

<b>Date of meeting:</b>	Thursday 22 January 2026
<b>Title of report:</b>	<b>Early Years Funding Update</b>
<b>Type of report:</b> Delete as required	For information
<b>Executive summary:</b> Including reason for submission	<p>This report considers the following areas:</p> <ul style="list-style-type: none"> <li>• An update on the 2026-27 Early Years Dedicated Schools Grant (DSG) allocation and changes to the DfE early years funding methodology for local authorities.</li> <li>• Schools' Forum views on the funding rates to be paid to early years' providers for the funded early years entitlement for 2-year-olds of families receiving additional support, the working parent entitlement for under 2-year-olds, 2-year-olds and 3 &amp; 4-year-olds and the universal entitlement for 3 &amp; 4-year-olds for the 2026-27 financial year</li> <li>• An update on the allocation of the supplementary funding provided for Maintained Nursery Schools for the 2026-27 financial year</li> </ul>
<b>Budget / Risk implications:</b>	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.
<b>Recommendations:</b>	<p>The North Yorkshire Schools Forum is asked:</p> <ol style="list-style-type: none"> <li>i. To note the 2026-27 Early Years DSG indicative funding allocation and the associated updated local funding forecast based on termly headcount predictions</li> <li>ii. To endorse the proposed early years funding rates for the 2026-27 financial year.</li> <li>iii. To note the position with regard to the provision of supplementary funding for maintained nursery schools for the 2026-27 financial year.</li> </ol>
<b>Voting</b>	All Schools Forum Voting Members
<b>Appendices:</b>	N/A
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## 1.0 PURPOSE OF THE REPORT

1.1. This report considers the following areas:

- An update on the 2026-27 Early Years DSG Allocation and changes to the DfE early years funding methodology for local authorities.
- Schools Forum views on the funding rates to be paid to early years' providers for the funded early education entitlement for 2-year-olds of families in receipt of additional support, 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 2026-27 financial year.
- An update on the allocation of the supplementary funding provided for Maintained Nursery Schools for the 2026-27 financial year

## 2.0 BACKGROUND

2.1 On 15th December 2025, the DfE published details of the 2026-27 local authority early years entitlements funding. The Government funding announcement detailed the following:

- Confirmation of an increased minimum pass-through requirement for local authorities in 2026-27 – the minimum pass-through rate will increase from 96% to 97%
- Confirmation that the 28 February deadline, by which local authorities must announce their funding rates to childcare providers, is now a statutory requirement
- Information on the operation of the termly funding system for **all** the early years funding streams for the financial year 2026-27
- Information on changes to the eligibility criteria for the special educational needs inclusion fund (SENIF)

2.2 The DfE have announced the following adjustments to local authority early years funding rates for the 2026-27 financial year:

- Funding provided through the 2025-26 early years national insurance contributions and teachers' pay grant (EYNTPG) has been rolled into the national average funding rate for 3 and 4-year-olds, 2-year-olds and 9 months to 2-years-old.
- The introduction of a termly funding system to fund all the early years entitlements on termly census headcounts, as is already operational for the working parents' entitlements for 2-year-olds and under. The DfE are also revising the allocation profile of the number of funded weeks each term. This change seeks to improve the accuracy of funding allocations and better align funding patterns with those of local authorities. To support local authorities to plan their budgets for 2026-27, the DfE have made adjustments to the 3 and 4-year-old funding rates, and in how local authority indicative funding allocations have been determined for the established entitlements for 3 and 4-year-olds and families of 2-year-olds receiving additional support.

2.3 **Impact of termly funding on funding rates.** For the 3 and 4-year-old entitlements, DfE indicate that their analysis of changing from an annual to a termly census will result in a lower number of funded hours being reported across the year, at a national level. However, DfE recognise that local authorities will still need to fund the same number of hours locally. To compensate for the budget reduction local authorities would otherwise see from reduced headcounts under a termly funding model, the DfE have adjusted the 3 and 4-year-old rates, reflecting the termly variation at the national level. In the 2026-27 financial year, each local authority will receive an 'adjusted' hourly rate for 3 and 4-year-olds after allowing for the termly funding adjustment. This change will only take place in 2026-27 to support transition and will not be an ongoing adjustment. For the majority of local authorities, this means they will see a further increase to their hourly rate, on top of their normal year on year increase.

