

Consultation on the Kirklees Early Years Funding Formula

2025-26

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Introduction

The Department for Education published details of the Early Years Funding Formula 2025-26 including local authority hourly funding rates on 10 December 2024. The rates include an average 4.1% increase for the current 3 and 4-year-old entitlement, 3.3% increase for 2-year-olds and 3.4% increase for under 2s. The funding rates reflect forecasts of average earnings and inflation next year, as well as the national living wage announced at the Autumn Budget.

The funding rate for the Early Years Pupil Premium (EYPP) will increase from 68p to £1 per hour per eligible child, and the Disability Access Fund (DAF) will increase from £910 to £938 per eligible child per year.

Details can be found on [Gov.uk](https://www.gov.uk)

Although this adds further investment to early years, Kirklees along with one third of other local authorities will still receive the lowest funding base rate in the country for three-and four-year olds from April 2025.

Kirklees Early Years Block Funding 2025-26

Table 1: Initial funding allocation for 2025-26

Funding stream	2025-26 Initial funding allocation
3 & 4 yr olds - Universal	£20,255,007
3 & 4 yr olds - Extended	£9,343,528
2 yr olds - Disadvantaged	£5,787,039
2 yr olds - Working parent	£12,576,817
Under 2s - Working parent	£18,605,349
Total place funding	£66,567,740
Early Years Pupil Premium (EYPP)	£1,184,267
Disability Access Funding (DAF)	£343,308
Maintained Nursery School Supplementary Funding (MNSSF)	£222,990
Total Early Years Block	£68,318,304

Changes for 2025-26

The main changes to the funding formula requirements are:

- an increased minimum pass-through requirement for local authorities in 2025-26. The pass-through rate will increase from 95% to 96% meaning that the amount local authorities can retain for administration will reduce to 4% of the entitlement funding.

- an expectation that local authorities will announce their funding rates to childcare providers by 28 February 2025. The government intend to mandate this as a requirement in the regulations from the financial year 2026-27.

Consultation

As stated in the **Early years entitlements: local authority funding operational guide 2025 to 2026**;

“Local authorities must determine their funding formulae before the beginning of the financial year. Where a local authority proposes to make changes to the funding formulae it used during the previous financial year that will affect early years providers, it must first consult its schools forum, maintained schools, and early years providers. Local authorities must also seek approval from their schools forum to agree any entitlements funding they intend to retain to fund central functions. Local authorities are not permitted to amend their funding formulae after the financial year has started”.

The Council are not proposing to make any changes to the current funding formula used in 2024-25 in relation to:

1. **One base rate for both the 2-year-old entitlements.** i.e. the disadvantaged 2-year-old entitlement and the working parent 2-year-old entitlement.
2. **No discretionary deprivation supplement.** i.e. no deprivation supplement for the disadvantaged 2-year-old entitlement, the working parent 2-year-old entitlement and the working parent under 2-year-old entitlement.

Key areas for consultation in 2025-26

The Council is seeking providers views on the following elements for 2025-26:

- A. The amount of funding retained centrally to support local authority statutory duties around the early years entitlements including administration of the funding.
- B. Retaining a contingency fund for each of the five entitlement funding streams.
- C. Transfer of funds from the Early Years Block to the High Needs Block.
- D. The amount of funding allocated to the Special Educational Needs and Disabilities Inclusion Fund (SENDIF).
- E. The frequency of early years funding payments to providers in the private, voluntary and independent sector including academies.

