Dorset Schools' Forum

Date of Meeting:	**16 January 2026**
Report Title:	**Early Years Funding Formula 2026–27: Proposed Changes and Central Retention**
Executive Director:	**Paul Dempsey, Executive Director for People - Children**
Corporate Director:	**Jen Furnell, Corporate Director for Education and Learning**
Report Author: Title: Tel: Email:	Vanessa Eddey Team Manager – Schools, Finance & Support 01305 225918 vanessa.eddey@dorsetcouncil.gov.uk
Presenting Officer:	**Vanessa Eddey, Team Manager – Schools, Finance & Support, Education Services, Education & Learning, People – Children Directorate**
Report Status:	**Public**
Reason for Submission to Schools' Forum:	**For APPROVAL / ~~CONSULTATION / INFORMATION~~*** **Under Forum power/responsibility**: 1(b)(vii) Central Spend on Early Years Block (EYB) Provision and 2(a) formula changes including redistributions of school and early years funding
Recommendation(s):	That the Schools' Forum consider and comment on the contents of the report, in particular, the proposal to: • Agree the 2026-27 3- & 4-year-old base rate • Agree any changes to the 2026-27 3- &4-year-old supplements • Agree the 2026-27 2-year-old rate for eligible families receiving additional support (FRAS) • Agree the 2026-27 2-year-old rate for children from working families • Agree the 2026-27 under 2s rate for children from working families. • Agree the central retention of £1,211,845.

Reason for Recommendation(s):	• To pass on as much of the rate increase to providers as possible, to support financial sustainability and the LA's sufficiency duty.
DECLARATIONS OF INTEREST	Schools' Forum members are reminded of their responsibility to make a declaration of interest in any agenda item in which they have an interest, to the Chair or the Clerk, preferably in advance of the meeting.

- **Executive Summary**

1.1 Background

The report sets out proposed budget and formula for allocation for the Early Years Funding Formula to providers for 2026-27, including the element to be retained for central spend in support of early years providers. Links to background supporting information are shown in Section 9 of this report.

The government have continued with the policy of expanding funded early years entitlements and continue to use a national funding formula (NFF) to determine the funding passed on to Local Authorities (LAs) via the Early Years Block (EYB) of the Dedicated Schools Grant (DSG). Funding is based on attendance and 15 hours per week for 38 weeks per year equals one part-time equivalent (PTE).

The early years entitlements are:

- the 30 hours entitlement for eligible working parents of children from 9 months up to 2 years old
- the 30 hours entitlement for eligible working parents of 2-year-old children
- the 15 hours entitlement for families of 2-year-olds receiving additional support (FRAS, formerly known as the 2-year-old disadvantaged entitlement)
- the universal 15 hours entitlement for all 3 and 4-year-olds
- the additional 15 hours entitlement for working parents of 3 and 4-year-olds

Additional funding available through:

- the disability access fund (DAF) for eligible children accessing the early years entitlements
- the early years pupil premium (EYPP) for eligible children and looked after children accessing the early years entitlements

Changes introduced for 2026-27 are:

- an increased minimum pass-through requirement for local authorities in 2026-27 – the pass-through rate will increase from 96% to 97%.
- The statutory requirement that local authorities will announce their funding rates to childcare providers by 28 February 2026.
- Moving to a termly funding system for 2026-27 – formerly funding was determined and adjusted according to the annual spring census.
- Information on changes to the eligibility criteria for the special educational needs inclusion fund (SENIF).

With the roll-out of the new entitlements the EYB of the DSG has increased from £45,721,068 in 2025-26 (adjusted budget) to £50,555,910 in 2026-27. Funding is based on a part-time equivalent (PTE), using attendance in the last spring census and termly data collections in the summer and autumn terms 2025.

