

Briefing note: Herefordshire Council on Early Years Funding Arrangements for 2025-26 – Appendix 2

Local Authorities must determine their funding formula before the beginning of the 2025/26 financial year. As part of the process Herefordshire Council consulted with their Early Years Steering Committee on 12th December 2024, and Early Years Provider Forum on 18th December 2024. Central retention and a rates overview will be agreed with School’s Forum on 20th January 2025.

The purpose of the consultation meetings was to obtain provider views, comments and where applicable, preferred options from key partners and stakeholders regarding arrangements of the Early Years Block Funding for 2025-26 on:

- Early Years Inclusion Funding
- Early Years Central Spend
- Early Years Funding Pass Through

Timeline for the consultation and implementation of proposals to the Early Years Block

Date	Action
12 th December 2024	Meeting with Early Years Steering Committee
18 th December 2024	Early Years Provider’s Forum 13:00-14:00. SurveyMonkey sent out with key proposals
6 th January 2025	SurveyMonkey consultation closed
20 th January 2025	Schools Forum approvals

Background information

“A high-quality Early Years education is vitally important. Children attend Early Years provision at a crucial developmental point in their lives. The education and care that they receive affects not only future educational attainment but also their future health and happiness.” ([Best start in life part 1: setting the scene - GOV.UK](#))

Currently, all children with eligible working parents in England are entitled to 15 hours of funded nursery education per week, 38 weeks a year, for children aged 9 months to 4 years old (school age). Parents may choose to take this up with a childminder, in a maintained nursery class, a governor run nursery, or in a private, voluntary, or independent sector (PVI) Early Years setting. This is funded by the Dedicated Schools Grant (DSG) Early Years block.

In the spring 2023 budget announcement, the Chancellor set out ambitious childcare reforms to increase availability, reduce costs and increase the number of parents accessing early education.

The budget announced a range of measures to support education and help parents with childcare using a phased implementation including;

- From **April 2024**, allowing eligible working parents of two-year-olds will be able to access 15 hours of funded childcare.

- From **September 2024**, allowing eligible working parents of children aged 9 months up to 2 years old to access 15 hours of funded childcare.
- From **September 2025**, allowing eligible working parents of children aged 9 months up to school age to access 30 hours funded childcare per week

This staggered approach should give childcare providers time to prepare for the changes, ensuring there are enough providers ready to meet demand.

Wraparound Childcare: The government will invest further to enable schools and local providers to set up wraparound childcare provision so that parents of reception-age children can access childcare in their local area from 8am – 6pm. This could include provision of activities that fall outside of school hours, via things like breakfast clubs and after-school clubs.

Market Reforms: Including more choice for childminders and changes to EYFS requirements to improve flexibility for providers and support the workforce. This includes changes in staff child ratios, qualifications, introducing childminder grants and increasing flexibility on how and where childminders operate. [Early years foundation stage \(EYFS\) statutory framework - GOV.UK](#)

Dedicated Schools Grant (DSG)

At the Autumn Budget 2024, the government committed to the funding for the expansion of the 30 hours entitlement and said £1.8 billion would be provided in 2025/26. The further funding pledged will be allocated through the dedicated schools grant (DSG) and will provide funding for all existing Early Years funding streams:

- Entitlement for under 2-year-olds
- Entitlement for disadvantaged 2-year-olds (renamed 'FRAS' – families receiving additional support)
- Entitlement for 2-year-old children of eligible working parents
- Universal entitlement for 3 and 4-year-olds
- Additional entitlement for 3 and 4-year-old children of eligible working parents
- Early Years Pupil Premium (EYPP)
- Disability Access Fund (DAF)

National Funding Formula Guidance

- Guidance for NEF funding was issued by the Department on 10th December 2024. Herefordshire Council received £24.1M in total.
- Main change: an increased minimum pass-through requirement for local authorities in 2025/26 – the pass-through rate will increase from 95% to 96%. It's anticipated that in subsequent years this could increase even further to 97%.
- For 2YO (working parent entitlement) and Under 2YO, the national funding formula PTE number has been adjusted to take into consideration the 30 hours extension from Sep25.
- An expectation that local authorities will announce their funding rates to childcare providers by 28 February 2025. This will become a requirement for 2026/27.

