

Early Years Budget 2025 – 2026

Report to the Schools Forum 16 January 2025

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, as can be seen 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
Under 2s	-	-	-	-	-	-	-	£10.61
2 year olds	£4.85	£5.20	£5.28	£5.36	£5.57	£5.63	£7.33	£7.79
3 & 4 year olds	£4.03	£4.36	£4.44	£4.50	£4.67	£4.90	£5.20	£5.47

** Increase delivered via Early Years Supplementary Grant*

- 1.3 2024/25 marked the beginning of a substantial extension of early years entitlements. From April 2024, 15 hours of funded childcare has been available to working parents of 2 year olds and then from September 2024, 15 hours has also been available to working parents of children from nine months old.
- 1.4 A further expansion will take 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.

2 2025/26 Funding

- 2.1 The 2025/26 funding rates for per hour for T&W for the respective age groups are as follows (overleaf):

Table 2: 2025/26 funding rates per hour for T&W

	2025/26
9 months up to 2 years	£10.92
2 year olds	£8.03
3 & 4 year olds	£5.71

- 1.5 Compared to the prior year, the under two rates have increased by 2.9%. 2-year-old funding has increased by 3.1%. 3 and 4 year-old funding has increased by 4.4%. The DfE's technical note about 2025/26 funding states that:

“National average rates have been increased in line with the forecast average earnings growth and inflation, and final 2025 national living wage (NLW) arrangements, based on the data available when setting the early years entitlements budget for 2025 to 2026”

Reading the technical guide it appears that the 3 and 4 year old percentage increase is higher as teachers pay forms part of the calculation for this age group, but not for younger children.

- 1.6 Notably, there is no reference to the increase in employers national insurance contributions in the DfE's explanation of the methodology behind the increases in funding rates, so it appears that the national insurance increase will be an unfunded cost pressure for providers.
- 1.7 DfE rules have now increased the pass-through rate to mean that at least 96% of total early years funding has to be passed through to providers and a maximum of 12% of the money in the funding formula can be distributed through supplements. At some as yet unspecified date in the future, possibly 2026/2027, the DfE intends to increase the 'pass-through' rate to 97%.
- 1.8 Part of the DfE's (unstated) rationale for the lack of funding for the national insurance increase could be that the increase in the pass-through requirement will mitigate this – but it makes little difference to local authorities such as T&W that already exceed the new minimum pass-through percentage.
- 1.9 There is a requirement for each local authority to have an inclusion fund.
- 1.10 The initial DfE estimate for T&W's Early Years Block allocation for 2025/26 is £31.3m. Compared to the estimated amount for 2024/25, £22.5m, this represents a 39% increase, which demonstrates the rapid expansion of funded provision.
- 1.11 In addition, Disability Access Funding (DAF) will be passed to settings educating eligible children for DAF at the rate of £938, an increase from the PY which was £910 per child. The Early Years Pupil Premium Grant (EYPPG) will increase substantially from 68p per hour, equivalent to £388 per annum, to £1.00p per hour, which is equivalent to £570 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).

2 T&W 2025/26 Proposals

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

Under two's:

- increasing the basic rate from £10.12 to £10.60,
- increasing the deprivation rate from £1.50 to £1.57

For two year olds:

- increasing the base rate from £7.55 to £7.81

For 3 & 4 year olds:

- basic hourly funding rate increased from £4.80 to £5.05,
- increase the flexible provision supplement from £0.30 to £0.31 per hour,
- deprivation funding increased from £1.20 to £1.26 per hour,
- as advised by the ESFA we have used the quality factor to distribute the legacy grants to mainstream schools at a rate of 22p per hour,
- a lump sum to nursery schools at £197,056 which is the actual amount that the ESFA allocates to the local authority;
- a provision for high needs support of £459,574. The principle has been to maintain the percentage retained for this purpose at the same level as 2023/24 and 2024/2025, i.e. the increase reflects the extension of entitlements. This will be funded as follows: £208,693 from three and four year old funding; £121,463 from two year old funding and £129,417 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 £361,000 compared to £335,524 compared to retentions in 2024/25. This is based upon the cost breakdown below (overleaf), 2024/25 provided for comparison purposes:

Table 3: 2025/26 proposed central retention

	2024/25	Notes	2025/26
Early Years Staffing	£407,975	Staffing consists of a team leader post, two early years consultant posts, five early years and childcare consultants and three early years support co-ordinators plus some management time. The current local authority assumption for the 2025/26 pay award is 4% (overall, in recent years there have been lump sum awards leading to lower paid staff having higher percentage increases and more highly paid staff lower percentages) so that has been applied to projected costings.	£429,303
Other costs	£40,000	Marketing (including promotional materials, events, social media, etc), training, IT for staff, printing, support services, etc.	£61,578
IT costs	£27,500	Development of Servelec systems to support extended offer.	£18,500
Less public health grant funding	-£86,951		-£86,951
Less traded income	-£53,000		-£61,000
Total	£335,524		£361,430

- 2.2 The proposed increase above represents an increase of 7.7%, compared to an estimated increase in 2025/26 early years funding of 39% (see paragraph 1.10 above).
- 2.3 The DfE pass-through requirement of a minimum of 96% 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.
- 2.4 For all categories, as in previous years, T&W intends to distribute well over the DfE requirement of 96% to settings in the region of 98.8%.
- 2.5 We discussed the proposals above with early years representatives at the early years finance group 7 January 2025. There was general support for the continuation of the formula models, although it was agreed that to inform discussions for formula funding from 2026/27 we would model the impact on settings of varying the amounts allocated to the basic hourly rate and deprivation.
- 2.6 There was also general support for increasing the amount allocated to high needs in proportion to the overall amount in the early years block, in the context of the increase in high needs throughout early years provision. Support from the early years team was also valued, together with the need for oversight of the early years provision in T&W. The relatively modest amount that was used for central support, compared to other local authorities and DfE thresholds) was recognised.

- 2.7 Forum members are invited to express their views on the funding formulas for 2025/26 and the proposed central retention of early years funds.

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