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7 July 2025

# Early years 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).

## Free childcare entitlements

Most government support for childcare providers in England is delivered via funding for the following 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.

Following an announcement at the [2023 Spring Budget](#), the 30 hours entitlement is in the [process of being extended to children aged from nine months to three years](#) (with the same eligibility criteria):

- Since 1 April 2024, eligible families of two-year-olds have been able to access 15 hours a week.
- Since September 2024, eligible families of children aged nine months to two years have been 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.

## Funding the childcare expansion

The previous government estimated the childcare expansion would cost £4.1 billion a year by 2027/28. By this time, the government expected to be spending around £8 billion on the childcare entitlements in total, around double what was spent in 2023/24. The Institute for Fiscal Studies has suggested, however, that [spending could end up £1 billion higher than the initial estimates](#) due to high take-up rates.

At the [Autumn Budget 2024](#), the government committed to the funding for the childcare expansion and said £1.8 billion would be provided in 2025/26.

However, it has been suggested that childcare providers may be particularly impacted by the [changes to employer National Insurance contributions \(NICs\)](#) and the increases to the National Living Wage announced at the Budget.

At the [Spending Review 2025](#), the government said it would provide an additional £1.6 billion a year by 2028/29, compared to 2025/26, to continue the expansion.

## Funding rates

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

1. The Department for Education 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 department.

The national average hourly funding rates for local authorities in 2025/26 are:

- Three and four-year-olds: £6.12 per hour. The rate has fallen by 3% in real terms (when adjusted for inflation) since 2017/18 (in 2025/26 prices).
- Two-year-olds: £8.53 per hour. The rate has increased by 19% in real terms since 2017/18.
- Children under two: £11.54 per hour, an increase from £11.22 per hour in 2024/25.

## Commentary on funding levels

[DfE analysis published in November 2024](#) suggested the median income-to-cost-ratio (total weekly income divided by total weekly cost) for early years providers in 2023 was £1 of income per £1 of cost, meaning half of providers reported income that did not fully cover their costs.

In its 2024 report on education spending, the [Institute for Fiscal Studies think tank said](#) that, while funding rates for children aged two and under in 2024/25 were “much more generous than current market rates”, funding rates for three and four-year-olds were much closer to market rates. It also estimated that core funding per hour for three and four-year-olds was 8% lower in real terms in 2024/25 than in 2016/17 once provider costs are taken into account.

The report added that for some providers cost increases caused by changes to NICs and the National Living Wage may outweigh the “modest increases to funding rates” in 2025/26.

# 1 Introduction

This briefing provides an overview of public funding for early years providers in England since the 2017/18 financial year. It focuses on funding for the entitlements to government-funded childcare.

The government also provides funding indirectly to the early years 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 paying for childcare in England](#).<sup>1</sup>

## 1.1 The funded childcare entitlements

Most government support for childcare providers is delivered via funding for the childcare entitlements.

### Universal 15 hours entitlement

All three and four-year-olds in England are eligible for 570 hours of government-funded childcare a year.<sup>2</sup> The entitlement is commonly taken as 15 hours a week for 38 weeks of the year but can be stretched over more than 38 weeks. The entitlement is universal and applies irrespective of income.<sup>3</sup> It is sometimes referred to as the “universal entitlement” or “15 hours of free childcare”.

### 15 hours for disadvantaged two-year-olds

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<sup>4</sup>, or they have an education, health and care plan.<sup>5</sup>

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<sup>1</sup> Commons Library briefing CBP-8054, [Help with childcare costs in England](#)

<sup>2</sup> [Childcare Act 2006](#), section 7; [The Local Authority \(Duty to Secure Early Years Provision Free of Charge\) Regulations 2014 \(SI 2014/2147\)](#)

<sup>3</sup> Gov.uk, [15 hours free childcare for 3 and 4-year-olds](#)

<sup>4</sup> A “looked after child” is a child who is either in the care of a local authority further to a care order made by the court, or is being provided with accommodation by a local authority (for a continuous period of more than 24 hours) under its social services functions.

<sup>5</sup> [Free education and childcare for 2-year-olds](#), Gov.uk

This is sometimes referred to as the “[disadvantaged two-year-olds entitlement](#)”.<sup>6</sup>

## Free childcare for working families

Some three and four-year-olds from working families qualify for 1,140 hours of funded childcare a year (inclusive of the 570 hours under the universal 15 hours entitlement). This is commonly taken as 30 hours a week for 38 weeks of the year but can also be stretched over more than 38 weeks. The entitlement has previously been referred to as “[30 hours of free childcare](#)”.

Further information on the eligibility criteria for the entitlement is available in the [Library briefing on paying for childcare in England](#).<sup>7</sup>

Following an announcement at the 2023 spring budget, this entitlement is in the process of being extended to children aged from nine months to three years:

- Since April 2024, eligible two-year-olds have been able to access 15 hours a week (570 hours a year).
- Since September 2024, eligible children aged nine months to two years will be able to access 15 hours a week (570 hours a year).
- From September 2025, eligible children aged nine months to three years will be able to access 30 hours a week (1,140 hours a year).<sup>8</sup>

Further information is provided in the [Library briefing on expanding government-funded childcare in England](#).<sup>9</sup>

## 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.<sup>10</sup>

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<sup>6</sup> DfE, [Early education and childcare](#), January 2024

<sup>7</sup> Commons Library research briefing CBP-8054, [Paying for childcare in England](#)

<sup>8</sup> HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.46-3.47

<sup>9</sup> Commons Library research briefing CBP-10288, [Expanding government-funded childcare in England](#)

<sup>10</sup> [Get extra funding for your early years provider](#), Gov.uk



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, and the funding rate for individual providers.

