NORTH YORKSHIRE COUNCIL

NORTH YORKSHIRE SCHOOLS FORUM

Date of meeting:	Thursday 24 September 2026
Title of report:	**Early Years Funding Update**
Type of report: Delete as required	For information.
Executive summary: Including reason for submission	This report considers the following areas: • The national consultation currently being undertaken by the DfE on proposed changes to the early years entitlements funding system for the financial years 2027-28 to 2029-30. • Notification of a principle-based consultation to be undertaken on the funding rates to be paid to early years' providers for the funded early education and childcare entitlement for early learning 2-year-olds, the working parent entitlement for under 2-year-olds, 2-year-olds, and 3 & 4-year-olds and the universal entitlement for 3 & 4-year-olds for the 2027-28 financial year.
Budget / Risk implications:	The levels of funding delivered by the Early Years National Funding Formula via the Early Years DSG impact on the sustainability of providers of early years education and childcare and on the Council's ability to ensure sufficient places are available for families in line with statutory duties. The funding 'pass through' requirements impact on the services provided by the council.
Recommendations:	The North Yorkshire Schools Forum is asked: i. To note the national early years funding consultation currently being undertaken by DfE ii. To note the principle-based funding consultation to be undertaken with early years' providers within North Yorkshire on the funding rates to be paid to early years' providers for the funded early years entitlement for early learning 2-year-olds, the working parent entitlement for under 2-year-olds, 2-year-olds, and 3 & 4-year-olds and the universal entitlement for 3 & 4-year-olds, and the proposed introduction of a contingency fund for the 2027-28 financial year
Voting Requirements	N/A
Appendices:	N/A
Report originator and contact details:	Sally Dunn, Head of Finance – Schools & Early Years sally.dunn@northyorks.gov.uk
Presenting officer:	Sally Dunn, Head of Finance – Schools & Early Years

1.0 PURPOSE OF THE REPORT

1.1 This report considers the following areas:

- The national consultation currently being undertaken by the DfE on proposed changes to the early years entitlements funding system for the financial years 2027-28 to 2029-30.
- Notification of a principle-based consultation to be undertaken on the funding rates to be paid to early years' providers for the funded early education and childcare entitlement for early learning 2-year-olds, the working parent entitlement for under 2-year-olds, 2-year-olds, and 3 & 4-year-olds and the universal entitlement for 3 & 4-year-olds for the 2027-28 financial year.

2.0 BACKGROUND

2.1 In the Spring 2023 Budget, Government announced the significant expansion of funded early years provision for working families, with 15 hours of funded provision being offered to the working parents of 2-year-olds from April 2024, 15 hours of funded provision being offered to the working parents of 9-month-olds from September 2024, and 30 hours funded provision for the working parents of 9-month-olds upwards from September 2025. The current 2026-27 financial year is the first full year of the operation of the expanded entitlements for working parents.

2.2 Within North Yorkshire, the number of children in receipt of early years funded provision has increased from 8,683 children in January 2024 to 15,138 in January 2026 as a result of the expansion of early years funded provision for the younger children of working parents. The Early Years Dedicated Schools Grant (DSG) in North Yorkshire has increased from £34.9m in 2023-24 to a forecast £103.8m in 2026-27.

2.3 Following a principle-based consultation with early years providers within North Yorkshire in Autumn 2025, the local authority implemented a number of changes to the early years funding formula and rates for the 2026-27 financial year, as detailed below:

- The base provider funding rate for 3 & 4-year-olds (both universal and working family entitlement) is £5.84 per hour.
- The base provider funding rate for 2-year-olds (both disadvantaged and working family entitlement) is £7.66 per hour.
- The based provider funding rate for under 2-year-olds (working family entitlement) is £10.41 per hour.
- A continuation of the deprivation funding methodology for all early years funded entitlements based on the IMD score of a child's home address. The deprivation funding rates being as follows:

Band	***2026-27 Deprivation Hourly Funding Rate***	***IMD Score***
Band A	54p	>34.17
Band B	7p	>20 <34.17

Band C	4p	>10 <20

- The funding for the SENIF is provided from the Early Years Block DSG; this provision equates to approximately 2% (£2.01m) of the 2026-27 Early Years allocation for funded entitlements.
- A 3% funding retention rate for the provision of local authority centrally managed services for early years is applied for all funded entitlements.

2.4 At this stage, the DfE have not published any details in respect of the early years funding arrangements for the 2027-28 financial year.

2.5 The DfE have published a national consultation on proposed changes to the early years funding entitlements over the next three financial years. An overview of the DfE consultation is provided in **section 3** of this report.

