


## Agenda Item 4

	<b>London Borough of Hammersmith &amp; Fulham</b> <b>SCHOOLS FORUM</b> <b>Tuesday, 21<sup>st</sup> January 2025</b>
<b>EARLY YEARS FUNDING 2025/26</b>	
<b>Open</b>	
<b>Wards Affected: (All Wards); All</b>	
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<b>Purpose of the report</b> <p>This report updates forum on the initial allocation of Early Years Block funding for 2025/26 including the extended entitlements for working parents of two year old children and children from age 9 months. The report covers:</p> <ul style="list-style-type: none"><li>• An update on the National Funding Formula for Early Years 2025/26</li><li>• Funding rates and draft budget for April 2025 to March 2026 for the following:<ul style="list-style-type: none"><li>○ 3 and 4-year-old universal entitlement and additional hours for working parents</li><li>○ 2-year-old targeted support for families receiving additional support (previously known as the entitlements for disadvantaged families) and the entitlement for working parents</li><li>○ Under 2s entitlements for children aged 9 months up to 2 years</li></ul></li></ul>	

### 1. Introduction and Changes to Early Years Funding 2025/26

- 1.1. The government has extended the number of free childcare offers available to working parents (subject to eligibility) from September 2025 to a maximum of 30 hours per week for 38 weeks for all preschool children from the term after they turn 9 months old.
- 1.2. Local authorities are required to set a local formula for all government funded childcare entitlements for the 2025/26 financial year taking account of all grant conditions and operational guidance.

- 1.3. This report details the government funding and the corresponding budgets required for approval based on the 2024/25 hourly rates issued by DfE and the activity data from the January 2023 census and DfE estimates for the new offers.

## 2. Background to the Early Years National Funding Formula 2025/26

- 2.1. The 2025/26 Early Years Block funding allocation and operational guidance was received on 10<sup>th</sup> December 2024. The proposed budget for 2025/26 early years entitlements is based on the January 2024 early years census and estimates of expected take-up of the new entitlements in 2025/26. Table 1 below gives a high-level summary of the proposed budget which totals £21.415m across all funding elements.
- 2.2. Summary explanations of the funded childcare offer including funding rates applicable in 2025/26 are set out below:

**Table 1: Breakdown of Initial Early Years Funding Allocations 2025/26**  
(January 2024 headcount and DfE estimates)

<b>Childcare Entitlement</b>	<b>Amount £m</b>
<b>3 and 4-year-olds</b>	
Universal Offer - 15 hours	10.573
Extended Offer for Working Parents - Additional 15 hours	2.151
Disability Access Fund	0.076
EY Pupil Premium	0.12
<b>Sub-total 3 and 4-year-olds offer</b>	<b>12.920</b>
<b>Two-year-olds</b>	
Targeted Offer - Families Receiving Additional Support - 15 Hours	1.332
Working Parent offer - 15 hours rising to 30 September 2025	2.388
Disability Access Fund	0.014
EY Pupil Premium	0.047
<b>Sub-total 2-year-old Offer</b>	<b>3.781</b>
<b>9 Month up to 2 years</b>	
Working Parent offer - 15 hours rising to 30 September 2025	3.601
Disability Access Fund	0.006
EY Pupil Premium	0.004
<b>Sub-total 9 Months up to 2 years old offer</b>	<b>3.611</b>
<b>Maintained nursery school supplementary grant funding</b>	<b>1.103</b>
<b>TOTAL</b>	<b>21.415</b>

- 2.3. Universal entitlement for 3 and 4-year-olds – 15 hours free childcare for all 3 and 4-year-olds available from the term after their 3rd birthday for a maximum of 38 weeks per year. Funding will be received by LBHF at £8.87 per hour in 2025/26. This is a £0.16 per hour increase or 1.84% increase on the final 2024/25 funded rate at £8.61.

Note that of the £0.16 per hour increase, £0.12 per hour relates to mainstreaming of the Early Years Block Grant of £0.12 per hour for primary schools with Nursery provision. The Early Years Block Grant was introduced as a separate grant for schools from September 2024 to meet the national pay award for qualified teachers from September 2024.