The extension of the 30 hours entitlement to younger children will lead to a significant increase in early years block funding. The previous government said it expected 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.<sup>11</sup> It expected to be providing more than £8 billion a year for the early years block in total by 2028, around double what was spent in 2023/24.<sup>12</sup>

At the Autumn Budget 2024, the current Labour government re-committed to the funding for the expansion and said £1.8 billion would be provided in 2025/26.<sup>13</sup>

At the Spending Review 2025, the government said it would provide an additional £1.6 billion a year by 2028/29, compared to 2025/26, to continue the expansion.<sup>14</sup>

In 2025/26, the early years block will be worth around £8.5 billion.<sup>15</sup> The table below shows the funding allocations for the different components.

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<sup>11</sup> HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.46

<sup>12</sup> [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

<sup>13</sup> HM Treasury, [Autumn Budget 2024](#), 30 October 2024, para 3.41

<sup>14</sup> HM Treasury, [Spending Review 2025](#), June 2025, para 3.20

<sup>15</sup> Department for Education, [Dedicated schools grant \(DSG\) 2025 to 2026](#), 31 March 2025

### Early years block, indicative allocations, 2025/26

Universal 15 hour entitlement for three and four-year-olds	£2.67 billion
Additional 15 hours for three and three and four-year-olds eligible for 30 hours entitlement	£1.13 billion
15 hours entitlement for disadvantaged two-year-olds	£555 million
Two-year-olds eligible for 30 hours entitlement (15 hours up to 31 August 2025; 30 hours from 1 September 2025)	£1.57 billion
Children aged under two eligible for 30 hours entitlement (15 hours up to 31 August 2025; 30 hours from 1 September 2025)	£2.33 billion
Early Years Pupil Premium	£88 million
Disability Access Fund	£43 million
Supplementary funding for maintained nursery schools	£93 million
<b>Total early years block</b>	<b>£8.48 billion</b>

Source: DfE, [Dedicated schools grant allocations 2025/26](#), March 2025

## 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’).<sup>16</sup> The 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.<sup>17</sup> The funding rate for both entitlements is the same.
- A separate formula is used to determine funding for children aged 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 children<sup>18</sup> 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.<sup>19</sup>

Detailed guidance on the funding formulae for 2025/26 is available at: [Early years funding: 2025 to 2026](#).<sup>20</sup>

## 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.

<sup>16</sup> ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 29 November 2023

<sup>17</sup> DfE, [Early years funding formulae: Government consultation](#) (PDF), July 2022, p4

<sup>18</sup> 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)

<sup>19</sup> 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.

<sup>20</sup> DfE, [Early years funding: 2025 to 2026](#), 10 December 2024

## Base rate

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.

## Additional needs factor

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).<sup>21</sup>
- 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).<sup>22</sup>

## Area cost adjustment

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](#)).<sup>23</sup>

## Further adjustments

Further adjustments can then be made as a result of:

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<sup>21</sup> 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

<sup>22</sup> 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

<sup>23</sup> 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

- The operation of a minimum funding floor. In each year since the introduction of the funding formula for three and four-year-olds, the DfE has guaranteed each local authority will receive a minimum level of hourly funding. The minimum funding floor for 2025/26 is £5.71.
- Year-to-year protections and a cap on gains for individual local authorities.<sup>24</sup>

## 2.2

## Funding formula for children two and under

Previously, a separate formula was used to calculate funding for the 15 hours entitlement for disadvantaged two-year-olds.<sup>25</sup> However, in light of the extension of the 30 hours entitlement to younger children, the previous government introduced a new formula from 2024/25 which is used to calculate funding rates for all children aged under three.<sup>26</sup>

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

As a result, from 2024/25 local authorities have been 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 under three is similar to the formula for three and four-year-olds and features:

- A universal base rate that does not vary across local authorities. The base rate is higher for children under two than for two-year-olds. As with

<sup>24</sup> DfE, [2025 to 2026 early years national funding formulae: technical note](#), 10 December 2024

<sup>25</sup> 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.

<sup>26</sup> DfE, [Early years funding – extension of the entitlements: Government consultation response](#), November 2023, p2.

the formula for three and four-year-olds, 89.5% of total funding under the proposed formula is allocated through the base rate.<sup>27</sup>

- 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.
- An area costs adjustment to take account of the relative difference in costs in different areas of the country.<sup>28</sup>

## 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 [DfE early years funding guidance](#).<sup>29</sup>

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.<sup>30</sup> However, with the extension of the 30 hours entitlement to younger children, from 2024/25 most rules have been applied to all the entitlements (with a couple of exceptions).<sup>31</sup>

### 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. Previously, only funding for three and four-year-olds was subject to this requirement, but it now applies to each of the entitlements.<sup>32</sup>

<sup>27</sup> DfE, [2025 to 2026 early years national funding formulae: technical note](#), December 2024, section 3.5

<sup>28</sup> 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

<sup>29</sup> DfE, [Early years funding: 2025 to 2026](#), 10 December 2024

<sup>30</sup> ESFA, [Early years funding: 2023 to 2024](#), 19 June 2023

<sup>31</sup> 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

<sup>32</sup> ESFA, [Early years funding: 2024 to 2025](#), January 2024

The previous government said it intended to increase the pass-through rate from 95% (which it had been set at since 2018/19) to 97% once the roll-out of the 30 hours entitlement to younger children was “sufficiently progressed to allow this”.<sup>33</sup> The current government has said it will introduce this change and the pass-through rate was increased to 96% for 2025/26.<sup>34</sup>