Early Years Block	**PTE**	**Rate**	**x 15**	**x 38**	**Total**
3- & 4-year-old universal	3,599.63	£6.20	15	38	£12,721,093
3- & 4-year-old additional	2,085.59	£6.20	15	38	£7,370,475
2-year-old - FRAS	430.77	£8.08	15	38	£1,983,954
2-year-old - working parents	2,705.84	£8.08	15	38	£12,462,018
Under 2s - working parents	2,466.16	£10.91	15	38	£15,336,310
Early Years Pupil Premium					£431,484
Disability Access Fund					£250,575
Total Early Years Block					£50,555,910

Early Years Pupil Premium (EYPP) and Disability Access Fund (DAF) is split between the age groups as follows:

	PTE	**Rate**	**x 15**	**x 38**	**Total**
3- & 4-year-old	417.380	£1.15	15	38	£273,593
2-year-old	230.420	£1.15	15	38	£151,041
Under 2s	10.450	£1.15	15	38	£6,850
Total Pupil Premium					£431,484
3- & 4-year-old	192.000	£975			£187,200
2-year-old	57.000	£975			£55,575
Under 2s	8.000	£975			£7,800
Total Disability Access Fund					£250,575

1.2 Early Years National Funding Formula (EYNFF)

The EYNFF calculates an LA hourly funding rate by multiplying a base rate plus additional needs by an Area Cost Adjustment. For 3- and 4-year-old funding, additional needs just uses Free school Meals. The EYNFF for 2-year-olds and under 2s has a different approach to the additional needs factor, using both free school meals (FSM) and the income deprivation affecting children index (IDACI) as proxies for deprivations, rather than just FSM alone.

For 2026-27 both formulas remain the same but the formula factors have been updated with the latest available data. The DfE have also applied the following updates:

- An inflationary increase to reflect sector specific costs (Average Earnings Growth, CPI at the point of setting rates and the 2026 National Living Wage;
- A further increase to reflect workforce costs the sector has faced since April 2025;
- Funding in respect of the 2025-26 Early Years National Insurance contributions and teachers' pay grant (EYNTPG) has been rolled into 3&4, 2-year-old and under 2 rates according to the proportion of funding each age group received through the EYNTPG.
- An above inflation increase to EYPP to build on the 2025-26 rate of £1.00.

Each LA's funding can vary according to the EYNFF but Dorset remains close to the bottom nationally. The following tables show national average rates and Dorset rates:

3- & 4-year-old	£6.01 - £9.23

2-year-old	£7.66 - £12.74
Under 2s	£10.34 - £17.87

EYB funding rates for Dorset	2025-26	2026-27	Increase	% Increase	Rate with termly funding adjustment	% Increase
3- & 4-year-old universal	£5.71	£6.01	£0.30	5.25%	£6.20	8.58%
3- & 4-year-old additional	£5.71	£6.01	£0.30	5.25%		
2-year-old – FRAS	£7.72	£8.08	£0.36	4.66%		
2-year-old - working parents	£7.72	£8.08	£0.36	4.66%		
Under 2s - working parents	£10.44	£10.91	£0.47	4.50%		
EYPP	£1.00	£1.15	£0.15	15.00%		
DAF	938.00	£975.00	£37.00	3.94%		

For 2026-27, the DfE are permanently moving to a **termly census** for all entitlements, to improve the accuracy of the funding system. There will be 3 headcounts a year rather than the spring count, timed to align with the existing school census dates. The allocation profile will better match the number of weeks early years providers are funded for, e.g., 13 weeks in the summer, 14 weeks in the autumn and 11 weeks in the spring.

The DfE have applied an adjustment to the 3- & 4-year-old rate to support the transition to a termly funding approach. National data has shown an average reduction in volumes by around 2.94%. Part or all of the additional 3- & 4-year-old termly funding adjustment can be used as a contingency budget if required. As the new funding model matches the existing delivery model in Dorset, fluctuations in the funding allocations are not expected. It is therefore possible to use some of the termly funding adjustment to boost the 3- & 4-year-old rate.

1.3 Dorset Early Years Funding rates in 2025-26

	3- & 4-year-old	2-year-old (working and FRAS)	Under 2s
Base rate	£5.45 per hour	£7.43 per hour	£10.05 per hour
Supplement Deprivation - based on the Income Deprivation Affecting Children Index (IDACI) (if applicable) Deprivation Band 1 Deprivation Band 2 Deprivation Band 3	 £0.14 per hour £0.26 per hour £0.39 per hour	N/A	N/A