2.6 As outlined in the School Funding report, the DfE have mandated that a local authority cannot carry forward positive balances on the other non-High Needs DSG blocks if the whole DSG account is in deficit at the end of the year. In this respect, no funding reserve was carried forward for the Early Years DSG at the end of the 2025-26 financial year. Clarification is currently being sought from the DfE as to how any deficit on the Early Years DSG block would need to be managed in the event that this position was required to be dealt with by the local authority.

3.0 DfE CONSULTATION "EARLY YEARS FUNDING: PROPOSED CHANGES TO THE ENTITLEMENTS FUNDING SYSTEM"

3.1 On the 6 July 2026, the DfE launched a national consultation: Early years funding: proposed changes to the entitlements funding system (Early year funding proposed changes to the entitlements funding system consultation). The national DfE consultation runs from 6 July 2026 to 14 September 2026. The DfE are inviting views on the following proposed funding changes for the 2027-28 financial year:

- A recommendation that local authorities spend a minimum of 0.75% of their early years block funding on Special Education Needs Inclusion Funds (SENIF)
- The requirement for local authorities to pass on more of their Early Learning 2-year-old funding rate to providers to support disadvantaged children and their families
- The addition of Income Deprivation Affecting Children Index (IDACI) data to the deprivation factor of the 3-and 4-year-old formula.
- Allowing local authorities to redistribute unused contingency funding to providers

In addition to the proposed changes for next financial year, the DfE are also consulting on proposed changes for the 2028-29 and 2029-30 financial years as follows:

- The deprivation funding supplement to be more clearly purposed to improve access for disadvantaged children and families (2028-29)
- Upfront inclusion funding to be built into the rates paid to local authorities (replacing the current separate Inclusive Early Years Fund (IEYF) grant funding) (2028-29)
- To replace SENIF and Disability Access Fund (DAF) with a streamlined targeted funding stream (2028-29)
- To update the categories and reduce the number of permissible local funding supplements (2028-29)

- To begin rebalancing high needs funding so that a greater share is available to early years settings upfront (from 2029-30)
- To begin to separate funding for local authority central services from entitlements funding allocated to providers (from 2029-30)

3.2 The DfE have stated that the planned updates to the data used in the Early Years National Funding Formula (EYNFF), together with the incorporation of IDACI data for the 3 and 4-year-old formula will result in revised funding levels for local authorities. The current indication is that North Yorkshire will experience a reduction in 2-year-old and under-2-year-old funding rates of up to 2.5%; there is no change forecast for the 3 and 4-year-old funding rate.

4.0 2027-28 EARLY YEARS FUNDING CONSULTATION

4.1 At this stage, the DfE have indicated that further details in respect of the 2027-28 Early Years DSG funding information will be provided later in Autumn 2026. The local authority is seeking to ensure that providers receive timely notification of early years funding rates for the 2027-28 financial year and that there is compliance with the statutory requirement to communicate funding rates to the sector by 28th February 2027. In this respect, a principle-based funding consultation will be undertaken with early years providers within North Yorkshire on the following elements of the early years funding entitlements for the 2027-28 financial year:

- The provider base funding rates for 3 & 4-year-old universal and working parent entitlements, the 2-year-old entitlements for early learning 2-year-old children and working parents, the under 2-year-old entitlement for working parents.
- The operation of a deprivation funding supplement for all funded entitlements
- The allocation of a small proportion of provider funding to a contingency fund; any unused funding will be redistributed to providers at the end of the financial year.

4.2 2027-28 Provider Base Funding Rates

The consultation proposals for the 2027-28 financial year will have regard to the principles adopted in respect of the 2026-27 provider base funding rates and the proposals contained within the DfE Early years funding consultation on proposed changes to the entitlements funding system for the 2027-28 financial year as follows:

- The local authority retention rate from the funded entitlements for the provision of centrally managed service provision for early years is 3% or the maximum retention rate percentage allowed by the DfE for an individual age range funded entitlement.
- The funding from the Early Years SENIF is provided from the Early Years DSG Block (approximately 2% of local authority funding rate for all funded entitlements)
- The allocation of £0.02 per hour of provider funding to a contingency fund.

4.3 In undertaking a principle-based consultation it is not possible to provide base funding rates for 2027-28 financial year. However, in agreeing the principles to be applied for the calculation of the base funding rates, it will enable an earlier notification of the actual funding rates to be given to providers once confirmation of the local authority 2027-28 early years funding rates has been received from the DfE.

