Easy Explainer on Early Years Funding Rates 2025/26

What are the early years funding rates?

On 10 December 2024, the Department for Education (DfE) announced the local authority hourly funding rates for April 2025 to March 2026. These are the rates that the DfE will pay to each local authority to fund the early years entitlements. This includes:

- the 15 hours entitlement for eligible working parents of children from 9 months up to 2 years old (due to be extended to 30 hours from 1 September 2025)
- the 15 hours entitlement for eligible working parents of 2-year-old children (due to be extended to 30 hours from 1 September 2025)
- the 15 hours entitlement for families of 2-year-olds receiving additional support (formerly known as the 2-year-old disadvantaged entitlement)
- the universal 15 hours entitlement for all 3 and 4-year-olds
- the additional 15 hours entitlement for eligible working parents of 3 and 4-year-olds

How are the local authority hourly funding rates determined?

The local authority hourly funding rates are determined using the early years national funding formulae (EYNFF). These formulae consider the different costs of delivering early years provision in different parts of the country.
The formulae include a base rate, which is the same minimum amount in respect of every child, no matter where they live or whether they have additional needs. This is based on the core costs of childcare provision and was informed by the cost of childcare review. On top of the base rate, the DfE provide more funding for additional needs factors based on the proportion of children in each area who are likely to have additional needs, and includes measures for deprivation, English as an additional language (EAL) and special educational needs and disabilities (SEND). This is to reflect the higher costs of meeting these children's needs. The hourly rate is then modified using the local area cost adjustment (ACA) to account for factors like staffing and premises costs, which vary across the country. This approach only increases funding; it never reduces the base rate or additional needs funding.
The formulae ensure funding is distributed fairly and transparently across the country, targeting areas where it is needed most.

Are these the final funding rates for providers?

The overwhelming majority of the local authority hourly rate announced by DfE is to support providers with the core costs of providing entitlement hours and must be passed on to providers. A small proportion (4%) can be used to support local authorities to administer the entitlements locally. Local authorities are best placed to determine how to use their total funding allocation to meet the needs of their communities. So, using DfE rates as a starting point, local authorities set their own provider hourly rates using their own local formulae. These formulae and the provider hourly rates are different to the rates announced by DfE and are decided at a local level.

Before deciding on their local formulae and provider hourly rates, local authorities must consult with their providers and schools forum to decide how the money will be spent.

For 2025 to 2026 the pass-through rate, which is the minimum amount of funding local authorities pass through to providers, is being increased from 95% to 96%. Since local authorities can target their funding (they don't have to pay the same rate per hour to every provider in their area), individual providers may receive more or less than 96% of the funding rate that DfE is providing to their local authority.

The 96% includes:

- the universal hourly base rate, which is paid to all providers
- supplements for deprivation, rurality or sparsity, flexibility, quality and EAL (although this extra money cannot be more than 12% of the total funding to providers). These are paid based on providers meeting certain eligibility criteria
- special educational needs inclusion fund (SENIF), which should be targeted at children with lower level or emerging special educational needs (SEN)
- contingency funding, which is extra money set aside for changes in the number of children taking up the entitlements throughout the year