Supplement Low-income Setting – based on EY entitlement income in the previous calendar year between £2,600 - £12,600 £12,601 - £20,000	 £0.80 per hour £0.40 per hour	N/A	N/A
Pupil Premium (if applicable)	£1.00 per hour	£1.00 per hour	£1.00 per hour
Disability Access Fund (if applicable)	£938 per child	£938 per child	£938 per hour

Dorset also received £89,229 Early Years National Insurance contributions and teachers' pay grant (EYNTPG) in 2025-26, which was distributed according to grant conditions to school-based settings. This funding has been rolled into 2026-27 rates

1.4 Funding consultation with Early Years Providers

The funding consultation is in two parts and part 1 ran from 8th to 19th December 2025, covering 3- & 4-year-old supplements and central retention. Please see Appendix A for the funding consultation and Appendix B for the results of the funding consultation. 39 responses were received.

Part 2 of the consultation launched on 5th January and closes on 8th January 2026. The consultation can be seen in Appendix C. A webinar for early years providers was held on Tuesday 6th January 2026 at 6.30pm to provide an update on both consultations and give the opportunity for questions. Appendix D shows the results of the second consultation. 55 responses were received.

1.4.1 3- and 4-year-old supplements

The second consultation with early years providers included seven options for 3- & 4-year-old funding, which included potential changes to the deprivation and low-income supplements. The consultation closed at 12 noon on 8th January 2026 and the votes for each option are shown below. Full details of responses are shown in Appendix D.

Option	Deprivation Supplement	Low Income Supplement	3- & 4-year-old base rate	Consultation votes
1	**No change**	**No change**	£5.94 per hour	22
2	**Increase deprivation rates and keep the bands the same**: Band 1 - £0.14 to £0.15 Band 2 - £0.26 to £0.27 Band 3 - £0.39 to £0.41	**No change**	£5.94 per hour	10
3	**Increase deprivation rates and lower Band 1**: Band 1 - £0.14 to £0.15 Band 2 - £0.26 to £0.27 Band 3 - £0.39 to £0.41	**No change**	£5.91 per hour	3

	and lower deprivation Band 1 to 16% (reduced from 20%)			
4	**No change**	**Stop paying the low-income supplement**	£5.95 per hour	10
5	**No change**	**Increase qualifying low-income bands by 25%**	£5.94 per hour	3
6	**Increase deprivation rates and lower Band 1:** Band 1 - £0.14 to £0.15 Band 2 - £0.26 to £0.27 Band 3 - £0.39 to £0.41 and lower deprivation Band 1 to 16% (reduced from 20%)	**Increase qualifying low-income bands by 25%**	£5.91 per hour	6
7	**Increase deprivation rates and Lower Band 1**: Band 1 - £0.14 to £0.15 Band 2 - £0.26 to £0.27 Band 3 - £0.39 to £0.41 and lower deprivation Band 1 to 16% (reduced from 20%)	**Stop paying the low-income supplement**	£5.92 per hour	1

Votes for options 1 and 2 have been combined as both are affordable at a base rate of £5.94. This has been achieved by a slight reduction in the contingency budget for option 2.

The three options included in this paper are:

- Option 2 – An inflationary increase to deprivation bands and no change to the low-income supplement
- Option 4 – No change to deprivation and stop paying the low-income supplement
- Option 6 – Lower Deprivation Band 1 from 20% to 16% and increase the low-income supplement qualifying income bands by 25%

1.4.2 Funding for 2-year-olds

In Dorset we have the same hourly rate for 2-year-olds from eligible families receiving additional support (FRAS) and 2-year-olds from working families. The base rate is currently £7.43 and there are no supplements paid. DfE rules allow for the same rate to be paid or an enhanced rate for FRAS 2-year-olds, but previously consultations have indicated that one rate for all 2-year-olds is preferred.

In 2026-27 it is proposed to increase the base rate from £7.43 per hour to £7.77 per hour – a 4.85% increase.

1.4.3 **Funding for Under 2s**

In 2026-27 it is proposed to increase the base rate from £10.05 per hour to £10.49 per hour – a 4.38% increase.

1.5 Centrally retained element

In 2025-26, Local authorities have were required to plan to pass-through at least 96% of their 3- and 4-year-old, 2-year-old and Under-2 years funding from the government to early years providers. This excludes early years pupil premium and disability access fund. This pass-through requirement ensures that the vast majority of government funding reaches providers so that they can deliver the government's free entitlements. Up to 4% of the remaining funding can be centrally held to pay for central services provided by the LA.