- 2.4. Additional entitlement working parents 3 and 4-year-olds – additional 15 hours free childcare for eligible working parent from the term after their 3rd birthday for a maximum of 38 weeks per year. Parents are required to obtain a 30-hour code. Funding will be received by LBHF at £8.87 per hour in 2025/26 financial year.
- 2.5. Targeted offer for families receiving additional support (formerly known as the disadvantaged offer for 2-Year Olds) – 15 hours free childcare for eligible 2-year-old children from the term after their 2nd birthday for a maximum of 38 weeks per year. Funding received is £11.98 per hour in the 2025/26 financial year.
- 2.6. Working Parent entitlement for 2-year-olds – this is a new offer of 15 hours free childcare for eligible children following their 2nd birthday for a maximum of 38 weeks per year. 30 hours will be available to eligible parents from September 2025. Funding received is £11.98 per hour in the 2025/26 financial year.
- 2.7. Working Parent entitlement for 9 months up to 2 years old – this is a new offer of 15 hours free childcare for eligible children from the term after they are 9 months for a maximum of 38 weeks per year. 30 hours will be available to eligible parents from September 2025. Funding received is £16.58 per hour in the 2025/26 financial year.
- 2.8. Maintained Nursery School Supplementary Funding – this additional funding for maintained nurseries was initiated as part of the move to the National Funding Formula to provide funding protection with respect to historic duties to 3 and 4-year-olds. An estimated initial allocation of £1.103m in 2025/26 is based on the January 2024 census for 3 and 4-year-olds accessing the universal entitlement. This figure includes the allowance for MNS share of Teachers Pay and Pension Grant and the September 2024 Early Years Block Grant for Teachers pay. This allocation is subject to change depending on actual participation and will be adjusted accordingly in July 2026 as a result of the January 2026 census.
- 2.9. Early Years (EY) Pupil Premium – additional funding for disadvantaged children has been extended to all the Early Years offers detailed above. It will be paid as a top up of £1.00 per hour up in 2025/26 to a maximum of

£570 per year (38 weeks). This is a 50.5% increase on the 2024/25 rate. Eligibility relates to benefits received by the family and must be confirmed by the provider and recorded on the termly head count.

- 2.10. Disability Access Fund – additional per pupil funding for those receiving DLA to access all EY entitlements. This was previously for 3 and 4-year-olds only and has been extended to all Early Years offers from 1st April 2024. Funding has increased by £28 to £938 per eligible pupil per annum.

### 3. 2025/26 Proposed Budget Model – All Entitlements

- 3.1. The 2025/26 proposed budget model is based on the initial allocation detailed above and summarised in Table 2. The proposed breakdown of the use of the new hourly funding rates for each entitlement is shown in the Table 3.

**Table 2: Proposed 2025/26 Early Years Budget by entitlement**

	<b>25/26</b>	<b>25/26</b>	<b>25/26</b>
	<b>3 and 4 YO Entitlements (Universal &amp; Extended)</b>	<b>2 YO Entitlements (Working Parents &amp; Targeted Additional Support)</b>	<b>Under 2 YO Entitlements (Working Parents)</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
A. Base Rate - Participation based on estimated hours	9.640	3.121	3.125
B. Deprivation Supplement - Participation	1.033	0.270	0.167
C. Supplement for Quality	0.416	0.000	0.000
D. SEN Inclusion Fund	0.502	0.149	0.143
E. Lump Sum to MNS	0.574	0.000	0.000
F. Contingency	0.057	0.031	0.022
G. Central expenditure - 4%	0.502	0.149	0.143
<b>TOTAL Planned Expenditure</b>	<b>12.724</b>	<b>3.720</b>	<b>3.600</b>

- 3.2. The proposed breakdown of the use of the new hourly funding rates for each entitlement is shown in the Table 3.

**Table 3: Factors and Hourly Rates Proposed 2025/26**

	<b>25/26</b>	<b>25/26</b>	<b>25/26</b>
	<b>3 and 4 YO Entitlements (Universal &amp; Extended)</b>	<b>2 YO Entitlements (Working Parents &amp; Targeted Additional Support)</b>	<b>Under 2 YO Entitlements (Working Parents)</b>
	<b>£ per hour</b>	<b>£ per hour</b>	<b>£ per hour</b>
A. Base Rate - Participation based on estimated hours to all providers	6.72	10.05	14.39
B. Deprivation Supplement – Participation see Appendix IDACI sliding scale	0.72	0.87	0.77
C. Supplement for Quality	0.29	Nil	Nil
D. SEN Inclusion Fund	0.35	0.48	0.66
E. Lump Sum to MNS	0.40	Nil	Nil
F. Contingency	0.04	0.10	0.10
G. Central expenditure - 4%	0.35	0.48	0.66
<b>TOTAL Funded Hourly Rate</b>	<b>8.87</b>	<b>11.98</b>	<b>16.58</b>