## 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).<sup>35</sup>

## 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.<sup>36</sup>

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

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<sup>33</sup> 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

<sup>34</sup> DfE, [Early years funding: 2025 to 2026](#), 10 December 2024

<sup>35</sup> DfE, [Early years funding: 2025 to 2026](#), 10 December 2024

<sup>36</sup> DfE, [Early years funding: 2025 to 2026](#), 10 December 2024

For all supplements, local authorities “have the freedom to choose the appropriate metric for allocating funding but should be transparent about the metric chosen.”<sup>37</sup>

In its [annual report on education spending 2024/25](#), the Institute for Fiscal Studies provided a detailed analysis of how local authorities distribute their early years funding.<sup>38</sup>

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<sup>37</sup> DfE, [Early years funding: 2025 to 2026](#), 10 December 2024

<sup>38</sup> IFS, [Annual report on education spending in England: 2024-25](#), December 2024, pp27-33.



## 3 Funding for the childcare entitlements

### 3.1 Changes in funding rates 2017/18 to 2025/26

As shown in the tables on the next page, the national average hourly funding rate for three and four-year-olds increased from £4.76 to £6.12 between 2017/18 and 2025/26. This was a 29% increase in cash terms but a 3% decrease when adjusted for inflation (in real terms, in 2025/26 prices).

The national average hourly funding rate for disadvantaged two-year-olds increased from £5.39 to £8.53 between 2017/18 and 2025/26. This was an increase of 58% in cash terms and 19% in real terms. While the rate decreased by 10% in real terms between 2017/18 and the start of 2023/24, it increased by 33% in real terms between 2023/24 and 2024/25.

These figures refer to the national average per-child hourly funding rate that local authorities receive. The rates received by an individual local authority or an individual childcare provider may differ from the national average. They also do not include additional early years block funding streams such as the Early Years Pupil Premium, the Disability Access Fund, and supplementary funding for maintained nursery schools (see section 5 below).

Representatives of childcare providers suggested the funding rates were not sufficient to cover the increases in costs caused by the changes to NICs and the National Living Wage (see above).<sup>39</sup>

<sup>39</sup> Children and Young People Now, [Uplift in funding rates 'insufficient' to offset rising costs, childcare bodies warn](#), 10 December 2024

### Average hourly funding rate for 3 and 4 year-olds

Cash and real terms (2025/26)

	Cash	Real
2017/18	£4.76	£6.31
2018/19	£4.75	£6.17
2019/20	£4.75	£6.02
2020/21	£4.83	£5.81
2021/22	£4.88	£5.91
2022/23	£5.04	£5.70
2023/24 (Apr-Sep)	£5.29	£5.65
2023/24 (Sep-Mar)	£5.62	£6.00
2024/25	£5.88	£6.04
2025/26	£6.12	£6.12

### Average hourly funding rate for 2 year olds

Cash and real terms (2025/26)

	Cash	Real
2017/18	£5.39	£7.15
2018/19	£5.39	£7.00
2019/20	£5.39	£6.84
2020/21	£5.48	£6.60
2021/22	£5.56	£6.73
2022/23	£5.77	£6.53
2023/24 (Apr-Sep)	£6.00	£6.41
2023/24 (Sep-Mar)	£7.95	£8.16
2024/25	£8.28	£8.50
2025/26	£8.53	£8.53

Sources:

PQ 1144 [on [Pre-school Education: Finance](#)], 13 May 2021

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

HCWS78 [[Early Years Update](#)], 29 November 2023

DfE, [Over £2 billion boost to secure expansion in early education](#), 10 December 2024

HM Treasury, [GDP deflators at market prices, and money GDP June 2025 \(Quarterly National Accounts\)](#), 30 June 2025

The following parts of this section provide more detail on funding since 2017/18.

## 3.2 Funding from 2017/18 to 2023/24

### 2017/18 to 2022/23

After additional funding was provided in 2017/18 to accompany the introduction of the new 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.<sup>40</sup>

<sup>40</sup> HM Treasury, [Spending Review and Autumn Statement 2015](#), Cm9162, November 2015, p44; [HC Deb 25 November 2015, c1416](#); DfE, [Review of childcare costs](#), 25 November 2015; DfE, [Early years funding – Changes to funding for three- and four-year olds: Government consultation response \(PDF\)](#), December 2016, pp5-6; HM Treasury, [Spending Round 2019 \(PDF\)](#), CP170, September 2019, para 2.10; HM Treasury, [Spending Review 2020 \(PDF\)](#), CP330, November 2020, para 6.19

## 2022/23

Following the [2021 Autumn Budget and Spending Review](#), the government said it would provide additional funding of £160 million in 2022/23, £180 million in 2023/24 and £170 million in 2024/25 to increase the hourly rate paid to childcare providers.<sup>41</sup>

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”.<sup>42</sup>

## 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 (see above), to help meet the cost of increases in the National Living Wage.<sup>43</sup>

Subsequently, at the [2023 Spring Budget](#), the government said it would provide an additional £204 million in 2023/24 to increase the funding rates again from September 2023. It added that an additional £288 million would be provided in 2024/25.<sup>44</sup> This funding was on top of the funding to expand the 30 hours entitlement (see below).<sup>45</sup>

## 3.3

## Funding the 30 hours expansion

As set out in section 1.1 above, at the 2023 Spring Budget the previous 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.<sup>46</sup>

The government said it expected 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.<sup>47</sup> It expected to be providing more than £8 billion a year for

