


## Agenda Item 4

	<p style="text-align: center;"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p style="text-align: center;"><b>SCHOOLS FORUM</b></p> <p style="text-align: center;"><b>20th January 2026</b></p>
<b>Early Years Dedicated Schools Grant Budget 2026/27</b>	
<b>Open</b>	
<b>Classification</b> - For scrutiny, review and comment	
<b>Wards Affected:</b> All	
<b>Accountable Director:</b> Jacqui McShannon, Executive Director of People	
<b>Report Authors:</b>	
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<p><b>Purpose of the report</b></p> <p>This report updates forum on the initial allocation of Early Years Block funding for 2026/27 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 2026/27</li><li>• Funding rates and draft budget for April 2026 to March 2027 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 with 2-year-olds receiving additional forms of 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 2026/27**

- 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 2026/27 financial year taking account of all grant conditions and operational guidance.
- 1.3. Key changes in the National Funding Formula for 2026/27 are:
  - The passthrough requirement has increased to 97% from April 2026, which is an increase on the 96% and 95% in 2025/26 and 2024/25 financial years respectively. This effectively reduces the % available for local authorities to budget for central expenditure as the additional entitlements increase.
  - Funding provided through the 2025 to 2026 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. Local authorities will not, therefore, receive a separate EYNTPG allocation in 2026 to 2027. This represents a change in approach by the Department for Education (DfE) where in previous years the approach had been to roll into grant funding at local authority level.
  - From financial year 2026 to 2027, the DfE are introducing a termly funding system to fund all the early years entitlements on termly census headcounts, as is currently the case for working parents' entitlements for 2-year-olds and under. Data from local authorities show the funded weeks on average are: 13 weeks in the summer term, 14 weeks in the autumn term and 11 weeks in the spring term. In order to ensure all local authorities are fairly treated and the funding allocation methodology aligns closely with local authority delivery pattern, the DfE will be providing all local authorities with funding for 13 weeks in the summer, 14 weeks in the autumn and 11 weeks in the spring for all the early years funding streams.
- 1.4. As set out in the [Best Start in Life](#) publication in July 2025, the DfE will be reviewing early years funding arrangements and will consult on changes to how early years funding is allocated and distributed by the summer of 2026.

## **2. Background to the Early Years National Funding Formula 2026/27**

- 2.1. The 2026/27 Early Years Block funding allocation and operational guidance was received in December 2025. Table 1 below gives a high-level summary of the proposed budget which totals £25.845m across all funding elements.
- 2.2. Summary explanations of the funded childcare offer including funding rates applicable in 2026/27 are set out below:

**Table 1: Breakdown of Initial Early Years Funding Allocations 2026/27**

<b>Childcare Entitlement</b>	<b>Amount £m</b>
<b>3 and 4-year-olds</b>	
Universal Offer - 15 hours	10.363
Extended Offer for Working Parents - Additional 15 hours	2.458
Disability Access Fund	0.072
EY Pupil Premium	0.122
<b>Sub-total 3 and 4-year-olds offer</b>	<b>13.015</b>
<b>Two-year-olds</b>	
Targeted Offer - Families Receiving Additional Support - 15 Hours	1.274
Working Parent offer - 15 hours rising to 30 September 2025	4.269
Disability Access Fund	0.019
EY Pupil Premium	0.018
<b>Sub-total 2-year-old Offer</b>	<b>5.580</b>
<b>9 Month up to 2 years</b>	
Working Parent offer - 15 hours rising to 30 September 2025	6.254
Disability Access Fund	0.005
EY Pupil Premium	0.000
<b>Sub-total 9 Months up to 2 years old offer</b>	<b>6.259</b>
<b>Maintained nursery school supplementary grant funding</b>	<b>0.991</b>
<b>TOTAL</b>	<b>25.845</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 £8.93 per hour in 2026/27. This is a £0.06 per hour increase or 0.68% increase on the final 2025/26 funded rate at £8.87.

Note that:

- The funding increase provided of £0.06 per hour relates to the termly funding adjustment. This funding adjustment is to compensate for the move to termly rather than annual census funding.
- As providers in Hammersmith and Fulham are already funded on the basis of the termly headcount, it is assumed that this funding can be passported via the basic funding entitlement to all providers in 2026/27.