A summary of the funding received for 2025/26 vs 2024/25 is shown below:

Emillion	24/25 NEF	25/26 NEF	YoY increase	Commentary
Under 2s	2.14	7.40	245%	Under 2's 15 hours entitlement only began Sep24, hence 25/26 will see FY effect of this, plus 30 hour entitlement extension from Sep25
2 Year Old Funding - FRAS	1.22	1.27	3.5%	24/25 at 15 hours which will continue for 25/26 (only <u>working parents entitlement</u> is being increased to 30 hours)
2 Year Old Funding - Working Parents	3.04	4.88	61%	15 hour entitlement started in Apr24 but didn't run at full capacity straight away; 25/26 will see FY effect. 30 hour entitlement extension from Sep25
3 & 4 Year Old Funding - Universal	6.53	6.81	4.4%	15 hours
3 & 4 Year Old Funding - Extended	3.22	3.36	4.4%	30 hours
EYPP	0.15	0.23	47%	24/25 EYPP rate = £0.68/hour, and 25/26 rate = £1/hour (yoy 47% increase in rates)
DAF	0.11	0.12	3%	24/25 DAF rate = £910/pupil, and 25/26 rate = £938/pupil (yoy 3% increase in rates)
TOTAL	16.42	24.07		

Nursery Education Funding (NEF) methodology & modelling used 2025-26

- For Budget 2024/25 central retention at 2.7% has funded Early Years/SEND/EEF (Early Education Funding) advisory staff, & in-country provider training. **Budget 2025/26 will be kept at 2.7% which is below the 2025/26 4% cap.**
- SEN Inclusion Funding (SENI) for budget 2024/25 was £150,000 (distributed to providers, allocated from the 3&4 year old rate). **This will remain at £150,000 for 2025/26, but will be modelled across all categories for 2025/26.**
- Deprivation has been paid at £0.42/hour based on EYPP for Budget 2024/25. At the time of modelling the 2024/25 budget this was just on EYPP for 3&4 year olds. **This will be modelled across all categories for 2025/26 due to the expansion of EYPP.**
- Rurality is currently paid to the 3&4 year old category at £0.63/hour, capped at 100 hours/week/provider for 38 weeks (£2,394/year/provider – all 3&4 year old providers). The fund was originally set up for rural providers, but in recent years has been allocated across all 3&4 year old providers. **For budget 2025/26 rurality will be built into the 3/4YO rates.**
- Herefordshire benefitted from a one off grant in 2024/25 of £55k (£40k 2024/25, £15k 2025/26 to provide support for increase in provision). This will be used by Herefordshire Council to manage the increase in provision.

Funding rates for 2025-26

The table below outlines the 2025/26 hourly rates with 2024/25 given as a comparison:

24/25	Funded rates	Central retention at 2.7%	Rate net of central retention	Retention rate	SEN Inclusion fund	Deprivation	Rurality	24/25 rate given to providers
Under 2s	£9.77	(£0.26)	£9.51	2.7%	0.00	0.00	0.00	£9.51
2 Year Old Funding - FRAS	£7.54	(£0.20)	£7.34	2.7%	0.00	0.00	0.00	£7.34
2 Year Old Funding - Working Parents	£7.04	(£0.19)	£6.85	2.7%	0.00	0.00	0.00	£6.85
3 & 4 Year Old Funding - Universal	£5.47	(£0.14)	£5.33	2.5%	(£0.08)	(£0.09)	(£0.17)	£5.00
3 & 4 Year Old Funding - Extended	£5.47	(£0.14)	£5.33	2.5%	(£0.08)	(£0.09)	(£0.17)	£5.00
25/26		Central retention at 2.7%				Just deprivation:		
Under 2s	£10.07	(£0.27)	£9.80	2.7%	(£0.06)	(£0.03)	0.00	£9.71
2 Year Old Funding - FRAS	£7.80	(£0.21)	£7.59	2.7%	(£0.05)	(£0.07)	0.00	£7.47
2 Year Old Funding - Working Parents	£7.28	(£0.20)	£7.09	2.7%	(£0.05)	(£0.06)	0.00	£6.98
3 & 4 Year Old Funding - Universal	£5.71	(£0.15)	£5.56	2.7%	(£0.04)	(£0.05)	0.00	£5.47
3 & 4 Year Old Funding - Extended	£5.71	(£0.15)	£5.56	2.7%	(£0.04)	(£0.05)	0.00	£5.47
YoY growth								
Under 2s	3%		3%					2%
2 Year Old Funding - FRAS	3%		3%					2%
2 Year Old Funding - Working Parents	3%		3%					2%
3 & 4 Year Old Funding - Universal	4%		4%					9%
3 & 4 Year Old Funding - Extended	4%		4%					9%

Option 1

For Budget 2025/26 Herefordshire Council have maintained the differential in rates between 2 year old FRAS and 2 year old working parents. This is to promote inclusion. The 2 year old FRAS and 2 year old working parent rates year on year have been risen by 3.5% which is the rate increase from £7.19/hour (2024/25) to £7.44/hour (2025/26) given by the department for 2 years olds.

It was discussed at the Early Years steering committee if the same rate of £7.44/hour should be used for both 2 year old FRAS and Working parent families in 2025/26 which would give the following outcome:

24/25	Funded rates	Central retention at 2.7%	Rate net of central retention	Retention rate	SEN Inclusion fund	Deprivation	Rurality	24/25 rate given to providers
Under 2s	£9.77	(£0.26)	£9.51	2.7%	0.00	0.00	0.00	£9.51
2 Year Old Funding - FRAS	£7.54	(£0.20)	£7.34	2.7%	0.00	0.00	0.00	£7.34
2 Year Old Funding - Working Parents	£7.04	(£0.19)	£6.85	2.7%	0.00	0.00	0.00	£6.85
3 & 4 Year Old Funding - Universal	£5.47	(£0.14)	£5.33	2.5%	(£0.08)	(£0.09)	(£0.17)	£5.00
3 & 4 Year Old Funding - Extended	£5.47	(£0.14)	£5.33	2.5%	(£0.08)	(£0.09)	(£0.17)	£5.00
25/26		Central retention at 2.7%				Just deprivation:		
Under 2s	£10.07	(£0.27)	£9.80	2.7%	(£0.06)	(£0.09)	0.00	£9.65
2 Year Old Funding - FRAS	£7.44	(£0.20)	£7.24	2.7%	(£0.05)	(£0.07)	0.00	£7.13
2 Year Old Funding - Working Parents	£7.44	(£0.20)	£7.24	2.7%	(£0.05)	(£0.07)	0.00	£7.13
3 & 4 Year Old Funding - Universal	£5.71	(£0.15)	£5.56	2.7%	(£0.04)	(£0.05)	0.00	£5.47
3 & 4 Year Old Funding - Extended	£5.71	(£0.15)	£5.56	2.7%	(£0.04)	(£0.05)	0.00	£5.47
YoY growth								
Under 2s	3%		3%					1%
2 Year Old Funding - FRAS	-1%		-1%					-3%
2 Year Old Funding - Working Parents	6%		6%					4%
3 & 4 Year Old Funding - Universal	4%		4%					9%
3 & 4 Year Old Funding - Extended	4%		4%					9%

Option 2

It was considered by the Early Years Steering Committee that the final rate change in Option 2 was minimal, and hence to keep with the original rate differential favouring inclusion (Option 1).

SENIF and deprivation are now funded from all rates as all sectors will benefit from the reallocation; the SENIF will be redistributed back out to all sectors based on SEN number, and deprivation will be redistributed back out to all sectors based on EYPP number.