The pass-through rate has been updated to 97% for 2026-27.

In 2025-26 Dorset retained £1,174,268 (2.61%) of the initial Early Years Block (EYB) for central services made available to all early years providers. It was a contribution towards the cost of the Best Start in Life Advisers and management, central teams processing financial transactions, financial system updates, accountancy analysis and audit work to be completed with early years providers.

For 2026-27 it is proposed to increase the previous cash amount of central retention by 3.2% to cover the 2025-26 local government pay award. This would increase central retention by £37,577 to £1,211,845, which is 2.46% of the 2026-27 Early Years Block. The pass-through calculation does not include the £0.19 3- & 4-year-old termly funding adjustment, early years pupil premium and disability access fund.

Pass through calculation

Early Years Block	Total	Funding for Pass-through calculation	Central retention
3- & 4-year-old universal (without termly adjustment)	£12,331,253	£12,331,253	£303,373
3- & 4-year-old additional (without termly adjustment)	£7,144,606	£7,144,606	£175,771
3- & 4-year-old universal (termly adjustment)	£389,840		
3- & 4-year-old additional (termly adjustment)	£225,869		
2-year-old - FRAS	£1,983,954	£1,983,954	£48,809
2-year-old - working parents	£12,462,018	£12,462,018	£306,590
Under 2s - working parents	£15,336,310	£15,336,310	£377,303
Early Years Pupil Premium	£431,484		
Disability Access Fund	£250,575		
Total Early Years Block	£50,555,910	£49,258,141	
Central Retention			**£1,211,845**
			2.460%

Dorset Council's strategy is to support early years providers by setting central retention at an appropriate level to cover costs, which puts more funding into the base rate. Whilst a maximum of 3% of funding could be retained for support services, the percentage retained is kept below this level to pass on more funding to early years providers.

The consultation question on central retention showed 14 agreed, 9 did not agree and 16 didn't agree or disagree (out of a total of 39 respondents).

1.5 Special Educational Needs Inclusion fund (SENIF)

Early SEND support funding in Dorset is for settings with early years children who:

- Have special educational needs or disabilities and are not yet in school

- Do not have an Education Health Care Plan (EHCP) in place

Early SEND support is to ensure the inclusion of all children not yet attending school with emerging and additional needs. Payments are made directly to a nursery, pre-school, or childminder to help them meet the needs of children with SEND in their childcare setting. It is a first step of support and intervention. It is hoped that with this additional support, children may not need an Education, Health and Care Plan (EHCP) and it will afford additional time for intervention and create clarity if an Education Health Care Needs Assessment needs to start at a later stage.

Children do not need to be accessing their early years entitlements to be eligible. More information can be found here Early SEND Support funding | Dorset Nexus

Early SEND support funding can also be known as special educational needs inclusion fund (SENIF) DfE rules state that all local authorities are required to have a SENIF for all children eligible for the entitlements and who have SEN, regardless of the number of hours taken. These funds are intended to support local authorities to work with providers to recognise and support the low-level and emerging needs of individual children with SEN who are taking up the entitlements. These funds also support local authorities to undertake their responsibilities to strategically commission SEN services as required under the Children and Families Act 2014.

Children with an Education, Health & Care Plan are funded from the High Needs Block of the Dedicated Schools Grant.

The maximum amount of funding awarded per term is £850.00 and the digital application form requires details of how the funding would be spent, including costs against each area of support: resources; specialist training; adaptations to the environment; staff time to cover meetings; adult support. When applying for adult support, if the child attends less than 15 hours a week then the amount awarded will be pro-rata based on the child's attendance hours per week.

In 2025-26, £250,000 was contributed towards Early SEND support funding from Early Education Funding. Due to the increasing number of claims on the fund, we have consulted on an increase of £50,000 to increase the Early SEND support funding budget to £300,000. The contribution from each funding stream is shown below.

