

## Updated analysis: Early Years Education and Childcare funding shortfall

In March 2023, the Chancellor announced the expansion of funded childcare for children aged 9 months to 2 years from working families, with an investment of £4.2bn in 2025/26, once the roll-out of the policy is fully in place. With the information available at that time, [we estimated](#) the shortfall in the Government's budget to cover the real cost of provision.

In August 2023, the DfE provided more detailed information on the factors used to estimate the costs of this policy. Based on their assumptions, we recalculated the funding shortfall and found that the Government should allocate an additional **£5bn in 2025/26** to fully cover the funded hours of childcare.

Although there has been an increase in the funding rates over the last year, this is still far from what is needed to cover the real provision costs. According to the data provided by the DfE responding to a Freedom of Information request from the Early Years Alliance<sup>1</sup>, the Government estimated that £7.49 per hour on average would cover the full cost by 2020/21 for 3- and 4-year-olds. Considering inflation and increases in the National Living Wage, that would be **£9.42** per hour by 2025/26. Assuming that the cost of provision for 2-year-olds is 40%<sup>2</sup> higher than for 3- and 4-year-olds, the true cost for that group would be **£13.19**. For children under 2 years old, assuming 90%<sup>3</sup> higher costs than for 3- and 4-year-olds, the true cost would be **£17.48**.

This is a general estimation based on information available publicly. Especial consideration should be given to increases in energy prices, National Minimum Wage and National Living Wage.

### **Technical note**

The estimation was made using the [Early years funding rates and step-by-step calculations 2024 to 2025](#) DfE spreadsheet, sheets "3-4YO 2024-25 step-by-step", "2YO 2024-25 step-by-step" and "Under 2s 2024-25 step-by-step" and assuming that rates increase 3% in 2025/26, in line with expected inflation. We estimated the additional funding required for the current entitlements for 3- and 4-year-olds and disadvantaged 2-year-olds based on the Part-time equivalent hours for 2024/25.

The number of children expected to use the new entitlements is based on population projections, take-up rates and eligibility provided by the [Education & Skills Funding Agency](#) (Annex A).

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<sup>1</sup> Early Years Alliance (2021) [New data shows ministers knew early years was underfunded](#); Department for Education (2015) [Early Years Spending Review Scenarios](#).

<sup>2</sup> Current difference between Local authority hourly rates for 3 and 4-year-old funding in 2024 to 2025, with minimum funding floor, year-to-year protection and gains cap applied and Illustrative local authority hourly rates for 2-year-old entitlements for 2024 to 2025.

<sup>3</sup> Current difference between Local authority hourly rates for 3 and 4-year-old funding in 2024 to 2025, with minimum funding floor, year-to-year protection and gains cap applied and Local authority hourly rates for the under 2s entitlement for 2024 to 2025.