#### **4. Key Elements of the Proposed Budget Models 2025/26**

- 4.1. All providers, both schools, private & voluntary nursery providers and childminders to be funded according to the DFE regulations. The value of supplements for each entitlement must not exceed 12% of the total amount of the payments made.
- 4.2. Factor A - Universal base rates paid for every hour under the governments early years Entitlements for the financial year starting April 2025.

#### 4.3. Factor B – Deprivation Supplement:

- This is a mandatory supplement for 3 and 4-year-old offer and in order to remain within the overall supplements limit of 12% (including Factor C Quality). Modelling of current payments indicates that the current IDACI banding hourly rates pay over this limit. The rates have been held at 2024/25 levels. Details are provided in Appendix A.
- A deprivation supplement has been included for both 2-year-old offers and under 2-year-old offer on the same basis as the 3 and 4-year-old offer.

#### 4.4. Factor C - Quality. This supplement is for 3 and 4-year-old offer only and relates solely to the Teachers Pay and Pension grants which was rolled into the EY funding in 2023/24 and continues to be applicable in 2025/26. This funding includes:

- Teachers Pay Additional Grant paid to schools in 2023/24 which was mainstreamed for 2024/25
- an allowance for the proposed Teachers Pension Employer contribution increase from April 2024.
- Early Years Block Grant paid separately to schools by government grant in 2024/25 and now mainstreamed into the Early Years Block from 2025/26
- This funding will be used for mainstream primaries with nurseries as suggested by the DfE guidance. Maintained Nursery Schools are not eligible for this funding as pay grants have been added to the Maintained Nursery School supplement.

#### 4.5. Factor D - SEN Inclusion Fund. All providers at some stage may require additional funding to help them support the needs of individual children with lower level or emerging SEN in their settings. The 2025/26 budget is proposed across all entitlements is based on 4% of the funded rate for each element. This will enable to budget to grow as the activity from new entitlements expands in 2025/26 and 2026/27 financial years.

- The Early Years Inclusion Fund has been expanded to include all children covered by the extended entitlements who have a low level or emerging SEN from April 2024 as required by regulation.
- The funding is for use in the setting and is allocated to the provider on an individual basis.

#### 4.6. Factor E – Lumps sum to maintained nursery schools to support the enhanced offer available to families and children requiring additional support. Increased in 2025/26 to include sector wide early intervention support which had been provided centrally by the Local Authority in 2024/25.

#### 4.7. Factor F – contingency funding. The contingency is available to manage volatility in funding versus activity between terms and also intended to manage the risk with respect to deprivation for the new entitlements where average IDACI is based on estimates of uptake.

#### 4.8. Factor G - Central Services Expenditure. The model assumes a budget for central services of £0.794m which is the maximum amount allowed across

the entitlements under regulations with the new requirement to pass through 96% of funding to providers.

- 4.9. The proposed allocation of the central items is detailed in Table 4 below. This represents a reduction in the central budget of circa £0.056m per annum for central spend versus the 2024/25 original budget.
- 4.10. A further reduction in central expenditure of circa £0.116m could be expected in 2026/27 financial year if passthrough requirement is further increased from 96% to 97%.
- 4.11. Early Intervention services and outreach are therefore proposed to be delivered via H&F maintained nursery schools via an increase in the lump sum budget provision within the 3 and 4-year-old budget model.

