

Early Years Budget 2026 – 2027

Report to the Schools Forum - 15 January 2026

1 Context and Background

- 1.1 As part of the move towards national funding formulas for DSG, in 2017/18 the DfE implemented a national funding formula (NFF) for early years. The NFF is at local authority level, not setting level, so local authorities continue to determine a local funding formula for early years, albeit within DfE rules.
- 1.2 Following the implementation of the NFF for early years, the amount of funding allocated to T&W increased and then was frozen for two years for the period 2018 – 2020. After that it increased modestly until a mid-year increase in funding rates (nationally) in 2023/24 produced a very significant increase for 2 year old funding. The 2024/25 increase for 2 year olds was again higher than for 3 and 4 year olds in 2024/25 before returning to more modest increases for all ages in 2024-2025.
- 1.3 2024/25 marked the beginning of a substantial extension of early years entitlements. From April 2024, 15 hours of funded childcare was available to working parents of 2 year olds and then from September 2024, 15 hours was made available to working parents of children from nine months old.
- 1.4 A further expansion took place in September 2025, from which date 30 hours of funded childcare will be available to working parents of children from nine months old to compulsory school age. The definition of 'working parents' is those who work more than 16 hours per week and earn less than £100,000.
- 1.5 For now at least, the September 2025 increase marks the final expansion of funded entitlements. Funding rates since 2016 are shown in the table below.

Table 1: Funding per hour for T&W 2016-2025

	Funding per hour								
	16/17	17/18-19/20	20/21	21/22	22/23	23/24 (Apr)	23/24 (Sep)*	24/25	25/26
Under 2s	-	-	-	-	-	-	-	£10.61	£10.92
2 year olds	£4.85	£5.20	£5.28	£5.36	£5.57	£5.63	£7.33	£7.79	£8.03
3 & 4 year olds	£4.03	£4.36	£4.44	£4.50	£4.67	£4.90	£5.20	£5.47	£5.71

* Increase delivered via Early Years Supplementary Grant

2 2026/27 Funding

- 2.1 The 2026/27 funding rates for per hour for T&W for the respective age groups are as follows (overleaf):

Table 2: 2026/27 funding rates per hour for T&W

	2026/27
9 months up to 2 years	£11.37
2 year olds	£8.40
3 & 4 year olds	£6.20

2.2 Compared to the prior year, the under two rates have increased by 4.12%. 2-year-old funding has increased by 4.61%. 3 and 4 year-old funding has increased by 8.58%. The higher figure for 3 and 4 year olds is a result of the DfE taking into the distribution of funding via termly census data in 2026/27, replacing the longstanding use of just the January census data.

2.3 DfE rules have now increased the pass-through rate to mean that at least 97% of total early years funding has to be passed through to providers. For several years the pass through rate was 95%, before being increased to 96% in 2025/26 and now 97% in 2026/27. The rationale for this is that as the size of the early years block has increased, each percentage is worth more in £ terms. The counter argument is that the extension of the entitlements to cover a wider age range has increased the amount of central co-ordination required, so the DfE's assumption that there should be economies of scale is not necessarily justified. In any case, T&W's pass-through rate has typically been above 98% and will continue to be in 2026/27 if the proposals covered below are adopted.

2.4 A maximum of 12% of the money in the funding formula can be distributed through supplements (unchanged from 2025/26).

2.5 There is a requirement for each local authority to have an inclusion fund.

2.6 The December 2025 DfE estimate for T&W's Early Years Block allocation for 2026/27 is £35.5m compared to £31.3m for 2025/26 and £22.5m for 2024/25. This represents a 54% increase from 2024/25 to 2026/27, demonstrating the rapid expansion of funded provision in recent years.

2.7 In addition, Disability Access Funding (DAF) will be passed to settings educating eligible children for DAF at the rate of £975, a £37 increase from the 2025/26 rate of £938 per child. The Early Years Pupil Premium Grant (EYPPG) will again increase substantially, from £1.00 per hour, equivalent to £570 per annum in 2025/26, to £1.15p per hour in 2026/27, which is equivalent to £655 per annum. EYPPG grant is paid only on the first 15 hours per week, so the annual amounts are calculated by multiplying the hourly rate by 15 hours and 38 weeks (i.e.570 hours per annum).

3 T&W 2026/27 Proposals

3.1 In the context of the above, the following are planned for 2025/26:

Under two's:

- increasing the basic rate from £10.60 to £11.04,

- increasing the deprivation rate from £1.57 to £1.64

For two year olds:

- increasing the base rate from £7.81 to £8.18

For 3 & 4 year olds:

- basic hourly funding rate increased from £5.06 to £5.50,
- increase the flexible provision supplement from £0.32 to £0.34 per hour,
- deprivation funding increased from £1.26 to £1.38 per hour,
- a lump sum to nursery schools at £171,863 which is the actual amount that the ESFA allocates to the local authority;
- a provision for high needs support of £520,664. The principle has been to maintain the percentage retained for this purpose at the same level as previous years, i.e. the increase reflects the extension of entitlements. This will be funded as follows: £212,440 from three and four year old funding; £147,247 from two year old funding and £160,976 from 9 months to 2 year old funding. The split between the age groups means that a similar proportion of the budget for each is utilised for high needs;
- a central retention for the early years team of £405,199 compared to £361,000 retentions in 2025/26. This is based upon the cost breakdown below, 2025/26 provided for comparison purposes:

Table 3: 2026/27 proposed central retention

	2025/26	Notes	2026/27
Early Years Staffing	£429,303	Staffing consists of a team leader post, one early years consultant post, six early years and childcare consultants (one from August 2026) and two early years support co-ordinators (one from August 2026) plus some management time. The current local authority assumption for the 2026/27 pay award is 3.2% so that has been applied to projected costings.	£480,891
Other costs	£61,578	Marketing (including promotional materials, events, social media, etc), training, IT for staff, printing, support services, etc.	£53,459
IT costs	£18,500	Development of Servelec systems to support extended offer.	£27,800
Less public health grant funding	-£86,951		-£86,951
Less traded income	-£61,000		-£70,000
Total	£361,430		£405,199

- 3.2 The proposed increase above represents an increase of 12.1%, compared to an increase in 2026/27 early years funding of 13.3%.
- 3.3 The DfE pass-through requirement of a minimum of 97% has to be separately calculated for each of the four categories of children:
 - 3 and 4 year olds;
 - 2 year old disadvantaged,
 - 2 year olds of working parents; and
 - 9 months to 2 year olds.
- 3.4 For all categories, as in previous years, T&W intends to distribute well over the DfE requirement of 97% to settings, with a pass through rate of 98.8%.
- 3.5 Early years representatives are invited to express their views on the funding formulas for 2026/27 and the proposed central retention of early years funds.

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