Benchmarking for Budget 2025/26

The following rates have been given by the Department for Education (DfE) for 2025/26. The rates are shown gross i.e. before any central retention:

Funding rates given by Dfe/hr

	Herefordshire	Shropshire	Gloucestershire	Worcestershire
Under 2s	£10.07	£10.23	£10.75	£10.45
2 Year Old Funding - Working Parents/FRAS	£7.44	£7.55	£7.94	£7.71
3 & 4 Year Old Funding - Universal/Extended	£5.71	£5.71	£5.71	£5.71
EYPP	£1.00	£1.00	£1.00	£1.00
DAF	£938.00	£938.00	£938.00	£938.00

Under 2s	National rates	Herefordshire	Shropshire	Gloucestershire	Worcestershire
Area cost adjustment (ACA)		1.0123	1.0377	1.0809	1.0407
Base rate (adjusted for ACA)	£9.19	£9.31	£9.54	£9.94	£9.57
FSM		£0.34	£0.34	£0.36	£0.36
IDACI (Band A (most deprived) to F)		£0.22	£0.22	£0.28	£0.33
EAL		£0.10	£0.05	£0.09	£0.08
DLA		£0.11	£0.10	£0.09	£0.11
Total		£10.07	£10.23	£10.75	£10.45

2 Year Old Funding - Working Parents/FRAS	National rates	Herefordshire	Shropshire	Gloucestershire	Worcestershire
Area cost adjustment (ACA)		1.0126	1.0366	1.0809	1.0404
Base rate (adjusted for ACA)	£6.82	£6.91	£7.07	£7.37	£7.10
FSM		£0.24	£0.24	£0.25	£0.25
IDACI (Band A (most deprived) to F)		£0.15	£0.15	£0.19	£0.22
EAL		£0.07	£0.03	£0.06	£0.06
DLA		£0.08	£0.07	£0.07	£0.08
Total		£7.44	£7.55	£7.94	£7.71

Larger fluctuations in rates between local authorities can be seen for the under 2s and 2 year old working parent/FRAS sectors. A breakdown of the rates for these 2 sectors are shown below the benchmarking table to show why the differences arise:

- Main variation between funding rates given by Dfe is driven by the base rate due to the ACA (area cost adj) applied to national rate
- IDACI (Income Deprivation Affecting Children Index) band A-C PTE's higher in Gloucestershire & Worcestershire (Bands A-C attract higher funding due to higher deprivation)

Central retention 2.7% - what will it be used for?

- For Budget 2025/26 centrally retained services is capped at 4% (in subsequent years this will be 3%). Herefordshire Council will be using 2.7% (in line with Budget 2024/25).
- As the total funding has increased year on year, the increase in funding will be used to fund additional roles needed, including all associated costs for these members of staff, for the increase in EY provision.
- The roles that the central retention will fund are Early Years Improvement advisors, Early Years Inclusion Officers, Early Years Lead Improvement Advisor, & Early Education Funding Team. The main duties carried out by the teams are: training to Early Years providers, advice, support, visits, sitting on funding panels, attending OFSTED feedback, make payments to Early Years providers.

SurveyMonkey Consultation results

17 consultation responses were received and highlighted the following:

- 94.1% of providers favoured the 80% estimate on funding proposal
- 52.9% of providers favoured the higher 2 year old families receiving additional support rate to promote inclusivity
- 67% of providers favoured the roll in of rurality into the 3&4 year old rate
- 88.2% of providers favoured the funding of SENIF & deprivation from all rates (as distributed back out to all providers based on SEN and EYPP pupil numbers respectively)

Schools Forum

Schools Forum's budget working group to review NEF on 10th January 2024. Schools Forum will meet on 20th January 2025 to agree the 2.7% central retention funding & Local Authority funding rates for 2025-26. You will have two Early Years representatives attending. If agreed the proposed NEF rates will commence from the beginning of the summer term 2025.