it was extended to all eligible children accessing a free childcare entitlement from April 2024 (that is, children aged nine months up to four years old).¹¹¹

The initial Early Years Pupil Premium funding allocation for 2024/25, allocated to local authorities as part of the early years block of the DSG, was £70 million.¹¹²

The national rate for the premium was 53p per hour between 2015/16 and 2021/22.¹¹³ However, the rate was increased to 60p per hour from 2022/23, and to 62p per hour from 2023/24.¹¹⁴ It will increase to 68p per hour from 2024/25.¹¹⁵ Local authorities are expected to fund all providers in their area at this rate.

In its annual report on education spending, published in December 2023, the IFS said the freezing of the Early Years Pupil Premium rate until 2022/23 represented a real-terms reduction of 9% since 2017/18. Despite the 21% cash-terms increase between 2021/22 and 2023/24, the report said, the premium rate in 2023/24 remained 2% below its 2017/18 value “due to the corrosive effects of high inflation.”

The report noted that total spending on the premium is around double that spent on the Disability Access Fund and so “the rise in generosity for the [Disability Access Fund] matters less than real-terms cuts to [the premium].”¹¹⁶

¹¹⁰ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

¹¹¹ DfE, [Early years funding – extension of the entitlements: Government consultation](#), 21 July 2023, p16; DfE, [Early years funding – extension of the entitlements: Government consultation response](#), November 2023, p9; ESFA, [Early years funding: 2024 to 2025](#), January 2024.

¹¹² ESFA, [Dedicated schools grant \(DSG\) 2024 to 2025](#), 25 March 2024.

¹¹³ DfE, [Early Years Pupil Premium and funding for two-year-olds \(PDF\)](#), June 2014, p5.

¹¹⁴ [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.

¹¹⁵ ESFA, [Early years entitlements: local authority funding operational guide 2024 to 2025](#), 29 November 2023.

¹¹⁶ IFS, [Annual report on education spending in England: 2023](#), 11 December 2023, pp37-38.

6 Maintained nursery schools

6.1 Summary

Maintained nursery schools (MNSs) are schools run by local authorities for two, three and four-year-olds. Like other early years settings, MNSs receive funding from central government (via their local authority) for the 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.¹¹⁷

In recognition of these extra costs, the Department for Education (DfE) provides supplementary funding for MNSs within the early years block of local authorities' dedicated schools grant allocations. In 2024/25, around £86 million of supplementary funding will be provided.¹¹⁸

As set out in section 2.3, since 2019/20 local authorities have been required to use the same base funding rate (a universal base rate) for all childcare providers for each of the entitlements. While this applies to MNS) as to other providers, local authorities may use "lump sums" to distribute additional funding to MNS.¹¹⁹

6.2 Supplementary funding since 2016-17

In the 2016 consultation on the funding formula for three and four-year-olds, the DfE acknowledged MNS face "costs over and above other providers because of their structure", which would not be accounted for in the new national funding formula. 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."¹²⁰

¹¹⁷ DfE, [Early years funding formulae: Government consultation](#), 4 July 2022, p27.

¹¹⁸ ESFA, [Dedicated schools grant \(DSG\) 2024 to 2025](#), 25 March 2024.

¹¹⁹ ESFA, [Early years funding: 2024 to 2025](#), January 2024.

¹²⁰ DfE, [An early years national funding formula: Government consultation \(PDF\)](#), August 2016, pp37 & 58.

The extra funding would, the consultation said, be available to local authorities to provide a higher hourly funding rate for MNS if they wished.¹²¹

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).¹²² This commitment was subsequently reaffirmed following the 2017 general election.¹²³

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](#).¹²⁴

Funding for 2020/21

In October 2019, the Government confirmed supplementary funding for MNSs 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.”¹²⁵

Around £55 million of supplementary funding for MNSs was allocated in 2020/21.¹²⁶

On 24 August 2020, the Government [confirmed that supplementary funding for MNSs worth up to £23 million would continue](#) through the summer term of 2021 (that is, for the whole of the 2020/21 academic year) “while the Department confirms a long-term solution.”¹²⁷

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.¹²⁸

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 MNSs and said the one-year timeframe of the Spending Review “must not cause further delays” to putting funding for MNSs “on a long-term basis”. MNS are,

¹²¹ DfE, [An early years national funding formula: Government consultation \(PDF\)](#), August 2016, p58.