4.4 Deprivation Funding Supplement

The DfE currently place a mandatory requirement on local authorities to include a deprivation funding supplement in their local early years funding formula for 3 & 4-year-olds. The DfE expect local authorities to ensure funding for deprivation is reflected in their approach to funding for all funded entitlements, recognising the additional costs associated with supporting children from disadvantaged backgrounds. The deprivation supplement for children aged two and under is discretionary.

4.5 Within North Yorkshire, the deprivation funding supplement is currently paid for all funded entitlements based on the hours attended by the child and a banding using the postcode of the child attending the setting. The methodology used by North Yorkshire is based on the Index of Multiple Deprivation (IMD). The IMD combines information from seven domain indices (which measure different types or dimensions of deprivation) to produce an overall relative measure of deprivation.

4.6 It is proposed to continue the current deprivation funding methodology and funding rates for all early years' funded entitlements for the 2027-28 financial year, as follows:

Band	***2027-28 Proposed Deprivation Hourly Funding Rate***	***IMD Score***
Band A	54p	>34.17
Band B	7p	>20 <34.17
Band C	4p	>10 <20

4.7 The DfE national funding consultation “Early years funding: proposed changes to the entitlements funding system” includes a number of proposals in relation to deprivation funding. The proposals relate to:

- The data used in the deprivation proxy of the additional needs factor related to the formulae for 2-year-olds and under 2s is proposed to be updated to the latest 2025 Income Deprivation Affecting Children Index (IDACI) data. It is also proposed to extend use of the IDACI data to the 3 and 4-year-old formula for the 2027-28 financial year with the purpose of ensuring that deprivation is measured consistently across all age groups and aligning the approach with the newer formulae already in place. Currently, the deprivation factor accounts for 8% weighting within the national early years funding formula for 3 and 4-year-olds is entirely based on the Free School Meals (FSM) proxy. The DfE propose to retain the overall 8% weighting but split it equally between the two measures: 4% would continue to be based on the FSM proxy, and the remaining 4% would be based on IDACI data.
- The retention of the deprivation funding supplement in the proposed changes to local supplements for the 2028-29 financial year
- The setting out more clearly of how the deprivation supplement should be used for the 2028-29 financial year, setting a minimum level and clearer purpose to this

funding so it more directly supports disadvantaged children's access to early education.

4.8 The allocation methodology for the local deprivation funding supplement is currently based on the IMD score of a child's home postcode. Given the increased use of IDACI by the DfE, the local authority is intending to review the allocation methodology for the supplement for the 2028-29 financial year to consider moving from IMD to IDACI as the basis for the distribution of the funding supplement.

4.9 Early Years Special Educational Needs Inclusion Fund

The Local Authority is required to provide a Special Educational Needs Inclusion Fund (SENIF) which is intended to support providers in addressing the needs of children with lower or emerging levels of SEND. The SENIF funding covers early years children of all age groups accessing funded entitlements. The DSG funding regulations allow for the early years SENIF to be funded from either the High Needs or the Early Years Blocks of the DSG. From the 2024-25 financial year onwards, the funding of the SENIF has been from the Early Years Block DSG; this approach has regard to:

- The on-going significant financial pressures on the High Needs budget within North Yorkshire
- The achievement of parity between the schools and early years sectors in respect of funding the support for the children with lower or emerging levels of SEND. Within the school's sector, the funding for this support is provided through individual school budgets by the Schools Block DSG.

The budget requirement from early years funding for the SENIF for the 2027-28 financial year is currently estimated to continue to equate to approximately 2% of the forecast 2027-28 early years allocation for funded entitlements.

4.10 Early Years Contingency Fund

The DfE early years funding regulations allow local authorities to set aside contingency funding as part of their local budget setting process to help manage fluctuations in take up of the entitlements. Contingency is viewed as a tool for local authorities in managing their volumes/ budgets throughout the year, playing a key role in local flexibility and responsiveness. Based on the national 2025-26 section 251 planned expenditure return submissions, 92 out of the 153 local authorities submitting a return operated an early years' contingency fund. The average level of the fund was 1.05% of a local authority's planned early years budget, with individual local authority fund levels ranging from 0.01% to 4.09%.