- Before the termly funding adjustment the year-on-year funding increase provided to Hammersmith and Fulham is nil.
- 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 £8.93 per hour in 2026/27 financial year.
  - 2.5. Targeted offer for families receiving additional forms of 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 will be received by LBHF at £12.53 per hour in the 2026/27 financial year, a 4.59% increase year on year.
  - 2.6. Working Parent entitlement for 2-year-olds – this is a new offer of up to 30 hours free childcare for eligible children following their 2nd birthday for a maximum of 38 weeks per year. Funding will be received by LBHF at £12.53 per hour in the 2026/27 financial year, a 4.59% increase year on year.
  - 2.7. Working Parent entitlement for 9 months up to 2 years old – this is a new offer of up to 30 hours free childcare for eligible children from the term after they are 9 months for a maximum of 38 weeks per year. Funding received by LBHF at £17.49 per hour in the 2026/27 financial year, a 5.49% increase year on 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 £0.991m in 2026/27 is based on the January 2025 census for 3 and 4-year-olds accessing the universal entitlement at £8.73 per hour. This allocation is subject to change depending on actual participation and will also be adjusted for the termly census from April 2026.
  - 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 £1.15 per hour up in 2026/27 to a maximum of £655.5 per year (38 weeks). This is a 15% increase on the 2025/26 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. Funding has increased by £37 to £975 per eligible pupil per annum.

### **3. 2026/27 Proposed Budget Model – All Entitlements**

- 3.1. The 2026/27 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 2026/27 Early Years Budget by entitlement**

	<b>26/27</b>	<b>26/27</b>	<b>26/27</b>	<b>26/27</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>Total All Entitlements</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
A. Base Rate - Participation based on estimated hours	9.734	4.676	5.436	<b>19.846</b>
B. Deprivation Supplement	0.933	0.358	0.268	<b>1.559</b>
C. Supplement for Quality	0.388	N/A	N/A	<b>0.388</b>
D. SEN Inclusion Fund	0.632	0.279	0.315	<b>1.226</b>
E. Lump Sum to MNS	0.704	N/A	N/A	<b>0.704</b>
F. Contingency	0.057	0.066	0.054	<b>0.177</b>
G. Central expenditure - 3%	0.373	0.164	0.182	<b>0.719</b>
H. Maintained Nursery School Supplement	0.991	N/A	N/A	<b>0.991</b>
<b>TOTAL Planned Expenditure</b>	<b>13.812</b>	<b>5.543</b>	<b>6.255</b>	<b>25.610</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 2026/27**

	<b>26/27</b> <b>3 and 4 YO</b> <b>Entitlements</b> <b>(Universal &amp;</b> <b>Extended)</b>	<b>26/27</b> <b>2 YO</b> <b>Entitlements</b> <b>(Working</b> <b>Parents &amp;</b> <b>Targeted</b> <b>Additional</b> <b>Support)</b>	<b>26/27</b> <b>Under 2 YO</b> <b>Entitlements</b> <b>(Working</b> <b>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	6.78	10.57	15.20
B. Deprivation Supplement – Participation see Appendix IDACI sliding scale	0.65	0.81	0.75
C. Supplement for Quality	0.27	N/A	N/A
D. SEN Inclusion Fund	0.44	0.63	0.88
E. Lump Sum to MNS	0.49	N/A	N/A
F. Contingency	0.04	0.15	0.15
G. Central expenditure - 3%	0.26	0.37	0.51
<b>TOTAL Funded Hourly Rate</b>	<b>8.93</b>	<b>12.53</b>	<b>17.49</b>
H. Maintained Nursery School Supplement	8.73	N/A	N/A

#### **4. Key Elements of the Proposed Budget Models 2026/27**

- 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 2026.
- 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). The rates have been held at 2025/26 levels to ensure overall supplements remain within the 12 limit across all entitlements. 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 Primary Nursery Pay and Pension grants which was rolled into the EY funding since 2023.
  - Maintained Nursery Schools are not eligible for this funding as pay grants have been added to the Maintained Nursery School supplement.
  - Note the additional grants in 2025/26 for funding provided through the 2025 to 2026 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. Local authorities will not, therefore, receive a separate EYNTPG allocation in 2026/27 financial year to pass on to primary schools with nurseries.
- 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 2026/27 budget is proposed across all entitlements is based on 5% of the funded rate for each element. This will enable to budget to grow as the activity from new entitlements expands for a full financial year in 2026/27.
  - 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. This has increased in 2026/27 to include sector wide early intervention support which had been provided by the central budget prior to the increase in the passthrough requirement to 97%.
- 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 £0.719m which is the maximum amount allowed across the entitlements under regulations with the new requirement to pass through 97% of funding to providers. The planned central budget has reduced from £0.794m and £0.850m in 2025/26 and 2024/25 respectively as a result the increase in passthrough requirement over that period.