Consultation timeline

Table 2: Consultation timeline

Event	Dates
Online survey	20 December 2024 to 19 January 2025
Virtual briefing sessions	8 and 16 January 2025
Early Years and Childcare Reference group includes provider representation for childminders, pre-schools, day nurseries, out of school provision and schools and academies with nursery provision.	27 January 2025
Schools Forum	7 February 2025
Funding formula and rates communicated to providers	Before 28 February 2025

Section A: Centrally retained funds

From 2025-26 local authorities are required to pass through 96% of the early years funding to providers, for the following formula elements for each of the entitlement funding streams:

- base rate funding for all providers
- supplements for all providers
- the funding paid directly to providers from the special educational needs and disabilities inclusion fund (SENDIF)
- contingency funding

In 2025-26 proposals include a total increase of £275,652. This includes £45,652 for 4% inflation, £30,000 to further support administration and distribution of the early years funding as the free entitlement continues to expand. An additional £200,000 is proposed for inclusion support that the council can no longer afford to pay for from its core budget. This increase equates to 30% compared with an increase of 32% to the Early Years Block Funding.

After considering the proposed amounts to be retained centrally, the funding pass through would be 97.5% of the total early years block funding which exceeds the requirement of 96%. This demonstrates that the Council continues to maximise the available funding for providers whilst being realistic about additional administration and the affordability of important services. See table below for details.

Table 3: Proposed amounts to be retained centrally

Budget area	2024-25	Additional resources for 2025-26	Total	4% increase	Final total 2025-26	Description
Early Learning and Childcare	£775,005	£30,000	£805,005	£32,200	£837,205	Free Early Education Funding, Childcare Sufficiency and Early Years Outcomes Teams – funding to providers, free entitlement place sufficiency, supporting standards of delivery
Back office / management costs	£78,540	£0	£78,540	£3,142	£81,682	Finance, payroll, HR, Legal, IT etc
Inclusion Support	£44,520	£200,000	£244,520	£9,781	£254,301	Contribution to the Inclusion Officer team
Miscellaneous	£13,230	£0	£13,230	£529	£13,759	Contribution to admissions, maternity, union duties etc.
Total	£911,295	£230,000	£1,141,295	£45,652	£1,186,947	

Section B: Contingency fund

In 2024-25 it was agreed to establish a contingency fund of 0.8% due to the increasing value of the Early Years block and the significant expansion of the entitlements up to September 2025. A full year of the new entitlements will not be realised until 2026-27 and from then it could take another year or two for the new entitlements to be fully embedded and for take-up to stabilise.

In addition to the above, with the rollout of the final phase taking place mid-year (i.e. September 2025), there is a risk of a shortfall of funding from the Department for Education (DfE). The reason being due to the difference between how funding is calculated for local authorities and then distributed from local authorities to providers. For example, the DfE will provide funding as follows; 13 weeks in summer 2025, 14 weeks in autumn 2025 and 11 weeks in spring term 2026 whereas Kirklees Council will fund providers as follows; 12 weeks in summer 2025, 14 weeks in autumn 2025 and 12 weeks in spring term 2026, meaning that there will be a shortfall of one weeks funding for 15 hours for the Council between September 2025 and March 2026 when the entitlement increases from 15 hours to 30. From April 2026, the risk should be minimised however this is dependent on the DfE funding arrangements for 2026-27 onwards.

There is also a risk of a shortfall of funding associated with children who stretch their entitlement and move from one funding stream to another after the summer term. For example, children aged 2 in the summer term that become aged 3 on or before 31 August will move to the 3- and 4-year-old funding stream and could exceed their maximum entitlement hours due to limitations of the IT system. The same situation will apply to 9-month-old children that become aged 2 on or before 31 August.

Taking into account the shortfall of one weeks funding for 15 hours for the new entitlements and to ensure there is sufficient funding available so that no provider loses out in a situation where a child is stretching their entitlement, it is proposed that a contingency fund of 0.8% from each

funding stream is retained until such risks are fully mitigated. This is intended as funds which will be paid to providers and not used for any other purpose.