2.4 **Impact of termly funding on indicative allocations.** To determine the indicative allocations for the established entitlements (3 and 4-year-olds and families of 2-year-olds receiving additional support), the DfE have applied a national level termly variation assumption to each local authority's spring 2025 census data. The termly variation assumption is based on termly data provided by local authorities following a voluntary data collection in summer 2025. The DfE have based the indicative allocations for the entitlements for working parents of children aged 2-years-old and under on the national take up assumptions and data from the January 2025 census, provisional data from summer 2025 and estimates for autumn 2025. The same assumptions have been applied for all local authorities. Funding for all the early years funding streams (except for DAF) will be based on data from the termly early years and school censuses, and the annual alternative provision (AP) census, with funding adjustments to the early years block of the DSG following the termly collections. In order for local authorities to plan their 2026-27 budgets accurately, the DfE strongly recommend local authorities consider their own forecast of the termly headcounts that they expect to fund each term for each of the early years entitlements and estimate their local budget total needed.

2.5 The DfE are continuing to provide updates on the 2026-27 early years funding methodology and are providing further briefing sessions for LAs on the impact of the changes to the 2026-27 funding methodology in mid-January 2026. A verbal update will be provided at the Schools Forum meeting if any further information is received from the DfE which materially impacts on the content of this report.

2.6 The DfE have confirmed the early years local authority funding rates for North Yorkshire for the 2026-27 financial year as follows:

Early Years Phase	2026-27 Local Authority Hourly Funding Rate	2026-27 National Average Hourly Funding Rate	2025-26 Local Authority Hourly Funding Rate
Three and four-year olds	£6.20*	£6.61	
Two-year olds	£8.12	£8.90	
Nine months – two years old	£11.01	£12.04	
Maintained nursery school supplement (three and four-year old universal hours only)	£5.47	£6.11	

\*£6.20 = Hourly funding rate with termly funding adjustment. Funding rate without termly funding adjustment = £6.01.

The national comparison in respect of the 2026-27 early years funding rates for North Yorkshire is as follows:

3 & 4-year-olds:	national floor level (51 local authorities)
2-year-olds:	135th lowest out of 151 local authorities
Under 2-year-olds	133rd lowest out of 151 local authorities

2.7 The DfE have confirmed increases for the early years pupil premium (EYPP) and Disability Access Funding (DAF) funding rates will increase, as detailed in the table below:

	2026-27 Funding Rate	2025/26 Funding Rate	Percentage Increase
Early Years Pupil Premium hourly funding rate for eligible children (maximum of 15 hours per week)	£1.15	£1.00	15%
Disability Access Funding (annual rate)	£975	£938	3.9%

2.8 The North Yorkshire Council 2026-27 proposed early years provider funding rates are scheduled to be considered by CYPS Executive Members on 20 January 2026.

### **3.0 2026-27 EARLY YEARS DSG**

3.1 As detailed in section 2.4 above, the DfE have implemented a termly funding process for all early years funded entitlements for the 2026-27 financial year. The initial 2026-27 early years DSG is indicative and will be updated by the DfE to reflect the termly census data for each local authority. In the 2026-27 early years funding guidance, the DfE strongly recommend local authorities consider their own forecast of the termly headcounts that they expect to fund each term for each of the early years entitlements and estimate their total local budget requirement. In this respect work has been undertaken to determine a local forecast for North Yorkshire having regard to:

- Birth rates
- Take up rates for each entitlement
- Average hours take up for each entitlement

3.2 Based on local analysis of the take up of early years funded entitlements over recent terms, the key assumptions applied to forecast the termly headcounts for the 2026-27 financial year are as follows:

Entitlement	% Live Birth Rate Take Up	Average Hours Take Up
3 & 4-Year-Old - Universal	96.09%	14.80 hours
3 & 4-Year-Old – Working Parent	64.72%	13.36 hours

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2-Year-Old - FRAS	10.33%	14.81 hours
2-Year-Old – Working Parent	65.86%	26.71 hours
Under 2-Year-Old – Working Parent	57.83%	27.26 hours

Forecasts for the Autumn 2025 and Spring 2026 live birth rates which impact on the under two-year-old funded entitlements for the Autumn 2026 and Spring 2027 terms and where data is not currently available are based on the assumption of a 5% reduction in the birth rate. The forecast assumptions will be considered and updated each term as the actual termly headcount and funding data becomes available.