<sup>41</sup> HM Treasury, [Autumn Budget and Spending Review 2021](#), 27 October 2021, para 4.14; Children and Young People Now, [Children’s minister confirms £340m funding boost for early years not announced in Spending Review](#), 28 October 2021

<sup>42</sup> Children and Young People Now, [Early years funding significantly less than expected](#), sector fears, 27 January 2022; [PQ 120848 \[Pre-school Education: Finance\]](#), 21 February 2022

<sup>43</sup> DfE, [Early years funding formulae: Government consultation response](#) (PDF), December 2022, pp23 & 7

<sup>44</sup> 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 \(EYSG\)](#)

<sup>45</sup> [PQ HL10334 \[on Childcare: Finance\]](#), 27 September 2023

<sup>46</sup> HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.46-3.47

<sup>47</sup> HM Treasury, [Spring Budget 2023](#), HC 1183, March 2023, para 3.46

the early years block in total by 2028, around double what was spent in 2023/24.<sup>48</sup>

Further information on how the Department for Education (DfE) calculated the estimated cost of the reform was provided in a [policy costing information note](#) (PDF).<sup>49</sup>

The DfE also provided £12 million to local authorities to support with meeting programme and delivery costs associated with the expansion.<sup>50</sup>

At the Autumn Budget 2024, the current Labour government re-committed to the funding for the expansion and said £1.8 billion would be provided in 2025/26.<sup>51</sup>

At the Spending Review 2025, the government said it would provide an additional £1.6 billion a year by 2028/29, compared to 2025/26, to continue the expansion.<sup>52</sup>

An article [published by the IFS in June 2025](#) noted that more children had accessed the newly expanded entitlement than expected. As a result, spending had been “much higher” than initially budgeted for and “could easily end up £1 billion higher than had been anticipated at the March 2023 Budget.”

The article suggested the funding announced at the Spending Review 2025 offered “a genuine, and substantial, top-up over what had been set out in Budget 2023”. It added that this “goes some way to recognising the spending pressures that result from higher-than-expected take-up, though may not fully close the gap between the initial Budget 2023 plans and the current allocation from HM Treasury.”<sup>53</sup>

Further information on funding the extension, including funding to create additional childcare places, is provided in the [Library briefing on expanding government-funded childcare in England](#).<sup>54</sup>

## 3.4 Funding rates for 2024/25

In November 2023, the previous government announced it would provide [additional funding to increase the funding rates for the childcare entitlements](#)

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<sup>48</sup> [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

<sup>49</sup> DfE, [Spring Budget 2023 Childcare Expansion: Policy costing information note](#) (PDF), April 2024, pp3-7

<sup>50</sup> Department for Education, [Local authority delivery support funding](#), February 2024

<sup>51</sup> HM Treasury, [Autumn Budget 2024](#), 30 October 2024, para 3.41

<sup>52</sup> HM Treasury, [Spending Review 2025](#), June 2025, para 3.20

<sup>53</sup> IFS, [Popularity of new childcare entitlements could leave spending much higher than initially forecast](#), 12 June 2025

<sup>54</sup> Commons Library research briefing CBP-10288, [Expanding government-funded childcare in England](#)

[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 was in addition to the £288 million of funding for 2024/25 announced at the 2023 Spring Budget (above).<sup>55</sup>

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 national average funding rate for two-year-olds increased from £7.95 per hour to £8.28 per hour.
- The national average funding rate for children aged under two was set at £11.22 per hour.<sup>56</sup>

## 3.5

## Funding from 2025/26

### Previous government commitments

At the [2024 Spring Budget](#), the previous government confirmed it would increase the hourly funding rates in 2025/26 and 2026/27 “in line with the metric used at Spring Budget 2023.”<sup>57</sup> That is, funding rates would increase in line with the government’s forecast of cost increases. A [response to a parliamentary question in March 2023 explained](#) that the DfE would “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”.<sup>58</sup>

The government estimated, based on forecasts at the time, that increasing the rates using this metric would cost £500 million more over the two years compared with if funding rates were kept at 2024/25 levels.<sup>59</sup>

### Autumn Budget 2024

At the Autumn Budget 2024, the current government said an additional £1.8 billion would be provided to support the expansion of the 30 hours entitlement in 2025/26.<sup>60</sup> The government said this funding reflected “the

<sup>55</sup> [HCWS78 \[Early Years Update\]](#), 29 November 2023; DfE, [Date set for new childcare offer applications](#), 29 November 2023

<sup>56</sup> [HCWS78 \[Early Years Update\]](#), 29 November 2023; ESFA, [Early years funding: 2024 to 2025](#), 29 November 2023

<sup>57</sup> HM Treasury, [Spring Budget 2024](#), HC 560, March 2024, para 2.8.

<sup>58</sup> [PQ 17553 \[Childcare: Finance\]](#), 12 March 2024.

<sup>59</sup> DfE, [Spring Budget 2023 Childcare Expansion: Policy costing information note](#) (PDF), July 2023, pp3-7.

<sup>60</sup> HM Treasury, [Autumn Budget 2024](#), 30 October 2024, para 3.41

additional money needed for the 30-hour expansion and ensuring funding for the entitlements reflect forecasts of average earnings and inflation next year.”<sup>61</sup>

### Changes to employer National Insurance contributions and National Living Wage

The Budget also announced that:

- The employer National Insurance contributions (NICs) rate would be increased from 13.8% to 15% from April 2025. From the same point, the threshold above which employer NICs is paid was reduced from £9,100 a year to £5,000 a year. In addition, Employment Allowance, which allows employers to reduce the total amount of National Insurance they pay each year, increased from £5,000 to £10,500.
- The National Living Wage for those aged 21 and over would be increased by 6.7% to £12.21 an hour from April 2025. The rate for 18-to-20-year-olds increased by 16.3% from £8.60 an hour to £10.00 an hour.