Section C: Transfer of funds from the Early Years Block to the High Needs Block

The Dedicated Schools Grant (DSG) consists of the following funding blocks:

- Early years block
- High needs block
- Schools block
- Central school services block

The Special Educational Needs and Disabilities Inclusion Fund (SENDIF) has historically been funded from the Council's General Fund Budgets. Education and Skills Funding Agency (ESFA) guidance states that SENDIF should be funded from the High Needs (HN) Block and/or the Early Years (EY) Block of the Dedicated Schools Grant (DSG). A decision was taken by the Council in the financial year 2022-23 to transfer the funding of SENDIF to the HN Block from April 2023 onwards.

Last financial year (2024-25), in consultation with the early years sector, it was agreed that £0.5 million would be transferred from the EY Block to the HN Block to help fund the costs relating to SENDIF.

As a result of overspending on the whole HN Block, the Council is working with the Department for Education (DfE) under an agreement, referred to as the Safety Valve agreement, which is expected to run until the financial year 2027-28. Whilst this will bring additional funding, the Council have agreed in principle with the DfE for an EY Block Transfer and for this to continue for the duration of the Safety Valve agreement to support financial sustainability, but this will be subject to review and consultation each year.

It is therefore proposed, to transfer £0.5 million in 2025-26 from the EY Block to the HN Block to continue to support costs relating to SENDIF.

For context, the Council have also agreed in principle with the DfE for a Block Transfer from the Schools Block of the DSG which is expected to be £3.6 million in 2025-26.

Section D: The special educational needs and disabilities inclusion fund (SENDIF)

In Kirklees, the special educational needs inclusion fund (SENIF) is referred to as 'SENDIF'.

Following consultation last year, the SENDIF budget for 2024-25 was set at a total of £2 million with £1 million from the Early Years Block and £1 million agreed from the High Needs Block. The budget set was at a lower level than for 2023-24 and it was agreed that this would be managed on a termly basis to ensure we worked within the budget agreed over the financial year.

The hourly SENDIF rate paid to providers in the Summer and Autumn 2024 terms was £6.96. There has been an increase in demand with more SENDIF claims being received than expected. Current estimates suggest a significant overspend on the available £2 million

SENDIF budget in 2024-25. Fortunately, the contingency funding agreed for this year has not been required for other purposes, so this can be used to support the SENDIF budget on a temporary basis. The combined SENDIF and contingency funding will still mean that the rate of £6.96 is not affordable in the Spring term. Further detailed work is required before a final decision, but the rate may need to reduce to around £5.77. Without the support of the contingency funding the rate would have been nearer to £2.00.

This position and the related estimates are being shared now to help providers consider a suitable SENDIF budget for 2025-26. The lower the agreed budget, the lower the SENDIF hourly rate will be. This should be considered in the context of the total Early Years Block increasing from around £50 million to around £68 million. However, the linked impact on the provider base rates must also be considered alongside.

Proposed options for the value of SENDIF in 2025-26:

a) **£2 million**

£1 million from the High Needs block funding and £1 million from the Early Years block funding – as agreed in 2024-25 which will result in a significant reduction in the SENDIF hourly rate.

b) **£3 million**

£1 million from the High Needs block funding plus £2 million from the Early Years block funding. An increase on 2024-25 taking account of the overspend, the anticipated impact of the continued expansion of the free entitlement and an hourly rate up to £6.96 (dependent upon actual demand).

c) **£4 million**

£1 million from the High Needs block funding plus £3 million from the Early Years block funding. An increase on 2024-25 and an amount which would facilitate a more favourable SENDIF hourly rate but would significantly limit any increases in the provider base rates.

The table below shows the impact on the illustrative provider base rates for each of the proposed options above. The provider base rates are for illustrative purposes only, final formula funding and the provider base rates will be confirmed after this consultation.

