

NORTH YORKSHIRE COUNCIL

CYPS EXECUTIVE MEMBERS

21 JANUARY 2025

2025/26 EARLY YEARS FUNDING FORMULA

1.0 PURPOSE OF THE REPORT

- 1.1 This report asks CYPS Executive Members to agree recommendations in respect of the funding rates paid to early years' providers for the funded entitlement for 3 & 4-year-olds, 2-year-olds of families in receipt of additional support, 2-year-olds of working families and under 2-year-olds of working families for the 2025/26 financial year.
- 1.2 The recommendations consider the feedback by early years' providers through a county-wide consultation.
- 1.3 The report also provides an overview of the other early years funding rates for 2025/26.

2.0 BACKGROUND

- 2.1 On 10th December 2024, the DfE published details of the 2025/26 local authority early years entitlements funding. The Government funding announcement detailed the following:
 - nationally, the final local hourly funding rates for 2025-26 include an average 4.1% increase for the current 3 and 4-year-old entitlement, from £5.88 in September 2024 to £6.12 in 2025-26. Average funding rates for 2-year-olds will be £8.53 per hour (3.3% increase), and average rates for under 2s will be £11.54 per hour (3.4% increase). The local authority funding rates for North Yorkshire are detailed in section 2.4 below.
 - an increased minimum pass-through requirement for local authorities in 2025/2026 – the pass-through rate will increase from 95% to 96%
 - an expectation that local authorities will announce their funding rates to childcare providers by 28 February 2025. The DfE intend to mandate this as a requirement in the regulations from the financial year 2026/27
 - updated special educational needs inclusion fund (SENIF) and disability access fund (DAF) guidance following a review of the DfE's early years SEND funding arrangements; the updated guidance includes an expanded section on expectations around SENIF arrangements, and greater detail on how DAF should be allocated and distributed.
 - the early years pupil premium (EYPP) rate will be uplifted from 68p per hour in 2024-25 to £1 per hour in 2025-26, equivalent to up to £570 per eligible child per year.
- 2.2 In respect of the increase to the rate of Employer National Insurance contributions by 1.2 percentage points, to 15%, and a reduction in the Secondary Threshold from £9,100

to £5,000 per year, the DfE have confirmed that public sector employers will be compensated for the increase in their NICs contributions (school-based nurseries and maintained nursery schools), but there will be no additional NICs funding beyond this. In respect of 2025/26 early years funding, the DfE state that “*the funding rates for 2025-26 reflect forecasts of average earnings and inflation next year, as well as the national living wage announced at the Autumn Budget.*” The DfE have confirmed that future spending decisions beyond 2025-26 will be announced at the next Spending Review in Spring 2025.

- 2.3 In addition to the published 2025/26 local authority early years funding entitlement rates, the DfE have also announced an additional £75 million revenue grant for 2025-26, to support the early years sector as they prepare to deliver the final phase of expanded childcare entitlements from September 2025. At this stage, details on the distribution of the additional funding have not been provided by the DfE.
- 2.4 The DfE have confirmed the early years local authority funding rates for North Yorkshire for the 2025/26 financial year as follows:

Early Years Phase	2025/26 Local Authority Hourly Funding Rate	<i>2025/26 National Average Hourly Funding Rate</i>	<i>2024/25 Local Authority Hourly Funding Rate</i>
Three and four-year olds	£5.71	£6.12	£5.54*
Two-year olds	£7.74	£8.53	£7.45
Nine months – two years old	£10.48	£11.54	£10.11
Maintained nursery school supplement (three and four-year old universal hours only)	£5.27	£5.90	£5.14

*Includes £0.07 per hour Early Years Budget Grant for comparison purposes

The national comparison in respect of the 2025/26 early years funding rates for North Yorkshire is as follows:

3 & 4-year-olds: national floor level (50 local authorities)
 2-year-olds: 137th lowest out of 151 local authorities
 Under 2-year-olds 136th lowest out of 151 local authorities

- 2.5 The DfE have confirmed that the local authorities’ hourly funding rate for 3 and 4-year-olds in 2025/26 includes the mainstreaming of the additional Early Years Budget Grant (EYBG) funding received by separate grant in the 2024/25 financial year.
- 2.6 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:

	2025/26 Funding Rate	2024/25 Funding Rate (April 2024)	Percentage Increase
Early Years Pupil Premium hourly funding rate for eligible children (maximum of 15 hours per week)	£1.00	£0.68	47%