**Table 4: Proposed Central Services Budget 2026/27**

Item of Central Expenditure	26/27
	Total
	£m
i. Education Early Years Services	0.443
ii. Help and Support for Families in Need	0.085
iii. Finance and Statutory Services	0.126
iv. Business Intelligence incl. census	0.065
<b>Total Central Spend</b>	<b>0.719</b>

## **5. Key Changes - Deployment of Hourly Funded Rate in the Proposed 2026/27 Budget**

- 5.1. The key principles for the **2026/27 budget of £12.821m 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 £0.06 per hour to £6.78 per funded hour from April 2026 (a year-on-year increase of 0.89%).
  - A decrease in the budgeted average hourly rate for deprivation from £0.72 to £0.65 per hour based on analysis of the Autum 2025 census and using IDACI 2025 data. Funded rates per IDACI decile proposed for 2026/27 are unchanged from 2025/26 and per the rates detailed in Appendix 1.
  - The quality supplement for primary schools for historic grant funding has been set at £0.27 per hour in 2026/27. This is the maximum rate possible within the 12% supplement limit set by the National Funding Formula.
    - i. This represents an increase in £0.07 per hour on the revised 2025/26 budget after technical adjustment (see item 5, Schools Forum 11/11/25)
    - ii. Is a £0.02 reduction per hour versus the original budget discussed at Schools Forum 21/01/25)
  - Following the increase in the passthrough requirement in the 2026/27 National Funding Formula:
    - i. a reduction in the central funding of £0.09 per hour to ensure 97% passthrough requirement
    - ii. a corresponding increase in the lump sum for maintained nursery school's budget from £0.40 per funded hour to £0.49 is proposed to maintain early Intervention support services to the wider early



years sector and to continue to support families with additional needs through maintained nursery schools.

5.2. The key principles for the **2026/27 budget of £5.543m 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 £0.52 per funded hour to £10.57 per hour from April 2026 (a year-on-year increase of 5.17%). This would apply to both the entitlements for working parents and the targeted offer for families receiving additional support.
- A decrease in the budgeted average hourly rate for deprivation from £0.87 to £0.81 per hour based on analysis of the Autumn 2025 census and using IDACI 2025 data. Funded rates per IDACI decile proposed for 2026/27 are unchanged from 2025/26 and per the rates detailed in Appendix 1.
- An increase in the provision for Special Educational Needs Inclusion by £0.15 per funded hour to £0.63 to ensure 5% of entitlement funding for inclusion across all entitlements and to accommodate the expanded entitlement in 2026/27.
- An increase in contingency of £0.05 per hour to help manage volatility in the overall budget for 2026/27.
- Following the increase in the passthrough requirement in the 2026/27 National Funding Formula, a reduction in the central budget of £0.11 per hour.

5.3. The key principles for the **2026/27 budget of £6.255m for children from 9 months up to two years old** in line with grant conditions, including:

- The proposed increase in the hourly base rate paid to all early years providers by £0.81 per funded hour to £15.20 per hour from April 2026 (a year-on-year increase of 5.63%).
- A decrease in the budgeted average hourly rate for deprivation from £0.77 to £0.75 per hour based on analysis of the Autumn 2025 census and using IDACI 2025 data. Funded rates per IDACI decile proposed for 2026/27 are unchanged from 2025/26 and per the rates detailed in Appendix 1.
- An increase in the provision for Special Educational Needs Inclusion by £0.22 per funded hour to £0.88 to ensure 5% of entitlement funding for inclusion across all entitlements and to accommodate the expanded entitlement in 2026/27.
- An increase in contingency of £0.05 per hour to help manage volatility in the overall budget for 2026/27.
- Following the increase in the passthrough requirement in the 2026/27 National Funding Formula, a reduction in the central budget of £0.15 per hour.

## 6. Recommendations and next steps

- 6.1. Schools Forum to note the engagement and briefings were undertaken with schools and Early Years providers from 12th January 2026 ahead of Schools Forum on 20<sup>th</sup> January.
- 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 2026/27.
- 6.3. Schools Forum to note the proposed 2026/27 Early Year budget across all entitlements including the revised base rates, deprivation and local formulas proposed.
- 6.4. Schools Forum asked to note the change in termly funding proposed from April 2026 to align termly funding paid to providers on the same basis as funding to be received by the local authority. Funding will now be provided to all settings on the basis of 13 weeks in the summer, 14 weeks in the autumn and 11 weeks in the spring for all the early years funding streams. This is a change from the 12.66 weeks per term used to calculate termly funding per the census and headcount in 2025/26.

**Report ends**

## **Appendix A – IDACI Sliding Scale of Rates 2026/27 – Early Years Deprivation Participation Rate Proposed**

IDACI Bandings used for Deprivation Supplement to universal hourly rate across all entitlements from April 2026.

<b>IDACI banding</b>	<b>2026/27 Hourly Rate Proposed (All Entitlements)</b>
	<b>£</b>
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.