Department for Education

Early years funding consultation: summary of proposals

This document providers a high-level summary of the key features of the early years funding system and a summary of proposals in the funding consultation. The consultation is not about the overall amount of funding invested in the early years, which is set as part of the cross-government Spending Review and budget process. As set out in the Best Start in Life strategy, we are consulting on changes to how we distribute that funding to support the aim of ensuring every child has the best start in life.

The consultation makes proposals across 5 areas:

- Funding for disadvantaged and low income families
- Special education needs and disabilities (SEND) funding
- Best Start in Life expectations
- Improving the overall effectiveness of early years entitlement funding
- Ofsted fees

This summary is not a substitute for the funding consultation document itself, it is meant to assist individuals responding. Anyone submitting a response should read the consultation document to familiarise themselves with all proposals in full.

Support for disadvantaged and low income families

We want to ensure that those families and children that stand to benefit the most from early education do so. However, disadvantaged children and low income families continue to face barriers to accessing funded entitlements. Our proposals are intended to better target funding to alleviate cost barriers faced by low income families and how the funding system could be used, at local level, to address barriers to access for disadvantaged children.

Local authorities currently can set a higher funding rate for Early Learning for 2-year-olds (EL2) places, although we know that few do. In addition, they must provide a deprivation supplement for 3- and 4-year-olds on top of the hourly funding rate providers receive. LAs can provide a deprivation supplement for under 3s but it's not compulsory. There are no national expectations or direction about the level of this funding or how it should be used.

What is being proposed?

We are interested in improving the way that disadvantage funding is targeted, so it has more impact on supporting children to access places. From April 2027, more EL2 funding would go to childcare providers to help improve access to childcare places to families eligible for EL2. For **local authorities** this means that they would no longer be able to deduct funding from the EL2 funding rate for central spend but they could set conditions on how any additional EL2 funding flowing to providers should be used to best support access. LAs can continue to use central spend for activities supporting EL2 families but would need to fund this by means other than top-slicing the EL2 entitlement funding.

For **early years providers** this would mean a greater focus on supporting access for EL2 children, including potentially using any additional funding for specific support for these children and their families. We are seeking views on what approaches are most effective but it could mean:

a) receiving a higher hourly funding rate in return for providing specific support for EL2 children. For example, this might include support with food costs, or contributing to transport costs to help parents to get to settings.
b) receiving a higher hourly funding rate to reflect the additional costs that might come with supporting EL2 children and their families (e.g. more staff time to talk to parents, family services, Best Start Family Hubs, health visitors); or;
c) Working with local authorities, family hubs or other family-facing professionals to reach out to families who are eligible but not currently accessing a place.

For **parents/carers eligible for EL2** this means, depending on the local offer, they could receive more support from the local authority or provider to access a childcare place. They could benefit from a free meal at the nursery, less paperwork/admin to get a place, or help from the nursery if you're having conversations with family services such as, health visitors or any other general help you need to get a childcare place.

Our consultation is also asking whether from April 2028, the deprivation supplement should have a clearer purpose and minimum level of funding to improve access for disadvantaged children (this group could be wider than the EL2 population). This would mean there would be more consistency between areas (how they fund and what the funding is used to achieve). We are seeking views on whether this is the right approach to improving access for disadvantaged children.

Early years special education needs and disabilities (SEND) funding

The proposals in our consultation deliver inclusion funding to settings up front, without any application processes, to make early years provision more inclusive. Our proposals also mean that funding for providers to support the additional needs of children is delivered in a more consistent and streamlined way.

Upfront Inclusive Early Years Funding: In 2026-27 local authorities received Inclusive Early Years Funding (IEYF) for the first time. This is 'upfront' funding - providers don't need to apply for this funding and it does not rely on parents having an eligibility check. The funding should help providers to invest in staff time, workforce training and resources that support inclusive practice.

The funding was distributed nationally to local authorities using data on free school meals (FSM) and Disability Living Allowance (DLA) eligibility as these factors correlated strongly with additional needs. The recommended distribution approach from local authorities to providers for IEYF in 2026-27 included a £1,000 minimum allocation to ensure allocations are a meaningful size. However, this approach also means that smaller providers, including many childminders, may not receive IEYF funding directly in 2026-27. The amount of national funding for this in future will depend on later funding decisions and affordability.

SENIF and DAF: Separately, all local authorities need to have SEN Inclusion Funding (SENIF) which they fund from their early years block funding, high needs funding or both. LAs have their own application processes and the amounts they put into SENIF varies. Children may qualify for Disability Access Funding (DAF) if they are receiving Disability Living Allowance. DAF is a fixed amount of money (currently £975) that goes to a provider for a child once a year, every year they are eligible. Unlike IEYF, providers apply for SENIF and DAF to support individual children.

What is being proposed?

