

Report to the Schools Forum 17 September 2026

DfE Consultation on changing the distribution of early years funding to local authorities

1 Introduction

- 1.1 On 6 July 2026, the [DfE published a consultation titled 'Early years funding: proposed changes to the entitlements funding system'](#) with a 14 September 2026 deadline for responses.

2 Proposals

- 2.1 The proposals for changing the system from a funding perspective include the following:

From 2027/28:

- Overall allocations of the early years block will be updated to reflect new labour cost adjustments (based on latest labour market data) and to reflect Income Deprivation Affecting Children Index (IDACI) scores from the latest Index of Multiple Deprivation release. For the 2-year-old and under-2-year-old element the latter is a data update, while for the 3-to-4-year-old element this is a new variable altogether, albeit diluting the current free school meal eligibility factor (proportion of children eligible for targeted free school meals). There will be some transitional arrangements in place, but the consultation does not provide detail. The DfE have provided an appendix showing illustrative outcomes for each local authority. For Telford & Wrekin it shows an increase of between 0 and 2.5% for each of the 3 areas impacted by data changes, i.e. under 2s, 2 year olds and 3 and 4 year olds, thus a small positive outcome overall.
- Local authorities will be able to redistribute unused contingency funding (normally used to manage fluctuations in take-up levels) to providers during the financial year.
- Local authorities will not be allowed to use any 2 year old funding for central expenditure from 2027/28 and a minimum level of deprivation funding will be mandated..
- Local authorities will be mandated to spend a minimum of 0.75% of their early years block funding on SEN Inclusion Funds (SENIF). This would amount to around £0.2m for Telford & Wrekin. These are already required to be maintained locally to fund providers for low-level and emerging SEND costs, but the new approach would act as a required increase in priority when LAs decide how to allocate the overall early years funding envelope. The consultation quotes s251 (budget) returns for 2025/26, suggesting that local authorities allocate anywhere between 0.5% and 9% of their early years allocation towards SENIF, with more than half of all authorities below 2%.

From 2028/29:

- The Inclusive Early Years Fund, worth £47 million in 2026/27, will continue in 2027/28 as a standalone grant, after which it will be rolled into the overall early years block. Within the local funding formula used to distribute funding to providers, local authorities will need to introduce an inclusion supplement.

- The deprivation supplement in the local funding formula will be more 'clearly purposed' by which the DfE means that there will be more robust national requirements on the size and importance of the deprivation element in each local authority's approach to distributing funding for the 3-to-4-year-old entitlements to individual providers.
- Apart from Inclusion and deprivation supplements, the only other local formula supplement which will be allowed is a site-specific supplement, replacing the existing Quality, Rurality and Flexibility supplements.
- The SENIF and the Disability Access Fund (DAF) will be replaced with a single streamlined and targeted funding stream. Both of these are currently funded through the early years block and the new funding stream would be as well, but with less local discretion (especially on the size of SENIF).

From 2029/30:

- Local authority funding for central functions will be separated from the early years block and become a standalone grant.
- Subject to further considerations, high needs funding could be rebalanced so more of it is paid to providers up front rather than having to apply e.g. for the 2028/29 replacement of SENIF and DAF.

3 Comments

- 3.1 The new data used appears likely to deliver a modest increase in funding across all early years ages in T&W. There is a range of outcomes across local authorities with some seeing decreases or no change, a few (mainly urban) authorities seeing significant increases.
- 3.2 Telford & Wrekin currently fund central early years support by applying a uniform percentage across the 3 age categories of funding, but the DfE propose that no central spend will be allowed from this element of early years funding from 2027/28. It is not clear why this age group is treated differently – unless this is linked to the new requirements around deprivation funding. We attempted to model a deprivation supplement for 2 year old when the extended funding for this age group was introduced some years ago but the DfE's rules around the funding for this age group prevented this from being possible.
- 3.3 From 2028/29 we will no longer be able to have a flexibility supplement as the only allowable supplements will be for deprivation or site specific factors. This will have a beneficial impact upon the few settings that don't currently qualify for this, but as the vast majority of settings do receive it, it's removal will enable (in principle) enable the general hourly rate to be increased by a similar amount to the current flexibility rate.
- 3.4 It remains to be seen how much the separate standalone grant for central functions amounts to, but as the amount retained by T&W has been low compared to the average rates nationally, then it may not result in any reduction of central funding for T&W.

- 3.5 Overall, the proposals will result in a reduction of local discretion (referred to in parts of the document as a 'postcode lottery'), with allocations to early years settings instead being more closely controlled by the DfE.

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