Table 4 Illustrative provider base rates for each of the proposed SENDIF value options

Type of Funding	Option A	Option B	Option C
Proposed total SENDIF value	£2 million	£3 million	£4 million
Contribution from the High Needs Block Funding	£1 million	£1 million	£1 million
Contribution from the Early Years Block Funding	£1 million	£2 million	£3 million
Under 2s provider base rate	£10.38	£10.27	£10.16
Impact on the Under 2s provider base rate compared to option A		-£0.11	-£0.22
2-year-old provider base rate (disadvantaged and working parents)	£7.66	£7.55	£7.44
Impact on the 2-year-old provider base rate compared to option A		-£0.11	-£0.22
3- & 4-year-old provider base rate (universal & extended)	£5.51	£5.40	£5.29
Impact on the 3- & 4-year-old provider base rate compared to option A		-£0.11	-£0.22

Section E: Frequency of early years funding payments

Background

Local authorities are required to regularly consult providers regarding the frequency of payments for the early years entitlements, given the current and forthcoming expansion of the entitlements now seems like an ideal time to review the frequency of payments.

Early Education and Childcare Statutory Guidance dated April 2024:

“Councils should pay all providers the full amount owed to them monthly unless they have good reason not to do so, for example, if, after consultation, the clear majority of providers opt for an alternative method of payment. Local authorities should be mindful of the concerns of smaller providers, particularly childminders, about their cash flow when making decisions about payment methods. Local authorities should regularly review how they pay providers to ensure that it continues to meet the needs of all providers in their area”.

A change to the Statutory Guidance was first made in 2018 following provider feedback that local authorities were not paying funding until later in the term. This was not the case in Kirklees.

Paying Providers the full amount owed monthly is not the same as making a payment each month. Most providers offer term time funding only as this ensures children receive their full entitlement therefore only a relatively small number of providers would be owed a payment in August for example for children that are stretching their entitlement. Some providers, particularly childminders sometimes have no funded children in a term so would not be due a payment in any of the months in that term.

The Early Years Entitlements are based on an entitlement across academic terms and therefore funding is designed around 38 weeks rather than 52. Eligibility for the entitlements begins the day before the start of each term i.e. 31 March, 31 August and 31 December hence for these reasons Early Years Funding is claimed and calculated on a termly basis.

There are two options available;

1. Retain the current system of 3 payments each term, 9 in total over the year.
2. Change to a new system of monthly payments; 5 payments in the summer term, 4 payments in the autumn term and 3 payments in the spring term.

It is vital that providers read the information below before making a decision as there are limitations regarding the monthly payment system and cashflow could be significantly affected due to a much lower percentage (i.e. 40% in the summer term) of the termly funding being paid in the first 5 weeks of the term compared to 80% with the current system.

If the payment system is changed from the current system, the change will not be implemented until Autumn 2025 at the earliest.

The current payment system

If Providers submit an estimate, two estimate payments are paid every term for each age group at 40% of the provider base rate, totalling 80%.

The first payment is made on the first day of term (week 1) and the second estimate payment made in week 5 or 6. The final payment is paid between weeks 10 and 12, dependant on the term. The final payment includes the remaining 20% of the provider base rate funding plus Deprivation Funding (IDACI), Early Years Pupil Premium (EYPP), Special Educational Needs and Disabilities Inclusion Fund (SENDIF) and Disability Access Funding (DAF) for eligible children. The additional funding is paid with the final payment because this is when actual numbers of funded hours and children’s eligibility is known. This therefore has an impact on the total proportion of funding distributed in the final payment. Refer to table 8 for an example of funding distribution for both models in a summer term.

Table 5: Advantages and disadvantages of the current payment system

Advantages of the current payment system	Disadvantages of the current payment system
Gives Providers a healthy cashflow early in the term. By week 5 or 6 of the term 80% of the termly base rate funding has been paid.	There are risks associated with paying a high percentage (80%) within 5 or 6 weeks of the term. If for example a provider closes unexpectedly this may lead to loss of funds to the early years block funding. However, this is not common.
Less admin burden on the Council.	May impact childminders who are in receipt of Universal Credit.
The full funding for the term including IDACI, EYPP, SENDIF and DAF is paid to Providers between weeks 10 and 12 depending on the term, which is earlier in the term than monthly payments.	