¹²² DfE, [Early years funding: Government consultation response \(PDF\)](#), December 2016, pp3 & 8.

¹²³ [PQ1778, 3 July 2017](#).

¹²⁴ ESFA, [Early years national funding formula: funding rates and guidance](#), November 2018.

¹²⁵ [HCWS56](#), 31 October 2019. See also, DfE press release, [Funding boost to support childcare and early education](#), 31 October 2019.

¹²⁶ ESFA, [Dedicated schools grant \(DSG\) 2020 to 2021](#), 18 November 2021.

¹²⁷ DfE, [Early years support package to help close Covid language gap](#), 24 August 2020.

¹²⁸ HM Treasury, [Spending Review to conclude late November](#), 21 October 2020.

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”.¹²⁹

In response to a parliamentary question in November 2020, the then Minister for Children, Vicky Ford, said the DfE had “secured a continuation of around £60 million of supplementary funding” for MNSs in the 2021/22 financial year, as part of the 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”.¹³⁰

Funding for 2022/23

In a written statement in November 2021, the then DfE 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.”¹³¹ Total supplementary funding for MNSs in 2022/23 was around £51.3 million.¹³²

Funding for 2023/24

In its July 2022 [consultation on the early years funding formulae](#), the Government said it remained committed to continuing to provide additional funding to support MNSs.¹³³ It added, however, that supplementary funding was 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 MNSs supplementary funding hourly rate.

To facilitate the reforms, the consultation said the Government would provide an additional £10 million of supplementary funding for MNSs 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.”¹³⁴

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

- A minimum funding floor for the MNS supplementary funding hourly rate of £3.80 would apply.

¹²⁹ APPG for Nursery Schools, Nursery and Reception Classes, Letter to Rt Hon Stephen Barclay, Chief Secretary to the Treasury, 11 November 2020.

¹³⁰ [PQ119183](#), 26 November 2020.

¹³¹ [HCWS421 \[Early Years Education Entitlements: Hourly Funding Rates\]](#), 25 November 2021.

¹³² ESFA, [Dedicated schools grant \(DSG\) 2022 to 2023](#), 16 December 2021.

¹³³ DfE, [Early years funding formulae: Government consultation](#), 4 July 2022, p27.

¹³⁴ DfE, [Early years funding formulae: Government consultation](#), 4 July 2022, p28.

- A cap on the MNS supplementary funding hourly rate of £10 would be introduced.¹³⁵ The Government said it intended to maintain the cap at this level in 2024/25.¹³⁶

Around £70 million of supplementary funding for MNSs was allocated to local authorities as part of the initial early years block allocation.¹³⁷

As a result of the additional funding announced at the Spring Budget 2023 (see section 3.2 above), the national average funding rate for MNS supplementary funding increased to £4.63 and the minimum funding floor was increased to £4.01.¹³⁸

Funding for 2024/25

Around £86 million of supplementary funding for MNSs will be provided in 2024/25.¹³⁹ The minimum funding floor will increase to £4.64 and the cap on the MNS supplementary funding hourly rate will remain at £10. The national average MNS supplementary funding rate will be £5.27.¹⁴⁰

6.3

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 MNSs tend to have “a higher fraction of children from disadvantaged backgrounds, and “higher structural quality” than other provider types.”¹⁴¹

The committee’s report concluded MNSs “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 [MNSs’] long-term future as soon as possible.”¹⁴²

The Government’s response to the report did not specifically refer to MNSs.¹⁴³

¹³⁵ DfE, [Early years funding formulae: Government consultation response](#) (PDF), December 2022, p8.

¹³⁶ [HCWS457 \[Education Funding Update\]](#), 19 December 2022.

¹³⁷ ESFA, [Dedicated schools grant \(DSG\) 2023 to 2024](#), 20 July 2023.

¹³⁸ ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 29 November 2023.

¹³⁹ ESFA, [Dedicated schools grant \(DSG\) 2024 to 2025](#), 25 March 2024.

¹⁴⁰ ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 29 November 2023.

¹⁴¹ 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

¹⁴² 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.

¹⁴³ Education Committee, [Strengthening Home Education: Government Response to the Committee’s Third Report](#) (PDF), HC 823 2021/22, 4 November 2021.

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