Funding	Funding 2026-27	SENIF	SENIF as a % of funding
3- and 4-year-old	£20,091,658	£120,854	0.24%
2-year-old FRAS	£1,983,954	£11,934	0.02%
2-year-old working	£12,462,018	£74,961	0.15%
Under 2 working	£15,336,310	£92,251	0.18%
Total	£49,873,850	£300,000	0.60%

We plan to have a consultation on early years SEND funding in 2026 once the DfE publish the white paper and we've had time to work through plans.

1.6 Early Years Budget for 2026-27

When setting the early years budget and creating scenarios for consultation, it is necessary to set aside funds for:

- central retention
- SENIF
- contingency
- exceptional circumstances.

The consultation with early years providers includes seven options for 3- & 4-year-old funding, which includes potential changes to the deprivation and low-income supplements. The three most popular options will be brought forward to the School's Forum to agree the final rates.

As mentioned above, it is proposed to set central retention at £1,211,845 and SENIF at £300,000.

Exceptional circumstances is used to fund early years children struggling to find a place, through the personal circumstances of the family or particular needs of a child not funded through other routes. This funding is agreed by panel, supported by information from the Best Start in Life Advisers. The current budget is £60,000 and it is proposed to increase this budget by £20,000 to £80,000.

1.7 The 2026-27 budget has been prepared with three scenarios for 3- & 4-year-old funding:

	Scenario 1	**Scenario 2**	**Scenario 3**
Consultation Option	**2**	**4**	**6**
3- & 4-year-old Deprivation Supplement	**Increase deprivation rates and keep the bands the same**: Band 1 - £0.14 to £0.15 Band 2 - £0.26 to £0.27 Band 3 - £0.39 to £0.41	No Change	**Increase deprivation rates and lower Band 1:** Band 1 - £0.14 to £0.15 Band 2 - £0.26 to £0.27 Band 3 - £0.39 to £0.41 and lower deprivation Band 1 to 16% (reduced from 20%)
3- & 4-year-old Low Income Supplement	No Change Qualifying income bands from previous calendar year remain at: £2,730-£13,230 = 42p £13,231-£21,000 = 84p	No Change Qualifying income bands from previous calendar year remain at: £2,730-£13,230 = 42p £13,231-£21,000 = 84p	Increase qualifying low-income bands by 25%: £3,412-£16,537 = 42p £16,538-£26,250 = 84p
3- & 4-year-old Base rate	£5.94	£5.95	£5.91
2-year-old Base rate	£7.77	£7.77	£7.77
Under 2s Base rate	£10.49	£10.49	£10.49

Lowering the IDACI deprivation band to 16% (in Scenario 1 and 3) would increase the number of settings benefiting from this supplement increases from 21 to 49:

Number of settings receiving supplement	IDACI Band 1 remaining at 20%	IDACI Band 1 lowering to 16%
Day Nursery	1	13
Preschool / playgroups	8	17

Childminder	11	16
School based setting	1	3
Total	21	49

Increasing the low-income qualification bands by 25% (in Scenario 3) would mean the number of qualifying settings would increase from 22 to 36.

Schools Forum members are asked to vote on either Scenario 1, 2 or 3.

1 Financial Implications

2.1 Setting funding rates at a level that passes on the maximum amount of funding to providers whilst also ensuring the EYB balances.

2 Well-being and Health implications

3.1 Not Identified.

3 Climate Implications

4.1 Not identified.

4 Other implications

5.1 Not identified.

5 Risk Assessment

Having considered the risks associated with this decision, the level of risk has been identified as:
Current Risk: LOW
Residual Risk: LOW

6 Equalities Impact Assessment (EqIA)

7.1 There are no equalities implications arising from this report.

7 Appendices

Appendix A: Early Years Consultation document – Part 1

Appendix B: Early Years providers consultation December 2025 feedback

Appendix C: Early Years Consultation document – Part 2

Appendix D: Early Years providers consultation January 2026 feedback

Appendix E: Proposed Early Years Block Budget 2026-27

8 Background Papers

Dedicated schools grant (DGS): 2025 to 2026
[Dedicated schools grant (DSG): 2026 to 2027 - GOV.UK]

Early years entitlements: local authority funding operational guide 2024 to 2025

[Early years funding: 2026 to 2027 - GOV.UK]

Statutory guidance for local authorities on the provision of early education and childcare.

https://www.gov.uk/government/publications/early-education-and-childcare

Footnote:

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.