How a monthly payment system would work

Providers would submit estimate claims as per the current system, including an option to make an update in time for the second payment.

Payments would be divided as follows:

- Summer term five payments of 20%
- Autumn term four payments of 25%
- Spring term three payments of 33%

Monthly payments will be based on the estimated claims at the provider base rates and the final payment of term would include the remaining percentage of the provider base rate funding plus IDACI, EYPP, SENDIF and DAF for eligible children.

The payment date will change each year depending on when the summer term starts due the timing of Easter. Providers would be notified of the monthly payment dates for the new financial year in advance as is the current process.

Monthly payments will not provide 12 equal monthly payments.

Table 6 Advantages and disadvantages of a monthly payment system

Advantages of a monthly payment system	Disadvantages of a monthly payment system
Less risk to Early Years Block budget from unexpected provider closures as the percentage of the termly funding is spread more evenly across the term.	Reduced cashflow as a lower percentage of funding is paid in the first month of a term. Refer to table 8.
Providers will receive a payment every month of the year providing an estimate claim is submitted and the Provider has funded children in that term.	Providers will not receive their full termly funding until later in the term i.e. in summer term all funding would not be paid until August (currently early July).
Childminders who are in receipt of Universal Credit may benefit from a monthly payment for purposes of reporting their monthly income to HMRC, though payments will still fluctuate monthly depending on numbers of funded children, on time estimate claims and children's eligibility to EYPP, IDACI etc.	Providers will receive IDACI, EYPP, SENDIF and DAF funding later in the term compared with the current system.
	Increased admin burden for the Council which may need additional financial support in the future (retention of funds). The payment of Early Years Funding is not automated in the way that, for example, a monthly salary payroll can be.
	For providers who operate term time only and have staff on term time only contracts monthly payments may have more significant cash flow impacts depending on the frequency of payrolls.
	For childminders on Universal Credit there will still be fluctuations in payment amounts because of the limitations of the system.
	The monthly payment date will change each year due to the start of the summer term varying each year.
	Negative impact on Providers who prefer the current payment system.

Table showing comparison of payment dates and percentage of termly funding paid

Table 7 Comparison of payment dates and percentage of termly funding paid

Current system Payment date	Current system Term week	Current system Percentage of base rate termly funding	Monthly system Payment date	Monthly System Term week	Monthly System Percentage of base rate termly funding
Summer term 2025			Summer term 2025		
22 April 2025	1	40%	22 April 2025	1	20%
19 May 2025	5	40%	22 May 2025	5	20%
30 June 2025	10	20%	20 June 2025	8	20%
			22 July 2025	13	20%
			22 August 2025	17	20%
Autumm term 2025			Autumm term 2025		
1 September 2025	1	40%	22 September 2025	4	25%
6 October 2025	6	40%	22 October 2025	8	25%
24 November 2025	12	20%	21 November 2025	11	25%
			22 December 2025	16	25%
Spring term 2026			Spring term 2026		
5 January 2026	1	40%	22 January 2026	3	33%
2 February 2026	5	40%	20 February 2026	7	33%
9 March 2026	10	20%	20 March 2026	10	33%

Table showing comparison of illustrative funding payments for the summer term 2025

Table 8 Comparison of illustrative funding payments for the summer term 2025

Current system Payment date	Current system Percentage of base rate termly funding	Current system Funding payments	Monthly system Payment date	Monthly System Percentage of base rate termly funding	Monthly System Funding payments
22 April 2025 Week 1	40%	£39,387.60	22 April 2025 Week 1	20%	£19,693.80
19 May 2025 Week 5	40%	£39,387.60	22 May 2025 Week 5	20%	£19,693.80
30 June 2025 Week 10	20%	*£36,932.70	20 June 2025 Week 8	20%	£19,693.80
			22 July 2025 Week 13	20%	£19,693.80
			22 August 2025 Week 17	20%	*£36,932.70
Total funding		£115,707.90	Total funding		£115,707.90

* Includes final balance of base rate funding plus for eligible children IDACI, EYPP, SENDIF and DAF funding.