3.3 The table below provides a comparison of the indicative 2026-27 early years DSG funding values as provided by the DfE in December 2025 and the forecast 2026-27 early years DSG funding values based on the NYC termly forecast data.

	<b>DfE Indicative 2026-27 Early Years DSG Funding</b>	<b>NYC Forecast 2026-27 Early Years DSG Funding</b>	<b>Variance – NYC to DfE</b>
3 & 4 Year Old – Universal - PTE	7,009.37	6,545.48	-463.89
3 & 4 Year Old – Universal – Funding Per PTE	£3,534	£3,534	
<b>3 &amp; 4 Year Old Universal Funding</b>	<b>£24,771K</b>	<b>£23,132k</b>	<b>-£1,639k</b>
3 & 4 Year Old – Working Parent - PTE	4,016.06	4,006.74	-9.32
3 & 4 Year Old – Working Parent – Funding Per PTE	£3,534.00	£3,534.00	
<b>3 &amp; 4 Year Old Working Parent Funding</b>	<b>£14,193k</b>	<b>£14,160k</b>	<b>-£33k</b>
2-Year-Old – FRAS - PTE	714.84	505.27	-209.57
2-Year-Old – FRAS – Funding Per PTE	£4,628.40	£4,628.40	
<b>2-Year-Old FRAS Funding</b>	<b>£3,309k</b>	<b>£2,338k</b>	<b>-£971k</b>
2-Year Old – Working Parent - PTE	5,722.17	5,865.92	143.75
2-Year Old – Working Parent – Funding Per PTE	£4,628.40	£4,628.40	
<b>2-Year Old Working Parent Funding</b>	<b>£26,484k</b>	<b>£27,150k</b>	<b>£666k</b>
Under 2-Year Old – Working Parent - PTE	6,092.59	5,635.20	-457.39
Under 2-Year Old – Working Parent – Funding Per PTE	£6,275.70	£6,275.70	

<b>Under 2-Year Old Working Parent Funding</b>	<b>£38,235k</b>	<b>£35,365k</b>	<b>-£2,870k</b>
<b>Total Early Years DSG Entitlement Funding</b>	<b>£106,992k</b>	<b>£102,145k</b>	<b>-£4,847k</b>

\*1 Part Time Equivalent (PTE) = 15 hours x 38 weeks

3.4 The current NYC local termly forecast headcount analysis indicates that the indicative 2026-27 early years DSG funding allocation is c£4.85m higher than the actual funding forecast to be received. The DfE will update the indicative DSG funding allocation during the 2026-27 financial year to reflect the actual termly early years census / headcount data. In order to ensure that the NYC local authority budgets reflect the actual early years DSG funding forecast to be received, the 2026-27 planned early years DSG expenditure detailed in section 6 below is based on the local funding forecast rather than the DfE indicative 2026-27 DSG early years funding allocation. This is a change in methodology from previous years and is required to be implemented as a result of the DfE change to a termly calculation for local authority funding allocations.

#### **4.0 2026-27 PROVIDER BASE FUNDING RATES**

4.1 Following a principle based early years funding consultation undertaken with the early years sector within North Yorkshire in Autumn 2025, it is recommended to continue to adopt the following principles in respect of the provider base funding rates for the 2026-27 financial year:

- The local authority funding retention rate for the provision of centrally managed service provision for early years is approx. 3% (maximum) for all funded entitlements.
- The funding for the Early Years SENIF is provided from the Early Years DSG Block (approximately 2% of local authority funding rate for all funded entitlements)
- There is a single provider base funding rate for the 2-year-old entitlements for families in receipt of additional support and working parents.