Disability Access Funding (annual rate)	£938	£910	3%
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- 2.7 The DfE allows the local authority early years funding to be used to cover the costs of early years provider funding (including funding supplements), any central services related to early years that are provided by the Local Authority free at the point of delivery, and the provision of the SENIF.
- 2.6 The regulations accompanying the Early Years National Funding Formula require local authorities to pass through at least 96% of the funding for each of the funded early years entitlements individually for the 2025/26 financial year. The 96% includes the following for each of the entitlements separately:
- base rate funding for all providers
 - supplements for all providers
 - lump sum funding for Maintained Nursery Schools (MNS) (only applicable to 3 and 4-year-olds, and excluding any funding from DfE's MNS supplementary allocation)
 - the funding paid directly to providers from the special educational needs Inclusion fund (SENIF)
 - contingency funding

The maximum level of funding allowed to be retained by the local authority for the delivery of centrally managed services associated with early years' provision is 4% for each of the funded early years entitlements.

- 2.7 The early years SENIF provided by North Yorkshire Council is funded from the Early Years Block DSG.
- 2.8 The 2024/25 provider base funding rates for North Yorkshire are currently as follows:

Entitlement	2024/25 Base Provider Funding Rate Per Hour
3 & 4-Year-Olds – Universal & Working Parent Entitlements	£5.13*
2 Year-Olds – Families in Receipt of Additional Support & Working Parent Entitlements	£7.01
Under 2-Year-Olds – Working Parent Entitlement	£9.55

*Excludes £0.07 per hour Early Years Budget Grant paid to early years providers in addition to the core base funding rate in Autumn 2024 and Spring 2025.

3.0 2025/26 EARLY YEARS FUNDING CONSULTATION

- 3.1 In seeking to ensure that providers receive timely notification of early years funding rates for the 2025-26 financial year within the DfE required timescale, the local authority undertook a principle-based funding consultation with early years providers within North Yorkshire on the following elements of the early years funding entitlements for the 2025-26 financial year:
- The provider base funding rates for 3 & 4-year-old universal and working parent entitlements, the 2-year-old entitlements for families in receipt of additional support and working parents, the under 2-year-old entitlement for working parents.

- The operation of a deprivation funding supplement for all funded entitlements
- The continued use of the Early Years DSG to fund the provision of the Early Years SENIF.

In addition, the funding consultation also sought the views of early years providers on the distribution of the Early Years Budget Grant (EYBG) for the 2024-25 financial year.

3.2 2025-26 Provider Base Funding Rates

The consultation proposals were based on a continuation of the principles adopted in respect of the 2024-25 provider base funding rates for the 2025-26 financial year as follows:

- The local authority funding retention rate for the provision of centrally managed service provision for early years is approx. 3% for all funded entitlements.
- 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)
- There is a single provider base funding rate for the 2-year-old entitlements for children from families in receipt of additional support and working parent families.

In undertaking the principle-based consultation it was not possible to provide base funding rates for the 2025-26 financial year at the time of the consultation. However, agreeing the principles to be applied for the calculation of the base funding rates enables an earlier notification of the actual funding rates to be given to providers once confirmation of the local authority 2025-26 early years funding rates has been received from the DfE.

3.3 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 funded 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 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.

The consultation proposed to continue the current deprivation funding methodology and funding rates for all early years' funded entitlements for the 2025-26 financial year, as follows:

<i>Band</i>	<i>2025/26 Deprivation Hourly Funding Rate</i>	<i>IMD Score</i>
Band A	54p	>34.17
Band B	7p	>20 <34.17
Band C	4p	>10 <20

3.4 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. In the 2024-25 financial year the funding of the SENIF transferred from the High Needs Block DSG to the Early Years Block DSG. The consultation proposed to continue this funding arrangement for the 2025-26 financial year, having 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 2025-26 financial year is currently estimated to be approx. £1.7m; this equates to approximately 2% of the forecast 2025-26 Early Years allocation for funded entitlements.

3.5 The NYC consultation was undertaken with early years' providers between 20 September 2024 and 25 October 2024. A copy of the consultation document can be found at **Appendix 1** to this report. **Appendix 2** to this report provides a copy of the Equalities Impact Assessment completed for the proposed change in early years provider funding rates for the 2025/26 financial year.

3.6 111 responses were received to the consultation, as shown below.