Appendix A: Illustration of the proposed Early Years Funding Formula and illustrative rates for 2025-26

The table below shows the 2025-26 proposed formula values and illustrative provider base rates based on the current SENDIF value in 2024-25. The provider base rates are for illustrative purposes only, final formula funding and the provider base rates will be confirmed after this consultation. The current (2024-25) formula values and rates are shown for ease of comparison, full details can be found in appendix B.

Table 9: 2025-26 proposed formula values and illustrative provider base rates

	2024-25	Proposed 2025-26	Difference
Deprivation allocation	£320,000	£320,000	£0
Central retention	£911,295	£1,186,947	+£275,652
Contingency	£402,481	£532,542	+£130,061
Transfer to High Needs Block	£500,000	£500,000	£0
SENDIF (see Section D, options A, B & C)	£2,000,000	A £2,000,000 B £3,000,000 C £4,000,000	A £0 B +£1,000,000 C +£2,000,000
Under 2s provider base rate	£9.90	A £10.38 B £10.27 C £10.16	A +£0.48 B +£0.37 C +£0.26
2-year-old provider base rate (disadvantaged and working parents)	£7.20	A £7.66 B £7.55 C £7.44	A +£0.46 B +£0.35 C +£0.24
3- & 4-year-old provider base rate (universal & extended)	£5.22	A £5.51 B £5.40 C £5.29	A +£0.29 B +£0.18 C +£0.07
Total Early Years Block *	£50,310,090	£66,567,740	£16,257,650

* Excludes Early Years Pupil Premium, Disability Access Funding and Maintained Nursery School Supplementary Funding.

Appendix B: Current Early Years Funding Formula (2024-25)

Base rates

- £9.90 for under two-year-olds
- £7.20 for two-year olds
- £5.22 for three- and four-year olds (universal and extended hours)

Deprivation

The allocation is £320,000. Funding is allocated using the current metric IDACI (Income deprivation affecting children index) the rates are:

- Band A: £0.27
- Band B: £0.21
- Band C: £0.20
- Band D: £0.18
- Band E: £0.11
- Band F: £0.09

Special educational needs and disabilities inclusion fund (SENDIF)

The allocation is £2 million for low level and emerging needs to support providers from all sectors delivering the free entitlements. £1 million contribution from the High Needs block funding and £1 million contribution from the Early Years block funding.

Central retention

£911,295 is retained to fund local authority statutory duties around the early years entitlements including administration of the funding, quality improvement, sufficient places and SEN support. Kirklees retains only 2.8%, see table below. Local Authorities were permitted to retain 5% of the Early Years budget in 2024-25.

Table 10 Central retention budget breakdown

Budget area	Budget	Description
Early Learning and Childcare	£775,005	Free Early Education, Childcare Sufficiency and Early Years Outcomes Teams – funding to providers, free entitlement place sufficiency, supporting standards of delivery
Back office / management costs	£78,540	Finance, payroll, HR, Legal, IT etc
Inclusion Support	£44,520	Contribution to the Inclusion Officer team
Miscellaneous	£13,230	Contribution to admissions, maternity, union duties etc
TOTAL	£911,295	

Additional funding

100% of additional funding is passed directly onto providers.

- a) Early Years Pupil Premium (EYPP), the hourly rate is £0.68. EYPP is only payable for the first 15 hours used by children taking up the eligible working parents entitlements for 3 and 4-year-olds and 2-year-olds and under. The EYPP is not payable on the additional 15 hours for these entitlements.
- b) Disability Access Funding (DAF), a lump sum payment of £910 available each year to funded children in receipt of Disability Living Allowance (DLA)