The following provider base funding rates are proposed for the 2026-27 financial year:

Entitlement	2025-26 Base Provider Funding Rate Per Hour	2026-27 Proposed Base Provider Funding Rate Per Hour	Percentage Increase
3 & 4-Year-Olds – Universal & Working Parent Entitlements	£5.36	£5.84	8.96%

2 Year-Olds – Families Receiving Additional Support & Working Parent Entitlements	£7.30	<b>£7.66</b>	4.93%
Under 2-Year-Olds – Working Parent Entitlement	£9.91	<b>£10.41</b>	5.05%

The proposed funding rates provide a 8.96% (48p / hour) increase on the 3 & 4-year-old funding rate for 2026-27 compared to the 2025-26 base provider funding rate, a 4.93% (36p / hour) increase on the 2 year-old funding rate for 2026-27 compared to the 2026-27 base provider funding rate and a 5.05% (50p / hour) increase on the under 2 year-old funding rate for 2026-27 compared to the 2025-26 base provider funding rate. The higher increase for the 3 & 4-year-old funding rate reflects the DfE local authority 'adjusted' hourly rate for 3 and 4-year-olds after allowing for the termly funding adjustment.

#### 4.2 Deprivation Funding Supplement

The DfE 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 entitlements, recognising the additional costs associated with supporting children from disadvantaged backgrounds. The deprivation supplement for children aged two and under is discretionary.

Within North Yorkshire the deprivation funding supplement is paid for all early years' 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.

The deprivation funding rates for the 2026-27 financial year will be unchanged as follows:

<b>Band</b>	<b>2026-27 Deprivation Hourly Funding Rate</b>	<b>IMD Score</b>
Band A	54p	>34.17
Band B	7p	>20 <34.17
Band C	4p	>10 <20

#### 4.3 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 North Yorkshire early years SENIF is funded from the Early Years Block DSG. This 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 schools' sector, the funding for this support is provided through individual school budgets by the Schools Block DSG.

The budget requirement from the Early Years Funding for the SENIF is £2.01m; this equates to approximately 2% of the 2026-27 Early Years allocation for funded entitlements.

## 5.0 MAINTAINED NURSERY SCHOOLS

5.1 The DfE have previously provided specific supplementary funding for maintained nursery schools (MNS) to enable their 2016/17 funding levels related to the delivery of universal provision to continue to be maintained after the implementation of the early years national funding formula. This has enabled a higher level of funding to continue to be paid to maintained nursery schools during the period which the supplementary funding is in place. The DfE have confirmed the following MNS supplementary funding arrangements for 2026-27:

- A minimum funding rate £5.47 per MNS 3 & 4-year-old universal entitlement hour and a cap set at £10 per MNS hour, in order to distribute the supplementary funding more evenly between LAs with MNSs. North Yorkshire is receiving the floor level funding rate of £5.47 per MNS hour for three- and four-year old universal provision.

5.2 The indicative MNS supplementary funding value for North Yorkshire is £440k. The indicative supplementary funding allocation is subject to adjustment at the end of the financial year to reflect the actual three- and four-year old universal hours delivered within the year by the MNS. The funding allocation methodology for the MNS Supplementary Funding Grant is based on:

- £50,000 lump sum per MNS
- The remainder of the funding distributed by:
  - 80% universal 3 & 4-year-old funded hours (termly headcount data)
  - 10% 3 & 4-year-old post code deprivation Band A level (highest level – IMD score >34.17) (January headcount data)
  - 10% 3 & 4-year-olds eligible for Disability Access Funding (DAF) (3 year average)