Further information on these measures is provided in the [Library briefing on the Autumn Budget 2024](#).<sup>62</sup>

The government is providing £25 million to local authorities in 2025/26 to support public sector early years settings (school-based nurseries and maintained nursery schools) with the increased costs from the NICs changes. This does not cover private sector providers.<sup>63</sup>

It has been suggested the increases to NICs and the National Living Wage could particularly impact childcare providers for a number of reasons:

- Staffing costs account for around [three quarters of providers' costs](#).
- Public sector organisations like schools will be compensated for higher National Insurance costs. However, most childcare providers are in the private sector.
- It is expected that for most of the economy, the rise in employers NICs will eventually be felt in lower wages. This is harder for sectors such as childcare where a lot of the workforce is paid at or near the National Living Wage.<sup>64</sup>

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<sup>61</sup> [PQ 11692 \[Pre-school Education: Finance\]](#), 5 November 2024

<sup>62</sup> Commons Library briefing CBP-10124, [Autumn Budget 2024: A summary](#)

<sup>63</sup> DfE, [Early years National Insurance contributions and teachers' pay grant: conditions of grant for the 2025 to 2026 financial year](#), 22 May 2025; [PQ H15349 \[Childcare: Employers' Contributions\]](#), 13 March 2025

<sup>64</sup> Christine Farquharson (@ckfarquharson), [X \(Twitter\)](#), 30 October 2024 [Accessed 8 November 2024]

The Institute for Fiscal Studies says the impact of the changes to NICs and the National Living Wage will depend on the type of early years provider, including the number of people they employ and how much they are paid.<sup>65</sup>

The government has said that it takes “account of cost pressures facing the sector, including forecasts of average earnings and inflation, and the National Living Wage” when setting the funding rates for the childcare entitlements (see below).<sup>66</sup>

## Funding rates for 2025/26

In December 2024, the government confirmed the average local authority per-child funding rates for the childcare entitlements in 2025/26:

- £6.12 for three and four-year-olds, an increase from £5.88 in 2024/25
- £8.53 for two-year-olds, an increase from £8.28 in 2024/25
- £11.54 per hour for children aged under two, an increase from £11.22 per hour in 2024/25<sup>67</sup>

The government also announced it would allocate an additional £75 million of revenue funding to local authorities via an expansion grant, to support providers in delivering the September 2025 expansion of the 30 hours entitlement.<sup>68</sup> [Local authority allocations of the grant](#) were published in February 2025.<sup>69</sup>

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<sup>65</sup> IFS, [Annual report on education spending in England: 2024-25](#), December 2024, p37

<sup>66</sup> [PQ 904607 \[Pre-school Education: Employers' Contributions\]](#), 16 June 2025

<sup>67</sup> DfE, [Over £2 billion boost to secure expansion in early education](#), 10 December 2024; [HCWS292 \[Early Years Funding 2025-26\]](#), 10 December 2024

<sup>68</sup> DfE, [Over £2 billion boost to secure expansion in early education](#), 10 December 2024; [HCWS292 \[Early Years Funding 2025/26\]](#), 10 December 2024

<sup>69</sup> DfE, [Early years expansion grant 2025 to 2026](#), 27 February 2025

## 4

## Commentary and reports on childcare funding

Representatives of childcare providers have expressed concerns that funding provided for the childcare entitlements is insufficient.<sup>70</sup> For example, data obtained from the Department for Education (DfE) by the Early Years Alliance suggested the average funding rate 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).<sup>71</sup>

In an April 2024 report, the National Audit Office (NAO) said the DfE had assessed that funding rates for the childcare entitlements between 2019/20 and 2021/22 were “below providers’ estimated delivery costs.” The DfE estimated that, without intervention, inflationary pressures alone would create a £230 million funding gap in 2023/24 and a £315 million gap in 2024/25.<sup>72</sup>

It has been highlighted that funding pressures on providers can “have knock-on implications for access with low-income children and those with additional needs most at risk of being crowded-out.”<sup>73</sup>

Some have contended that funding issues could pose a risk to the successful implementation of the expansion of the 30 hours entitlement to younger children.<sup>74</sup> 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.<sup>75</sup>

<sup>70</sup> Kitty Stewart, [A half-baked early years funding policy risks negatively impacting children](#), 20 March 2023.

<sup>71</sup> Early Years Alliance, [New data shows ministers knew early years was underfunded](#), 14 June 2021.

<sup>72</sup> NAO, [Preparations to extend early years entitlements for working parents in England](#), April 2024, para 2.14.

<sup>73</sup> Education Policy Institute, [General Election 2024: An analysis of manifesto pledges for education](#), 20 June 2024, p17.

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

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



## 4.1

## DfE provider finances report 2023

In November 2024, the DfE published an [analysis of the finances of early years providers](#) using data from the [2023 annual childcare and early years providers survey](#).<sup>76</sup>

The report estimated that the mean income-to-cost ratio (total weekly income divided by total weekly cost) across all providers fell from £1.08 of income per £1 of cost in 2022 to £1.05 of income per £1 of cost in 2023. The median income-to-cost ratio in 2023 was £1 of income per £1 of cost. This means half of providers reported income that did not fully cover their costs.

The report estimated the median income-to-cost ratio for all providers excluding childminders was 1.05 in 2023. This was a slight increase from 1.02 in 2022. The median income-to-cost ratio for childminders was 0.91 in 2023 and 0.90 in 2022. This means more than half childminders reported income that did not fully cover their costs.

