

Item No 6, Dedicated Schools Grant (DSG) Early Years Funding 2024/25

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Purpose of Report

1. To provide details of indicative Dedicated Schools Grant (DSG) Early Years Block (EYB) funding for 2024/25, including the new entitlement to funded childcare for working parents of children under 3.
2. To outline the details of the proposed formula for distribution of funding to EY Providers in Durham in 2024/25.

Voting

3. All members are entitled to vote on the recommendations in this report.

Recommendation

4. Schools Forum is asked to note and comment on the contents of the report.

Executive Summary

5. In the 2023 Spring Budget, the Government announced a series of major changes to Early Years (EY) entitlements that will begin to take effect from April 2024. By September 2025, working parents of all children over the age of nine months until they start school will be entitled to 30 hours childcare support.
6. The Government has announced additional funding of £288m nationally for early years education in 2024/25 to increase the hourly rate paid to childcare providers for the free hours offers. A further £67m nationally of Government funding is being provided in response to the national living wage increasing for 2024/25. National early years education spending is expected to increase to £6.091 billion in 2024/25.
7. Funding is increasing in 2024/25 for each EY entitlement and for new entitlements for under 3s the government requires a local formula to be introduced akin to the existing system for 3 and 4-year-old funding.
8. Proposals for the formula for distributing funding to providers in Durham were published for consultation in early January and the feedback is summarised in this report.
9. Proposed base rates for 2024/25 for each EY entitlement are detailed in the report.

Background

10. In the 2023 Spring Budget, the Government announced a series of major changes to Early Years (EY) entitlements that will begin to take effect from April 2024.
11. The Government describes the changes as being focussed on giving children the best start in life and supporting parents to access affordable, high-quality childcare to encourage more parents to return to work while balancing childcare commitments.
12. By September 2025, working parents of all children over the age of nine months until they start school will be entitled to 30 hours childcare support. The current EY entitlements and timeline for changes is shown in the table below:

3/4YO Hours			
All Parents			
Now	Apr-24	Sep-24	Sep-25
15	15	15	15

2YO Hours			
Disadvantaged			
Now	Apr-24	Sep-24	Sep-25
15	15	15	15

3/4YO Hours			
Working Families			
Now	Apr-24	Sep-24	Sep-25
30	30	30	30

2YO Hours			
Working Families			
Now	Apr-24	Sep-24	Sep-25
-	15	15	30

9-23 months Hours			
Working Families			
Now	Apr-24	Sep-24	Sep-25
-	-	15	30

13. The Government has announced additional funding of £288m nationally for early years education in 2024/25 to increase the hourly rate paid to childcare providers for the free hours offers. A further £67m nationally of Government funding is being provided in response to the national living wage increasing for 2024/25. National early years education spending is expected to increase to £6.091 billion in 2024/25.
14. On the 29 November 2023, the Department for Education (DfE) published the following information on Early Years entitlements:
 - Early years funding - extension of the entitlements – Government response.
 - Early Years Entitlement Operational and Technical Guidance for 2024/25
 - Indicative local Authority funding allocations for 2024/25

15. This information can be accessed online:

[Link to funding information](#)

Indicative Funding Allocations

16. The table below summarises the indicative funding position for Durham for 2024/25:

Funding entitlement	Funding Rate	Indicative Allocation 24/25
15 hours universal entitlement for 3/4-year-olds	£5.47	£20.135m
15 hours for working parents of 3/4-year-olds	£5.47	£10.418m
15 hours for disadvantaged 2-year-olds	£7.73	£6.589m
15 hours for eligible working parents 2-year-olds	£7.73	£8.991m
15 hours for eligible working parents of under 2s	£10.53	£4.246m*
Early Years Pupil Premium	£0.68	£0.982m
Disability Access Fund	£910pa	£0.489m
Maintained Nursery Schools supplementary	£4.64	£1.709m
Total		£53.559m

*for the period from September 2024 to March 2025

17. The EY funding allocation is indicative because final allocations for 2024/25 will be based on a combination of pupil numbers recorded in January 2024 (5/12ths to cover the period from April 2024 to August 2024) and pupil numbers recorded in January 2025 (7/12ths to cover the period from September 2024 to March 2025).