Our consultation is asking whether upfront Inclusive Early Years Funding (IEYF) should be made available to all early years providers from April 2028, and how providers should use this funding where sums of money are small. We are also asking whether local authorities should distribute this funding via a mandatory inclusion supplement and are asking how LAs could distribute this funding in a way that effectively targets local SEND need.

For **local authorities** this means that they would no longer need to administer separate IEYF money to providers. They would distribute this funding to providers through a mandatory inclusion supplement added to hourly entitlement funding rates. For **early years providers** this means those who have not received inclusion funding this year, might start receiving it. For **parents/carers,** this means that their childcare settings could receive inclusion funding where they weren't before. This funding should be used to help make providers become more inclusive and parents may have views on what sort of things providers should do with this funding.

Our consultation is asking whether we should merge SENIF and DAF to create a single targeted funding stream for providers to access to meet children's additional needs. This would be administered by local authorities. For **local authorities** this means that from April 2028, funding for SENIF and DAF would be combined into a single funding stream. This funding stream would be distributed through a formula to local authorities reflecting relative levels of need, instead of local authorities setting up their own SENIF – however, local authorities would still have flexibility to top this up from high needs funding or early years block funding. **For providers,** this would mean applying for funding from a single funding stream from their local authority. For **parents/carers** of children receiving DLA we are proposing that there would be ongoing support for their children through the single funding stream.

We are also seeking views on **what data could be used to distribute this 'single targeted funding' stream to local authorities and how the funding could be administered.** We want to use data that is associated with additional development needs and SEND rather than relying on recorded SEND data, given variation in how needs are recorded and to avoid driving perverse incentives in the system. For example, we could use free school meal eligibility data or Disability Living Allowance data, as we have done to distribute the IEYF. We would welcome views on other or alternative measures. On the administration of the funding, we are considering and welcoming views on how to make this more consistent through a new national framework for local authorities to follow. For **early years providers** this means from April 2028 you would be able to apply for funding to meet the additional needs of children within your setting but the application would look and feel similar regardless of which local authority you are applying in.

As an interim measure we propose that in 2027-28, we recommend local authorities spend a minimum of 0.75% of their early years funding on SENIF in 2027-2028. This is to drive up spending in the c.20% of local authorities that currently spend less than this amount. This would be a recommended target and would not be a strict condition of funding. This target could be met through either early years block funding or high needs funding. This has been set to increase spending in the lowest spending LAs and should not be viewed as a benchmark for SENIF spend – the majority of LAs that spend more than 0.75% on SENIF should continue to do so and do not need to make any changes in light of this recommendation.

We are proposing stronger expectations on providers to show that they are using money to support children with SEND and are seeking views on what arrangements should be in place to improve accountability**.**

Best start in life expectations

We want to support the sector to further develop the role of early years settings in building strong partnerships with local Best Start networks, and with families, including how they offer support, advice and guidance to parents. This proposal is about strengthening the links between local authorities, Best Start Family Hubs, and early years providers so that families receive consistent support wherever they access childcare or early education.

What is being proposed?

Local authorities should work closely with all early years providers in their area to develop and deliver local Best Start in Life plans, ensuring providers are involved in decision-making and integrated as part of their Best Start networks. They should create strong partnerships, clear referral pathways and joined-up services.

Providers are expected to work with Best Start Family Hubs, share information about local services and help connect families to appropriate support. They should align their practice with national and local guidance to help improve children's development and school readiness, with some providers choosing to take on a wider family support role, for example as Best Start network sites.

For **parents /carers** the aim is to make support easier to access and more consistent, so families receive clear advice and guidance wherever they access early years services. Families may benefit from additional activities and early help, including support from Best Start Inclusion Practitioners who can work directly with children, parents and providers to address emerging needs.

Subject to this consultation process, starting in 2027, we would update statutory guidance to set out expectations for how local authorities should work with providers receiving entitlements funding to support the Best Start in Life priorities. This would include setting out that we want local authorities to make these expectations explicit in their funding agreements with providers.

Improving the effectiveness of early years funding

We want to distribute early years funding in a way that is fair and transparent. At the national level, that means ensuring that the early years national funding formulae (EYNFF) can make use of the latest available data to direct money to where needs and costs are higher. At the local level, it means reassessing how funding flows from local authorities to providers, striking the right balance between local flexibility to reflect local circumstances while also reducing the postcode lottery that providers and parents can feel in different parts of the country.

At the national level

The national early years funding formulae (EYNFF) is used to determine how funding is distributed between local authorities. From 2027 to 2028 we plan to make two significant updates to the data we use in the EYNFF. These updates give an updated picture of the varied needs and costs in different local authorities; adding them to the formulae ensures funding is distributed in a way that is fair and data driven. This update replaces older data on workforce costs (General Labour Market/ GLM data), which is part of the EYNFF’s area cost adjustment (ACA), and replaces older data on deprivation levels (Income Deprivation Affecting Children Index (IDACI)), with more recent 2025 data.