The report noted significant differences in the income-to-cost ratio, both within and between, different types of providers. For example, around one in three nursery classes had an income-to-cost ratio of less than 0.8, while around two in five private group-based providers had an income-to-cost ratio greater than 1.2.

The report's other findings included:

- Staffing costs made up the majority of providers' costs (79% on average across all providers, an increase from 70% in 2022).
- The proportion of income from different sources varied considerably between provider types. For example, parent-paid fees made up 81% of childminders' income on average, while 77% of income for nursery classes in schools came from funding for the childcare entitlements.
- 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 2023 was £5.67 per hour. Median unit costs increased by 6.2% between 2022 and 2023.
- Median unit costs varied significantly across provider types, from £5.19 per hour for private group-based providers to £9.31 per hour for maintained nursery schools.
- The mean hourly fees paid by parents were £6.05 for children under two, £6.07 for two-year-olds and £5.90 for three and four-year-olds. Fees

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<sup>76</sup> DfE, [Evidence of early years providers' finances from a 2023 survey](#), 28 November 2024; DfE, [Childcare and early years providers survey: 2023](#), 14 December 2023

tended to be highest among private group-based providers (for example, nurseries) and lowest among childminders.

- The mean childcare entitlement funding rate was £5.62 per hour for two-year-olds and £4.83 for three- and four-year-olds. Across all provider types and age groups, funding rates for the childcare entitlements were lower than mean hourly parent-paid fees.<sup>77</sup>

The report noted several caveats associated with the findings, most importantly that they are estimates based on a sub-sample of providers.<sup>78</sup>

## 4.2

## IFS analysis of childcare funding

In January 2025, the Institute for Fiscal Studies (IFS) published its [annual report on education spending in England 2024-25](#).<sup>79</sup>

### Spending on the childcare entitlements

The report set out that between 2001/02 and 2023/24 real-terms spending on the childcare entitlements increased substantially. However, this period also saw significant growth in the number of children and hours covered by the entitlements. As a result, growth in spending per hour of childcare taken up for three- and four-year-olds was, the report said, “much more muted”, but still “substantially higher” than growth in spending per pupil on other stages of education over the same period.<sup>80</sup>

Spending per hour on the entitlement for disadvantaged two-year-olds has, the report said, remained “roughly stable” since its introduction in 2015-16, but total spending has fallen. This has been largely driven by a decline in the number of places taken up (see section 2.3 of the [Library briefing on paying for childcare in England](#) for a discussion of this).

### Funding rates

On funding rates for the childcare entitlements (as opposed to spending)<sup>81</sup>, the report said that the funding rates for children aged two and under in 2024/25 were “much more generous than current market rates”. This, the report said, suggests the government is “channelling resources towards younger ages to both incentivise expansion in provision for younger children

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<sup>77</sup> DfE, [Evidence of early years providers' finances from a 2023 survey](#), 28 November 2024

<sup>78</sup> DfE, [Evidence of early years providers' finances from a 2023 survey](#), 28 November 2024, p14

<sup>79</sup> IFS, [Annual report on education spending in England: 2024-25](#), 8 January 2025

<sup>80</sup> IFS, [Annual report on education spending in England: 2024-25](#), 8 January 2025, pp21-22

<sup>81</sup> 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](#).

and to better align funding rates with differences in costs of provision for different age groups.”

Funding rates for three- and four-year-olds in 2024/25 were, the report said, “much closer to market rates on average”. It added that this makes excess profits less likely but leaves “less margin for error” and puts resources for three- and four-year-olds “at greater risk of losing value.”

As well as current funding rates, the report emphasised, it is also important to assess how funding rates have kept up with changes in provider costs over time, and how they are going to be set in the future. It estimated, for example, that core funding per hour for three and four-year-olds was 8% lower in real terms in 2024/25 than in 2016/17 once provider costs are taken into account.<sup>82</sup>

The report said the “small rise in core funding rates” in 2025/26 is expected to “largely offset the impact of economy-wide inflation.” It noted, however, that provider costs are also expected to rise in 2025/26 due to increases in NICs and the National Living Wage. For some providers, the report said, “this will outweigh the modest increases to funding rates, continuing the long-term trend of funding not keeping up with changes in provider costs.”<sup>83</sup>

## 4.3

## Education Committee report

In a July 2023 [report on support for childcare and the early years](#), the Education Committee said the free entitlements were “chronically underfunded” and providers reported “losing £1-2 an hour by delivering the funded places.” It added that this funding gap was “a significant causal factor” in the increasing rate of provider closures.<sup>84</sup>

While witnesses to the inquiry were “broadly supportive of the additional funding announced in the [2023] Spring Budget”, concerns were raised that it was insufficient to cover the expected increase in childcare places.<sup>85</sup> While the committee welcomed the additional investment, it added that the extension of the 30 hours entitlement would add “further demand on a struggling sector” and the sector needed “a sufficient funding rate for the funded entitlements” to successfully deliver the proposals.<sup>86</sup>

The report’s recommendations included that the DfE should work with childcare providers and local authorities to set the funding rate at a sufficient

<sup>82</sup> IFS, [Annual report on education spending in England: 2024-25](#), December 2024, pp25-26

<sup>83</sup> IFS, [Annual report on education spending in England: 2024-25](#), December 2024, pp25-26

<sup>84</sup> Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 25-27.

<sup>85</sup> Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 14 to 16.

<sup>86</sup> Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 18 and 37.

level.<sup>87</sup> 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.<sup>88</sup>

## Government response

The then [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 childcare” and helps to inform how much funding is required to deliver the early years entitlements.<sup>89</sup>

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.”<sup>90</sup>

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<sup>87</sup> Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 38-41.