LA Maintained Nursery School	0
LA Maintained Schools and Academies	14
Independent Schools	1
Full Day Care	37
Sessional Care	12
Childminders	47
Total	111

(Response rate: 18.88% of funded early years' providers)

(2 responses did not state a provider name and 1 duplicate response was provided; these responses have been excluded from the results analysis)

3.7 Providers were asked to indicate their agreement to a number of proposed funding changes. The consultation results are detailed in the table below:

Proposal: provider base rate funding for the 2025/26 financial year to reflect:

- local authority retention of approx. 3% of the early years funding allocation to support the delivery of central services related to early years' provision that are provided by the local authority free at the point of delivery.
- use of the Early Years Funding allocation to fund the Early Years Special Educational Needs Inclusion Fund (SENIF) (approximately 2% of the funding) to support providers in addressing the needs of children with lower or emerging levels of Special Educational Needs (SEND) across all the funded entitlements.
- the continued use of the current eligibility criteria and funding rates for the deprivation supplement. The funding supplement is based on the hours attended by the child and a banding using the postcode of the child attending the setting.

	In Agreement with Funding Proposals (No. Responses)			Total Responses
	Yes	No	No Response Provided	
2025-26 3- & 4-year-old provider base funding rate	93	18	0	111
2025-26 provider base funding rate for 2-year-olds of families receiving additional support and 2-year-olds of working parents	100	11	0	111
2025-26 provider base funding rate for under 2-year-olds of working parents	98	12	1	111

Proposal: Do you agree for the DfE Early Years Budget Grant for the period September 2024 to March 2025 to be passed on to providers based on the same funding rate as the DfE has used to distribute the Grant through the payment of an additional 7p per hour based on the on the universal and extended hours for three and four- year-olds claimed for the Autumn 2024 and Spring 2025 terms for all providers.

In Agreement with Funding Proposal (No. Responses)			
Yes	No	No Response Provided	Total Responses
99	11	1	111

Appendix 3 to this report provides details of the comments received from early years' providers to the consultation questions.

4.0 2025-26 PROPOSED EARLY YEARS FUNDING ARRANGEMENTS

4.1 Following the principle based early years funding consultation undertaken with the early years sector within North Yorkshire in Autumn 2024, the following principles have been applied to the calculation of the proposed provider base funding rates for the 2025-26 financial year:

- The local authority funding retention rate for the provision of centrally managed service provision for early years is approx. 3% 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.

In this respect, the following provider base funding rates are proposed for the 2025/26 financial year:

Entitlement	2025/26 Proposed Base Provider Funding Rate Per Hour	Percentage Increase	2024/25 Base Provider Funding Rate Per Hour
3 & 4-Year-Olds – Universal & Working Parent Entitlements	£5.36	4.48%	£5.13
2 Year-Olds – Families Receiving Additional Support & Working Parent Entitlements	£7.30	4.14%	£7.01
Under 2-Year-Olds – Working Parent Entitlement	£9.91	3.77%	£9.55

The proposed funding rates provide a 4.48% (23p / hour) increase on the 3 & 4-year-old funding rate for 2025/26 compared to the September 2024 base provider funding rate, a 4.14% (29p / hour) increase on the 2 year-old funding rate for 2025/26 compared to the September 2024 base provider funding rate and a 3.77% (36p / hour) increase on the under 2 year-old funding rate for 2025/26 compared to the September 2024 base provider funding rate.

4.2 Based on the consultation responses received from early years' providers, it is recommended that the following proposals are approved in respect of early years funding for the 2025/26 financial year:

- The base provider funding rate for 3 & 4-year-olds (both universal and working family entitlement) is £5.36 per hour.
- The base provider funding rate for 2-year-olds (both families in receipt of additional support and working family entitlement) is £7.30 per hour.
- The based provider funding rate for under 2-year-olds (working family entitlement) is £9.91 per hour.
- The current deprivation funding methodology (as detailed in section 3.3) continues to be applied to all early years' funded entitlements.

- The funding for the SENIF continues to be provided from the Early Years Block DSG.
- A 3% funding retention rate for the provision of local authority centrally managed services for early years is applied for all funded entitlements.

4.3 2024/25 Early Years Budget Grant (EYBG) (September 2024 – March 2025)

Following the outcome of the consultation with the early years sector and approval by CYPS Executive Members on 3 December 2024, the 2024/25 EYBG will be passed on to early years providers, based on the DfE grant methodology, through the payment of 7p per hour on the universal and extended hours for 3 & 4-years-olds for the Autumn 2024 and Spring 2025 terms. The EYBG funding has been rolled in to the 3 & 4 year old funding rate paid by the DfE to local authorities for the 2025/26 financial year.