**Table 4: Proposed Central Services Budget 2025/26**

Item of Central Expenditure	25/26
	Total £m
i. Education Early Years Services	0.418
ii. Help and Support for Families in Need	0.237
iii. Finance	0.076
iv. Business Intelligence incl. census	0.063
<b>Total Central Spend</b>	<b>0.794</b>

## 5. Key Changes - Deployment of Hourly Funded Rate in the Proposed 2025/26 Budget

- 5.1. The key principles for the **2025/26 budget of £12.920m for 3 and 4-year-olds** in line with grant conditions, including:
- The proposed increase in the hourly base rate paid to all early years providers by £0.04 per hour to £6.72 per funded hour from April 2025 (a year-on-year increase of 0.6%).
  - Increase in the quality supplement for 2025/26 to mainstream the Early Years Block Grant for schools with nurseries from April 2025 at £0.12 per funded hour.
  - An increase in the provision for Special Educational Needs Inclusion by £0.01 per funded hour to maintain 4% of entitlement funding for inclusion.
  - Following the increase in the passthrough requirement in the 2025/26 National Funding Formula, an increase in the lump sum for maintained nursery school's budget from £0.27 per funded hour to £0.40 is recommended to maintain early Intervention support services to the wider early years sector.

This would be funded by:

- The increase in the government funded rate of 0.16 per hour (an increase of 1.84%), including £0.12 per hour for mainstreamed school grants.
- A reduction in the contingency budget held from £0.10 per funded hour to £0.04.
- The required reduction in central budget from £0.43 to £0.35 per funded hour (5% to 4%) in 2025/26 as required by grant conditions.

5.2. The key principles for the **2025/26 budget of £3.781m for two-year-olds** in line with grant conditions, including:

- The proposed increase in the hourly base rate paid to all early years providers by £0.69 per funded hour to £10.05 per hour from April 2025 (a year-on-year increase of 7.37%). This would apply to both the entitlements for working parents and the targeted offer for families receiving additional support.
- An increase in the provision for Special Educational Needs Inclusion by £0.14 per funded hour to £0.48 to ensure 4% of entitlement funding for inclusion across all entitlements and to accommodate the expanded entitlement in 2025/26.

This would be funded by:

- The increase in the government funded rate of £0.68 per (an increase of 6.02%)
- The required reduction in central budget from £0.57 to £0.48 per funded hour (5% to 4%) in 2025/26 as required by grant conditions.
- A reduction in the contingency budget held from £0.14 per funded hour to £0.10.
- A reduction in the budget held for deprivation funding from £0.89 per funded hour to £0.87 to reflect average deprivation calculated on the Autumn 2024 cohort.

5.3. The key principles for the **2025/26 budget of £3.611m for children from 9 months up to two years old** in line with grant conditions, including:

- The proposed new hourly base rate paid to all early years providers by £0.94 per funded hour to £14.39 per funded hour from April 2025 (a year-on-year increase of 6.99%).
- An increase in the provision for Special Educational Needs Inclusion by £0.32 per funded hour to £0.66 to ensure 4% of entitlement funding for inclusion across all entitlements and to accommodate the expanded entitlement in 2025/26.

This would be funded by:

- The increase in the government funded rate of £1.17 per hour (an increase of 7.59%)
- The required reduction in central budget from £0.75 to £0.66 per funded hour (5% to 4%) in 2025/26 as required by grant conditions.



## **6. Recommendations and next steps**

- 6.1. Schools Forum to note the engagement and briefings were undertaken with schools and Early Years providers from 6th January 2025 ahead of Schools Forum.
- 6.2. Schools Forum are asked to approve the proposed deployment of central budget in Table 4 above and to note the impact of the impact of passthrough requirement on available central funds from 25/26.
- 6.3. Schools Forum to note the proposed 2025/26 Early Year budget across all entitlements including the revised base rates, deprivation and local formulas proposed.

**Report ends**

## Appendix A – IDACI Sliding Scale of Rates 2025/26 – Early Years Deprivation Participation Rate Proposed

IDACI Bandings used for Deprivation Supplement to universal hourly rate across all entitlements from April 2025.

IDACI banding	2025/26
	Hourly Rate Proposed (All Entitlements)
	£
1	1.33
2	1.23
3	1.12
4	1.02
5	0.92
6	0.40
7	0.20
8	0.05
9	0.00
10	0.00

DFE Regulations state that the total amount paid as supplements to the universal hourly rate must not exceed 12% of the total amount payable. For the 3 and 4 YO offer this includes both deprivation and quality. In order to remain within the limit modelling indicates the total amount paid as deprivation based on the 23/24 rates is in excess of this. The proposed rates are expected to bring spend on supplements back to within the 12% limit without affecting the hourly rate paid for children within the highest IDACI bands.