<sup>88</sup> Education Committee, [Support for childcare and the early years](#), 26 July 2023, HC 969 2022-23, paras 42-48.

<sup>89</sup> 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.

<sup>90</sup> 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 funding for early years providers paid in respect of children who are disadvantaged or who have special educational needs or disabilities (SEND).

## 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 was extended to children aged two and under as well.<sup>91</sup>

A child is eligible for disability access funding if they receive Disability Living Allowance (DLA) and are taking up any period of free childcare.<sup>92</sup>

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 2025/26, around £43 million of disability access funding will be allocated to local authorities.<sup>93</sup>

The DAF funding rate was frozen at £615 per eligible child per year between 2017/18 and 2021/22. Its real-terms value decreased by around 9% over this period. Since 2022/23, the funding rate has increased in cash terms each year. In 2025/26, it is worth £938 per

#### DAF per-child funding rate

Cash and real terms (2025/26)

	Cash	Real
2017/18	£615	£815
2018/19	£615	£798
2019/20	£615	£780
2020/21	£615	£740
2021/22	£615	£745
2022/23	£800	£905
2023/24	£828	£884
2024/25	£910	£934
2025/26	£938	£938

Sources: see footnote 93

<sup>91</sup> ESFA, [Early years funding: 2024 to 2025](#), January 2024.

<sup>92</sup> DfE, [Early years funding: 2025 to 2026](#), December 2024

<sup>93</sup> DfE, [Dedicated schools grant allocations 2025/26](#), March 2025

child, around 15% more in real-terms than in 2017/18.<sup>94</sup> Local authorities must fund all settings providing a place for DAF-eligible children at this per child rate.<sup>95</sup>

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).

In a report published in June 2024, the Education Policy Institute said early years funding should be more heavily weighted towards children from low-income families and children with SEND “by increasing the early years pupil premium [see section 5.3 below] to be commensurate with the pupil premium in later school years, increasing the disability access fund (DAF) to reflect the costs of quality education and care for children with disabilities, and simplifying access to the DAF.” It additionally suggested entitlement to the DAF should not be restricted to children in receipt of DLA “as not all children with disabilities in the early years are in receipt of DLA”.<sup>96</sup>

## 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.<sup>97</sup> 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.<sup>98</sup>

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.

<sup>94</sup> 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; ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 29 November 2023; HCWS292 [Early Years Funding 2025-26], 10 December 2024; DfE, [Early years funding: 2025 to 2026](#), December 2024; HM Treasury, [GDP deflators at market prices, and money GDP June 2025 \(Quarterly National Accounts\)](#), 30 June 2025

<sup>95</sup> DfE, [Early years funding: 2025 to 2026](#), December 2024

<sup>96</sup> Education Policy Institute, [General Election 2024: An analysis of manifesto pledges for education](#), 20 June 2024, p19.

<sup>97</sup> ESFA, [Early years funding: 2023 to 2024](#), 19 June 2023.

<sup>98</sup> ESFA, [Early years funding: 2024 to 2025](#), May 2024; DfE, [Early years funding: 2025 to 2026](#), December 2024

Government guidance says local authorities' SEN inclusion funding "should be targeted at supporting children with low-level or emerging SEN." It notes that children with more complex needs and an education, health and care plan continue to be eligible to receive funding via the high needs block of the DSG.<sup>99</sup>

## 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.<sup>100</sup>

For three and four-year-olds, the premium is payable on the universal 15 hours entitlement and not on the extended 30 hours entitlement.<sup>101</sup>

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).<sup>102</sup>

Further information on the use of the EYPP is provided in [guidance for local authorities published by the DfE](#).<sup>103</sup>

In 2025/26, around £88 million of funding for the Early Years Pupil Premium will be allocated to local authorities as part of the early years block of the DSG.<sup>104</sup>

The national rate for the premium was frozen at 53p per hour between 2017/18 and 2021/22, during which its real-terms value fell by around 9%.<sup>105</sup> Since

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<sup>99</sup> DfE, [Early years funding: 2025 to 2026](#), December 2024

<sup>100</sup> DfE, [Early years funding: 2025 to 2026](#), December 2024

<sup>101</sup> DfE, [Early years funding: 2025 to 2026](#), December 2024

<sup>102</sup> 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.

<sup>103</sup> DfE, [Early years pupil premium: guide for local authorities](#), 6 March 2025

<sup>104</sup> DfE, [Dedicated schools grant allocations 2025/26](#), March 2025

<sup>105</sup> DfE, [Early Years Pupil Premium and funding for two-year-olds \(PDF\)](#), June 2014, p5.

2022/23, the funding rate has increased each year.<sup>106</sup> For 2025/26, the funding rate was increased from 68p to £1, which the government noted was “the largest ever uplift” to the premium.<sup>107</sup> As a result, the premium in 2025/26 is worth around 42% more in real-terms than in 2017/18.<sup>108</sup>

<b>EYPP per-child hourly funding rate</b>		
Cash and real terms (2025/26)		
	Cash	Real
2017/18	£0.53	£0.70
2018/19	£0.53	£0.69
2019/20	£0.53	£0.67
2020/21	£0.53	£0.64
2021/22	£0.53	£0.64
2022/23	£0.60	£0.68
2023/24	£0.62	£0.66
2024/25	£0.68	£0.70
2025/26	£1.00	£1.00