4.11 Given that the DfE funding regulations have mandated that the early years DSG reserve has been required to be utilised to support the overall DSG deficit for the 2025-26 financial year, the local authority now considers it prudent to allocate a small funding contingency for the 2027-28 financial year. The purpose of the contingency fund is to support costs related to funding eligible termly after-headcount claims and any additional funding requirements associated with provider funding. The proposed contingency allocation is £0.02 per hour for all of the funded entitlements. This would equate to a contingency fund of £257k based on the 2026-27 forecast early years entitlement hours (0.25% of the overall forecast early years DSG funding allocation) The contingency fund can only be used to support payments to early years providers and is included within the 97% funding pass-through requirement. The early years funding regulations do not allow contingency funding to be utilised for local authority service provision. The proposed change by the DfE to the early years funding regulations for the 2027-28 financial year will allow any unused balance on the contingency fund to be reimbursed back to early years providers at the end of the financial year. The local authority would seek to reimburse any unused funding balance on the proposed contingency fund at the end of the financial year back to the sector based on the funded entitlement hours claimed during the financial year by a provider. Consideration may need to be required to applying a de minimis level for the reimbursement amount paid to an individual provider; this would be dependent on the level of any unused funding balance.

4.12 The planned timescales for the consultation are as follows:

Date	Process
18/08/2026	Approval obtained from CYPS Executive Members in conjunction with Corporate Director – CYPS to consult early years providers
24/09/2026	Early Years Funding Update report to Schools Forum including details of 2027-28 principle-based early years funding consultation
25/09/2026 – 23/10/2026	Consultation with early years providers on 2027-28 early years funding arrangements
19/11/2026	Consultation feedback considered by Schools Forum
15/12/2026	Outcome of consultation considered by CYPS Executive Members in conjunction with Corporate Director – CYPS
26/01/2027	2027-28 early years funding rates considered by CYPS Executive Members in conjunction with Corporate Director – CYPS

5.0 2027-28 OTHER EARLY YEARS FUNDING ELEMENTS & LOCAL AUTHORITY EARLY YEARS DSG FUNDING ARRANGEMENTS

5.1 At this stage, it is anticipated that the following other elements of early years funding will continue to be received for the 2027-28 financial year:

- Early Years Pupil Premium (EYPP)
- Disability Access Funding (DAF)
- Maintained Nursery School Supplementary Funding

5.2 It is anticipated that the DfE will continue to determine the number of funded weeks within each term. In order to ensure that the overall funding to early years providers is contained within the Early Years DSG funding envelope, the local authority will be required to adopt the number of funded weeks determined by the DfE for each term in its local funding methodology. The DfE termly funded weeks for the 2026-27 financial are 13 weeks for the summer 2026 term, 14 weeks for the autumn 2026 term and 11 weeks for the spring 2027 term.

6.0 CENTRALLY MANAGED SERVICE PROVISION RELATED TO EARLY YEARS

6.1 The early years funding regulations currently allow local authorities to retain no more than 3% of the funded entitlements Early Years DSG funding allocation for early years centrally managed service provision. As the funding allocation will vary dependent on demand for the provision of funded childcare, the centrally managed service budget which can be retained can be subject to fluctuations. The current DfE national early years funding consultation proposes that local authorities pass on more funding for EL2 children to providers, no longer retaining a top slice from this entitlement for central spend.

6.2 For the 2027-28 financial year, the local authority retention rate from the funded entitlements for the provision of centrally managed service provision for early years is proposed to be 3% or the maximum retention rate percentage allowed by the DfE for an individual age range funded entitlement. The proposal has regard to:

- The increased profile and focus role of the early years sector in the delivery of the key Government policies related to improving access to childcare for families on low incomes; improving support for children with Special Educational Needs and Disabilities (SEND) in the early years, providing every child with the best start in life and increasing the number of children reaching a good level of development in the Early Years Foundation Stage Profile assessment at age five by 2028. Local authority support to the sector will be a key factor in the achievement of the policy objectives.
- Managing the local authority statutory sufficiency duty, with increased numbers of parental enquiries, working with settings in managing the support requirements of increased numbers of children accessing early years funded provision, and responding to Government reporting requirements.
- Recognition of the financial governance, financial assurance and funding process requirements and responsibilities associated with the increased funding quantum of over £100m and the funding claim volumes for the expanded entitlements.

7.0 RECOMMENDATIONS

7.1 The North Yorkshire Schools Forum is asked:

i. To note the national early years funding consultation currently being undertaken by DfE

ii. To note the principle-based funding consultation to be undertaken with early years' providers within North Yorkshire on the funding rates to be paid to early years' providers for the funded early years entitlement for early learning 2-year-olds, the working parent entitlement for under 2-year-olds, 2-year-olds, and 3 & 4-year-olds and the universal entitlement for 3 & 4-year-olds, and the proposed introduction of a contingency fund for the 2027-28 financial year

EL MAYHEW

Corporate Director – Children and Young People's Service