

NORTH YORKSHIRE COUNCIL

CYPS EXECUTIVE MEMBERS

20 JANUARY 2026

2026-27 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 2026-27 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 2026-27.

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

<b>Early Years Phase</b>	<b>2026-27 Local Authority Hourly Funding Rate</b>	<i>2026-27 National Average Hourly Funding Rate</i>	<i>2025-26 Local Authority Hourly Funding Rate</i>
Three and four-year olds	<b>£6.20*</b>	£6.61	£5.71
Two-year olds	<b>£8.12</b>	£8.90	£7.74
Nine months – two years old	<b>£11.01</b>	£12.04	£10.48
Maintained nursery school supplement (three and four-year old universal hours only)	<b>£5.47</b>	£6.11	£5.27

\*£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

2.6 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:

	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%

2.7 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.

2.8 The regulations accompanying the Early Years National Funding Formula require local authorities to pass through at least 97% of the funding for each of the funded early years entitlements individually for the 2026-27 financial year. The 97% 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 3% for each of the funded early years entitlements.

2.9 The early years SENIF provided by North Yorkshire Council is funded from the Early Years Block DSG.

2.10 The 2025-26 provider base funding rates for North Yorkshire are currently as follows:

Entitlement	2025-26 Base Provider Funding Rate Per Hour
3 & 4-Year-Olds – Universal & Working Parent Entitlements	£5.36
2 Year-Olds – Families in Receipt of Additional Support & Working Parent Entitlements	£7.30
Under 2-Year-Olds – Working Parent Entitlement	£9.91

### 3.0 2026-27 EARLY YEARS FUNDING CONSULTATION

3.1 In seeking to ensure that providers receive timely notification of early years funding rates for the 2026-27 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 2026-27 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.

### 3.2 2026-27 Provider Base Funding Rates

The consultation proposals were based on a continuation of the principles adopted in respect of the 2025-26 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 2026-27 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 2026-27 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 2026-27 financial year, 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

### 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 2026-27 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 2026-27 financial year is currently estimated to be approx. £2.01m; this equates to approximately 2% of the forecast 2026-27 Early Years allocation for funded entitlements.

3.5 The NYC consultation was undertaken with early years' providers between 19 September 2025 and 24 October 2025. 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 2026-27 financial year.

3.6 101 responses were received to the consultation, as shown below.

LA Maintained Nursery School	0
LA Maintained Schools and Academies	29
Independent Schools	0
Full Day Care	13
Sessional Care	9
Childminders	50

**Total**

**101**

(Response rate: 17.75% 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:

	In Agreement with Funding Proposals (No. Responses)			Total Responses
	Yes	No	No Response Provided	
2026-27 3- & 4-year-old base funding rate	85	14	2	101
2026-27 base funding rate for 2-year-olds of families receiving additional support and 2-year-olds of working parents	90	9	2	101
2026-27 base funding rate for under 2-year-olds of working parents	85	11	5	101

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

#### 4.0 2026-27 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 2025, the following principles have been applied to the calculation of the proposed 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% 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 2026-27 financial year:

Entitlement	<i>2025-26 Base Provider Funding Rate Per Hour</i>	<b>2026-27 Proposed Base Provider Funding Rate Per Hour</b>	Percentage Increase
3 & 4-Year-Olds – Universal & Working Parent Entitlements	£5.36	<b>£5.84</b>	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 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 2026-27 financial year:

- 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 families in receipt of additional support 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.
- 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.

5.0 2026-27 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 2026-27 are as follows:

	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%

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 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.

5.3 The indicative 2026-27 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)

The 2026-27 MNS Supplementary Funding Grant will be distributed based on this allocation methodology.

5.4 The final Early Years DSG funding allocation for the 2026-27 financial year will be based on termly headcount / census data for summer 2026, autumn 2026 and spring 2027.

## 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 2026-27 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 has significantly increased over the period 2024/25 to 2026/27 with the roll-out of funded entitlements for working families.
- 6.3 The funding outlook continues to be 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

- 10.1 CYPs Executive Members are asked to:
- i. Agree the following recommendations for the 2026-27 financial year:
    - 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 families in receipt of additional support 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.
- 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 2026-27 funding rates for the other early years funding elements

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