We are not consulting on whether to make these data updates, but we are using the consultation to explain their expected impact and to seek input on how to manage the change to local authority hourly funding that they will drive. 2027 to 2028 local authority funding rates will be confirmed in autumn 2026.

What is being proposed?

We are **proposing an improvement to the way the 3-and-4 year old formula reflects deprivation**; the 3-and-4 year old formula currently only uses data on Free School Meal (FSM) eligibility to estimate the level of deprivation in a local authority. While this data is a good measure of household level deprivation, it does not account for the overall level and density of deprivation in an area, something that can independently influence child outcomes and which is better captured by IDACI. We already use both FSM and IDACI data in the 2-year-old and Under-2 formulae to give a more rounded view of the level of additional need across local authorities. We propose to bring the 3-and-4-year-old formula in line with this approach.

Planned data updates will result in some local authorities seeing an increase to their hourly funding rates, with others facing a reduction. We are therefore **proposing to apply ‘protections’ to 2027 to 2028 funding rates** to manage the scale of change that authorities and providers see each year, seeking views on how best to do this.

More broadly, we are always exploring ways of improving the EYNFFs ability to set funding rates in a way that is fair and reflects the varied local circumstances that early years providers operate in. We are therefore **calling for wider input on improvements you would suggest to improve how the EYNFF works for the early years sector.**

At the local level

We are consulting on how local authorities pass funding on to childcare providers in their area. We want local arrangements to be more simple, more transparent, with greater consistency across local areas. This will help address the postcode lottery experienced by some providers and will maximise the impact of available funding, whilst also recognising the essential role that local authorities play.

What is being proposed?

Early years funding is based on the number of government-funded childcare hours taken-up by children each term. Local authorities can keep back a small amount of their EY entitlements funding as a contingency budget to cover unexpected changes in demand for childcare places during the year. Under current arrangements unused contingency funding cannot easily be passed on to providers during the financial year.

From 2027 to 2028 **we propose to give local authorities the ability to pass on underspend from early years contingency budget to providers during the financial year.** This change would help maximise the amount of funding reaching early years providers and would move away from current practice where any underspends on the early years budget at year-end must be used to offset wider deficits, where local authorities have them, across their overall ‘dedicated schools grant’ (DSG), which is used to provide funding for the early years, schools and high needs.

From 2028 to 2029, to simplify and better target local needs we are proposing to change how local authority ‘supplements’ are designed. Local supplements give local authorities the flexibility to direct up to 12% of their early years funding to different providers depending on the needs or characteristics of each setting. Local authorities do this by using the five categories of supplement set out by the department, which include: Deprivation (mandatory), Quality, Flexibility, Rurality/ Sparsity, and English as an Additional Language. We understand that the use of these supplements is low and that they are seen as overly complex.

We are therefore proposing **to streamline these supplements, aligning them more closely with government priorities. Through this proposal, the five supplement categories above would be replaced with three:** the deprivation supplement (as per the existing category), an Inclusion supplement (which local authorities could use to target funding locally for SEND) and a site-specific supplement to reflect different provider type needs. Under this arrangement, local authorities would have the continued flexibility to distribute up to 12% of their entitlements budget through supplements, but these streamlined categories will make local funding arrangements more consistent and targeted.

Beyond 2028, we are **considering if funding for local authority central services should be separated out from entitlements funding for early years providers**. Local authorities carry out a range of activity to deliver entitlements locally; these functions are essential and are currently funded through a small top-slice applied to a local authorities’ entitlement budget. We continue to see these activities as a legitimate use of the funding that government provides for early years, but we recognise that funding in this way limits transparency and is a point of friction between providers and local authorities.

We are therefore proposing- in principle at this stage- that we fund local authorities separately for the central functions they provide in early years through a standalone grant. This grant would still be funded from within the overall early years budget, but it would not be part of the local authority hourly funding rates we set each year. Setting funding up in this way would be more transparent and would reduce the current gap that providers see between local authority hourly rates and the rates they receive. However, it would significantly affect how local authority central services are funded. At this stage we are therefore asking for views on the principle of funding local authority central services in this way, testing what activities should be funded through it, and how far government should prescribe its use. We recognise that more work and further engagement will be needed to develop a plan for implementation.

Ofsted fees

We want to simplify the way Ofsted activity for providers on the Early Years Register is funded. Government now funds the majority of early years places through the entitlements programme, yet providers have to return a small proportion of that funding to Ofsted through annual fees. This is inefficient and creates avoidable administrative burdens for providers, Ofsted and government. Removing or reducing annual Early Year Register fees and replacing them with a simpler funding mechanism could reduce these burdens and provide a more efficient approach to funding Ofsted.

What is being proposed?

We want to know if the sector would support us removing or reducing annual Early Years Register fees for all providers and instead funding some of these costs through a top slice of some of the budget which is used to fund the entitlements programme. We expect this would reduce the national average local authority rates by at maximum a few pence.