## 6.0 2026-27 EARLY YEARS DSG ALLOCATION – PLANNED EXPENDITURE (BASED ON LOCAL NYC FORECAST FUNDING)

6.1 A summary of the proposed 2026-27 Early Years DSG allocation is detailed below:

	£'000
<b>Funding Direct to Providers</b>	

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Universal entitlement 3 & 4-year-old places (incl. Funding Supplement provision)	22,012
Working Families entitlement 3 & 4-year-old places (incl. Funding Supplement provision)	13,475
Families in Receipt of Additional Support 2-year-old places (incl. Funding Supplement provision)	2,223
Working Families entitlement 2-year-old places (incl. Funding Supplement provision)	25,813
Working Families entitlement under 2-year-old places (incl. Funding Supplement provision)	33,598
Early Years SENIF (all entitlements)	2,010
Early Years Pupil Premium (all entitlements)	824
EY Disability Access Fund (all entitlements)	349
Maintained Nursery Schools Transition	440
<b>Sub Total – Funding to Providers</b>	<b>100,744</b>
Centrally Managed Services – funded by 3 &4-Year-Old (Universal) DSG Funding	672
Centrally Managed Services – funded by 3 &4-Year-Old (Working Parent) DSG Funding	411
Centrally Managed Services – funded by Families in Receipt of Additional Support 2-Year-Old DSG Funding	69
Centrally Managed Services – funded by Working Families 2-Year-Old DSG Funding	802
Centrally Managed Services – funded by Working Families Under 2-Year-Old DSG Funding	1,060
<b>Sub Total – LA Centrally Retained Funding</b>	<b>3,014</b>
<b>Total 2026-27 Early Years DSG Planned Expenditure</b>	<b>103,758</b>
<b>Funded By:</b>	
3 &4-Year-Old Universal - 2026-27 DSG Funding – Local Forecast	23,132
3 & 4-Year-Old Working Parent - 2026-27 DSG Funding – Local Forecast	14,160
2-Year-Old FRAS - 2026-27 DSG Funding – Local Forecast	2,338
2-Year-Old Working Parent - 2026-27 DSG Funding – Local Forecast	27,150
Under 2-Year-Old Working Parent - 2026-27 DSG Funding – Local Forecast	35,365
Early Years Pupil Premium - 2026-27 DSG Funding (DfE Indicative Allocation)	824
Early Years Disability Access Funding - 2026-27 DSG Funding (DfE Indicative Allocation)	349
Maintained Nursery School Supplementary Funding - DSG Funding (DfE Indicative Allocation)	440
<b>Total Early Years DSG (Local Forecast)</b>	<b>103,758</b>

5.2 The 2026-27 rates for the other funding elements are based on the DfE funding rates, as follows:

Funding Element	DfE Funding Level
Early Years Pupil Premium	£1.15 / Per Hour (3 & 4-year-old Universal Hours, 15 hours families receiving additional support 2-year-old entitlement, 15 hours working parents 2-year-old and under 2-year-old entitlements)
Disability Access Funding	£975 per annum per eligible child (all entitlements)

## 7.0 CENTRALLY MANAGED SERVICE PROVISION RELATED TO EARLY YEARS

7.1 As stated above, the local authority is allowed to retain no more than 3% of the funded entitlements Early Years DSG funding allocation for early years centrally managed service provision in 2026-27. As the funding allocation will vary dependent on demand for the provision of funded childcare, the centrally managed service budget which can be retained is also subject to some fluctuation. North Yorkshire Council adopted a strategy of c3% retention of early years funding to support the provision of centrally managed services related to early years in the 2024-25 financial year.

7.2 In respect of the 2026-27 financial year, the local authority is proposing to retain c2.95% of the funded entitlements Early Years DSG funding for the provision of centrally managed early years services. This proposal seeks to:

- To ensure provider base rate funding is maximised as far as possible.
- Recognise the funding of the early years SENIF from the Early Years DSG
- Recognise the increased overall funding quantum of the Early Years DSG entitlement funding as a result of the expansions of funded entitlements for working parents.
- Recognise the financial governance, financial assurance and funding process requirements and responsibilities associated with the increased funding quantum and funding claim volumes for the expanded entitlements.

7.3 A breakdown of the centrally retained service provision planned expenditure to be funded from the early years DSG funded entitlements will be reported to the March 2026 meeting of the Schools Forum.

## 8.0 RECOMMENDATIONS

8.1 The North Yorkshire Schools Forum is asked:

- i. To note the 2026-27 Early Years DSG indicative funding allocation and the associated updated local funding forecast based on termly headcount predictions
- iv. To endorse the proposed early years funding rates for the 2026-27 financial year.

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- v. To note the position with regard to the provision of supplementary funding for maintained nursery schools for the 2026-27 financial year.

El Mayhew

Corporate Director – Children and Young People's Service