Sources: see footnote 104

In its [annual report on education spending in England 2024-25](#), published in January 2025, the Institute for Fiscal Studies noted that the “low frequency” of updating the funding rates for the DAF and EYPP had “eroded the real value of these funds over time.” However, it noted the increases in more recent years and said the increase to the EYPP in 2025/26 will mean that “for the first time, the value per hour will be comparable to the pupil premium funding schools receive for disadvantaged pupils.”<sup>109</sup>

<sup>106</sup> 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; ESFA, [Early years entitlements: local authority funding operational guide 2024 to 2025](#), 29 November 2023; HM Treasury, [GDP deflators at market prices, and money GDP June 2025 \(Quarterly National Accounts\)](#), 30 June 2025

<sup>107</sup> HCWS292 [Early Years Funding 2025-26], 10 December 2024; DfE, [Over £2 billion boost to secure expansion in early education](#), 10 December 2024

<sup>108</sup> DfE, [Early years funding: 2025 to 2026](#), December 2024

<sup>109</sup> IFS, [Annual report on education spending in England: 2024-25](#), 8 January 2025, p38



## 6 Maintained nursery schools

### 6.1 Summary

Maintained nursery schools (MNS) are schools run by local authorities for two, three and four-year-olds. Like other early years settings, MNS 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.<sup>110</sup>

In recognition of these extra costs, the Department for Education (DfE) provides supplementary funding for MNS within the early years block of local authorities' dedicated schools grant allocations. In 2025/26, around £93 million of supplementary funding will be provided.<sup>111</sup>

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.<sup>112</sup>

### 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."<sup>113</sup> The extra funding would, the consultation said, be available to

<sup>110</sup> DfE, [Early years funding formulae: Government consultation](#), 4 July 2022, p27.

<sup>111</sup> DfE, [Dedicated schools grant allocations 2025/26](#), March 2025

<sup>112</sup> ESFA, [Early years funding: 2024 to 2025](#), January 2024.

<sup>113</sup> DfE, [An early years national funding formula: Government consultation \(PDF\)](#), August 2016, pp37 & 58.

local authorities to provide a higher hourly funding rate for MNS if they wished.<sup>114</sup>

Supplementary funding for MNS has continued to be provided by the government in each year since.<sup>115</sup>

## Funding for 2023/24

In its July 2022 [consultation on the early years funding formulae](#), the government said it remained committed to providing additional funding to support MNS.<sup>116</sup> 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 MNS 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 supplementary funding for MNS 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.”<sup>117</sup>

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.
- A cap on the MNS supplementary funding hourly rate of £10 would be introduced.<sup>118</sup> The government said it intended to maintain the cap at this level in 2024/25.<sup>119</sup>

Around £70 million of supplementary funding for MNS was allocated to local authorities as part of the initial early years block allocation.<sup>120</sup>

As a result of the additional funding announced at the Spring Budget 2023 (see section 3.1 above), the national average funding rate for MNS

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<sup>114</sup> DfE, [An early years national funding formula: Government consultation \(PDF\)](#), August 2016, p58.

<sup>115</sup> DfE, [Early years funding: Government consultation response \(PDF\)](#), December 2016, pp3 & 8; [PQ1778, 3 July 2017](#); [HCWS56](#), 31 October 2019; DfE, [Early years support package to help close Covid language gap](#), 24 August 2020; [PQ119183](#), 26 November 2020; [HCWS421 \[Early Years Education Entitlements: Hourly Funding Rates\]](#), 25 November 2021.

<sup>116</sup> DfE, [Early years funding formulae: Government consultation](#), 4 July 2022, p27.

<sup>117</sup> DfE, [Early years funding formulae: Government consultation](#), 4 July 2022, p28.

<sup>118</sup> DfE, [Early years funding formulae: Government consultation response \(PDF\)](#), December 2022, p8.

<sup>119</sup> [HCWS457 \[Education Funding Update\]](#), 19 December 2022.

<sup>120</sup> ESFA, [Dedicated schools grant \(DSG\) 2023 to 2024](#), 20 July 2023.

supplementary funding increased to £4.63 and the minimum funding floor was increased to £4.01.<sup>121</sup>

## Funding for 2024/25

Around £83 million of supplementary funding for MNSs will be provided in 2024/25.<sup>122</sup> The minimum funding floor increased to £4.64 and the cap on the MNS supplementary funding hourly rate remained at £10. The national average MNS supplementary funding rate is £5.27.<sup>123</sup>

## Funding for 2025/26

Around £93 million of supplementary funding for MNS will be provided in 2025/26.<sup>124</sup> The minimum funding floor increased to £5.27 and the cap on the MNS supplementary funding hourly rate remained at £10. The national average MNS supplementary funding rate is £5.90.<sup>125</sup>

## 6.3

## Education Committee report

In its June 2021 [report on ‘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.”<sup>126</sup>

The committee’s report concluded MNS “deliver consistently high outcomes for disadvantaged pupils, but they face financial difficulties.” While welcoming the 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.”<sup>127</sup>

The government’s response to the report did not specifically refer to MNS.<sup>128</sup>

<sup>121</sup> ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 29 November 2023.

<sup>122</sup> ESFA, [Dedicated schools grant \(DSG\) 2024 to 2025](#), 22 July 2024.

<sup>123</sup> ESFA, [2024 to 2025 early years national funding formulae: technical note](#), 29 November 2023.

<sup>124</sup> DfE, [Dedicated schools grant allocations 2025/26](#), March 2025

<sup>125</sup> DfE, [2025 to 2026 early years national funding formulae: technical note](#), 10 December 2024; [PQ \[Nurseries: Finance\]](#), 25 March 2025

<sup>126</sup> 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

<sup>127</sup> 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.

<sup>128</sup> 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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