



Department for Education

2025-0013501

**Stephen Morgan MP
Minister for Early Education**

Munira Wilson MP

By email: munira.wilson.mp@parliament.uk

13 May 2025

Dear Munira,

Thank you for your correspondence of 11 April, addressed to the Secretary of State, in your capacity as the Liberal Democrat Spokesperson on Education, Children and Families, regarding early years funding. I am replying as the minister responsible for this policy area. Please share my response with all the signatories.

May I begin by thanking all the early years and childcare providers for the work that they continue to do to ensure that our young children receive high-quality early years provision. The government immensely values the contribution that all early years and childcare staff make in their work every day, both to the early education of children and to support the economy.

The Secretary of State has been clear in her commitment to the early years as her number one priority. Despite tough decisions to get our public finances back on track, we have delivered investment in the sector, supporting the delivery of the entitlements. It is our ambition that all families have access to high-quality, affordable and flexible early education and care, improving the life chances for every child and the work choices for every parent. We are taking concerns from the early years sector around increased costs very seriously and want to ensure that the sector is financially sustainable going forward.

In financial year 2025 to 2026, the government expects to provide over £8 billion for the early years entitlements. That marks a more than 30% increase compared to 2024 to 2025 as we roll out the final phase of expanded childcare entitlements from September 2025, helping hundreds of thousands of families with the cost of childcare and support parents to work. The updated early education and childcare statutory guidance is available on GOV.UK at: [tinyurl.com/2N3X8WJZ](https://www.gov.uk/guidance/2N3X8WJZ).

For 2025 to 2026, the national average 3- and 4-year-old hourly funding rate of local authorities (LA) is increasing by 4.1%, 2-year-old hourly funding rate is increasing by 3.3%, and 9 months to 2-year-old hourly funding rate is increasing by 3.4%. As usual, the hourly funding rates will vary between LAs reflecting the different communities that they serve.

We know how important the early years workforce is to boosting children's life chances and that pay is a challenge for nurseries and staff across the sector. The funding increases ensure that funding for the entitlements reflects forecasts of average earnings growth and also reflects the increases to the National Living Wage announced at the 2024 Autumn Budget.

To ensure that we can deliver the investment that public services need, the government has taken the difficult decision to increase the rate of employer National Insurance Contributions from 6 April 2025 by 1.2 percentage points from 13.8% to 15%, and to cut the Secondary Threshold from £9,100 per employee per year to £5,000. At the same time, the government is increasing the Employment Allowance to £10,500 which will benefit all eligible employers. Early years childcare providers are entitled to claim the Employment Allowance if they are private businesses or charities and we expect the vast majority will be eligible to do so. Receiving over 50% of their income from government-funded childcare places will not stop individuals from being eligible to claim but they should check their individual circumstances against the HMRC guidance.

The sector is doing great work to prepare to deliver the final phase of the working parent entitlement expansion from September 2025. At this critical stage of the rollout, we are providing a £75 million Early Years Expansion Grant to support the sector to provide the additional places and workforce needed by September 2025. This is on top of the more than £2 billion increase in entitlements funding planned for 2025 to 2026. Funding is targeted towards supporting expansion of provision for 9 month to two-year-olds, who are benefitting from the 30 hours government-funded childcare.

We will also be providing £25 million through the National Insurance Contributions grant for public sector employers in the early years. Further details about the various forms of funding support available are provided below.

The government sees the early years as more than just childcare. We know that early education gives all children, and especially disadvantaged children, the best start in life. This is why we are also delivering the largest ever uplift to the early years pupil premium (EYPP), increasing the EYPP rate by over 45% from 68p per hour in 2024 to 2025 to £1 per hour in 2025 to 2026, equivalent to up to £570 per eligible child per year. This funding supports high-quality early education for disadvantaged children who are more likely to live in childcare deserts. More information on this funding is available on the GOV.UK website on: [tinyurl.com/VTR3SEYE](https://www.gov.uk/tinymce.com/VTR3SEYE).

The government funding for childcare entitlements is intended to deliver 15 or 30 hours of, high-quality, flexible childcare and it does not cover additional hours, activities or extra consumable costs, such as meals. The department has published guidance setting out that providers can charge for consumables like meals, nappies or trips as part of a free entitlement but that these additional charges must not be mandatory or a condition of accessing a free place. Providers should work with parents to ensure that invoices and receipts are clear so that parents can see they have received their entitlement free of charge and understand which fees have been paid for additional services or hours.

The department is not seeking to stop providers from being able to charge for voluntary extras. However, in line with a recent High Court judgment, charges must not be mandatory or a condition of accessing a funded place. The judgment is available on GOV.UK at: [tinyurl.com/F4ACS2V8](https://www.gov.uk/tinymce.com/F4ACS2V8). Departmental guidance is clear that LAs must ensure that providers do not charge parents “top-up” fees. This means providers cannot use entitlement funding as a discount or subsidy towards their fees and then charge parents any difference between the funding they receive from the LA and the fee they would normally charge.

LAs receive an hourly rate for each entitlement, determined by the early years national funding formulae (EYNFF). This hourly rate includes funding to support providers with the cost of delivering the entitlement and essential local early years services. It will also ensure that children with special educational needs and disabilities can access the funded childcare offer. The EYNFF targets funding to LAs where it is needed most, reflecting the relative needs of the children and costs of delivering provision in that area.

Therefore, rates vary between LAs depending on the different communities that they serve. In 2025 to 2026, all LAs will receive at least £5.71 per hour up to £9.23 for their 3- and 4-year-old rate, at least £7.23 per hour up to £12.43 for their 2-year-old rate, and at least £9.76 per hour up to £17.44 for their 9 months to 2-year-old rate. In 2024 to 2025, LAs are required to pass through a minimum of 95% of the funding to early years providers - this is increasing to 96% for 2025 to 2026. It is then up to providers how they choose to spend this funding.

Thank you for writing. I hope that this response is useful.

Yours sincerely,

A handwritten signature in blue ink that reads "Stephen Morgan". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Stephen Morgan MP
Minister for Early Education