5.0 2025/26 OTHER EARLY YEARS FUNDING ELEMENTS & LOCAL AUTHORITY EARLY YEARS DSG FUNDING ARRANGEMENTS

5.1 The national funding levels received from the DfE for the other early years funding elements for 2025/26 are as follows:

	2025/26 Funding Rate	2024/25 Funding Rate (April 2024)	Percentage Increase
Early Years Pupil Premium hourly funding rate for eligible children (maximum of 15 hours per week)	£1.00	£0.68	47%
Disability Access Funding (annual rate)	£938	£910	3%

5.2 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. 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 2025/26:

- A minimum funding rate £5.27 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 £5.27 per MNS hour for three- and four-year old universal provision.
- MNS supplementary funding rates include a notional allocation to acknowledge the additional pressures that their MNSs may face in respect of increases to teachers pay and employer pension contributions.

5.3 The indicative 2025/26 MNS supplementary funding value for North Yorkshire is £452k. 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)

The 2025/26 MNS Supplementary Funding Grant will be distributed based on this allocation methodology.

- 5.4 The final Early Years DSG funding allocation for the 2025/26 financial year will be based on five-twelfths January 2025 early years census numbers + seven-twelfths January 2026 early years census numbers for 3 & 4-year-olds (universal hours and working parent entitlement), 2-year-old entitlement for families receiving additional support and the MNS supplementary funding allocation. The final funding allocations for the funded entitlements for eligible working parents of 2-year-old children (due to be extended from 15 hours to 30 hours from 1 September 2025), and the funded entitlements for eligible working parents of children from 9 months up to 2 years old (due to be extended from 15 hours to 30 hours from 1 September 2025) will be based on termly headcount data for summer and autumn 2025 and the January 2026 early years census numbers.

6.0 FINANCIAL IMPLICATIONS

- 6.1 The required funding for the payments to early years providers for the delivery of the Government funded entitlements and for the provision of local authority early years' service provision is provided from the Early Years Block DSG. There is no direct impact on the Council's budget as a result of the proposals detailed for early years budgets for the 2025/26 financial year.
- 6.2 There is a financial impact on early years providers in terms of the income levels that they receive for the provision of funded entitlements. The proportion of a providers' overall income that is received from the delivery of Government funded entitlements is likely to significantly increase over the period 2024/25 to 2026/27 with the roll-out of funded entitlements for working families.
- 6.3 The funding outlook is challenging for the early years sector within North Yorkshire with the early years funding rates received by the local authority being some of the lowest in the country. The local authority continues to lobby for increased funding rates for early years in North Yorkshire. A particular area of concern is the lack of recognition in the DfE's Early Years National Funding Formula, used to calculate the funding rates for local authorities, of the costs pressures and diseconomies of scale faced by early years providers operating in rural areas.

7.0 LEGAL IMPLICATIONS

- 7.1 No specific legal implications are identified as a result of the proposals outlined within this report.

8.0 EQUALITIES IMPLICATIONS

- 8.1 An Equality Impact Assessment (EIA) has been completed in respect of the proposals contained within this report. It is anticipated that there will be no impact on any persons

with protected characteristics as defined by the Equality Act 2010. The EIA is attached at **Appendix 2** of the report.

9.0 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

9.1 No climate change or environmental implications have been identified, through the completion of Climate Change Impact Assessments (Initial Screening Form), with the proposals outlined in this report. The Initial Screening Form is attached at **Appendix 4** of the report.

10.0 RECOMMENDATIONS

9.1 CYPS Executive Members are asked to:

i. Agree the following recommendations for the 2025/26 financial year:

- The base provider funding rate for 3 & 4-year-olds (both universal and working family entitlement) is £5.36 per hour.
- The base provider funding rate for 2-year-olds (both families in receipt of additional support and working family entitlement) is £7.30 per hour.
- The based provider funding rate for under 2-year-olds (working family entitlement) is £9.91 per hour.
- The current deprivation funding methodology (as detailed in section 3.3) continues to be applied to all early years' funded entitlements.
- The funding for the SENIF continues to be provided from the Early Years Block DSG.
- A 3% funding retention rate for the provision of local authority centrally managed services for early years is applied for all funded entitlements.

ii. Note the 2025/26 funding rates for the other early years funding elements

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