3- and 4- year-old allocations

18. The formula for allocating funding to Local Authorities for the 3- and 4-year-old entitlements uses a base rate, additional needs factors and an area cost adjustment.
19. Durham is funded for 3- and 4- year-olds at a rate of £5.47 per pupil per hour for 2024/25. This is the minimum funding floor rate used by the ESFA. Compared to 2023/24 this is an increase of 59p on the equivalent rate of £4.88 for 2023/24. The minimum funding floor rate for 2023/24 was £4.87.

20. In 2023/24, a temporary additional grant funding stream called Early Years Supplementary Grant (EYSG) was also provided at the rate of 32p per pupil per hour for the period September 2023 to March 2024. This funding stream will not continue in 2024/25.
21. For 2024/25, Durham's hourly funding rate of £5.47 provides an indicative funding allocation of £30.552m for the 3- and 4-year-old entitlement. This is the total of the universal 15 hours early years entitlement funding of £20.135m and the additional 15 hours entitlement for 3- and 4-year-old children of eligible working families of £10.418m.

Disadvantaged 2- year-old allocations

22. For 2023/24, the only funding for under 3s was the entitlement for disadvantaged 2-year-olds for up to 15 hours per pupil per week.
23. Durham's funding rate for 2023/24 was £5.63 per pupil per week and this will increase by £2.10 to £7.73 per pupil per week in 2024/25.
24. In 2023/24, a temporary additional grant funding stream called Early Years Supplementary Grant (EYSG) was also provided for disadvantaged 2-year-olds at the rate of £1.60 per pupil per hour for the period September 2023 to March 2024. This funding stream will not continue in 2024/25.

Allocations for new 2-year-old and under provision

25. There are two main additional funding streams that will be implemented during 2024/25
 - 2-year-old entitlement for working parents (effective from 1 April 2024) for up to 15 hours per pupil per week
 - The same entitlement for children aged between 9 months and 2 (effective from September 2024).
26. Durham's funding rate for the 2-year-old entitlement is £7.73 per pupil per week (the same as the entitlement rate for 2-year-old disadvantaged pupils).
27. Durham's funding rate for the under 2s entitlement is £10.53 per pupil per week and this provides an indicative allocation of £4.083 million covering the period from September 2024 to March 2025.

28. To make the new allocations for local authorities as accurate as possible, the basis of funding for the working parent entitlements in 2024/25 will be as follows:

- indicative allocations will be based on a DfE estimate of take-up numbers for the new working parent entitlements.
- final allocations will be adjusted based on actual take-up for each term, collected via two new headcounts in addition to the January census. The dates for these headcounts will be:
 - Summer week commencing 10 June 2024
 - Autumn week commencing 4 November 2024

Other allocations

29. In addition to the main funding streams there are separate allocations for the following in 2024/25:

- Early Years Pupil Premium (EYPP)
- Disability Access Funding (DAF)
- Maintained Nursery School (MNS) Supplementary Funding

Supplementary funding for 3- and 4- year-olds

30. In addition, the EYB also includes supplementary funding for 3- and 4-year-olds in Maintained Nursery Schools (MNS).

31. Local authorities with MNS receive supplementary funding for universal 3- and 4-year-old entitlement hours only. This funding was introduced to enable local authorities to protect their 2016/17 funding rates for the universal 15-hour entitlement for MNS (that is, the rates that existed before the EYNFF) and the government expects it to be used in this way.

32. In 2024/25, Durham is funded at the minimum hourly rate of £4.64, which is 84p higher than the equivalent figure for 2023/24. This increase includes 55p for the Teachers Pay and Pension Grant (TPPG) that was previously paid as a separate funding stream and is now rolled into this allocation.

Funding for Providers

33. For 3 and 4-year-olds, the DfE funds local authorities on the same basis for both the universal 15 hours entitlement and the additional 15 hours entitlement for working parents. This is because the statutory framework and the quality requirements for the two entitlements are the same.

34. It is therefore expected that local authorities fund their providers in the same way for both sets of hours and do not distinguish between the two. This means using the same hourly base rate and same supplements for both entitlements.
35. The funding formula used by local authorities to distribute 3 and 4-year-old funding to providers used must meet the following criteria:
- (i) Have a single local universal base rate for delivering early years entitlement for both the universal 15 hours and the additional 15 hours for working parents.
 - (ii) Pass-through at least 95% of funding directly to providers.
 - (iii) Have a mandatory deprivation supplement, and any other supplements used must fall within one of the allowable categories.
 - (iv) Ensure that no more than 12% of the total value of planned funding goes via supplements funding.
 - (v) Have a Special Educational Needs Inclusion Fund (SENIF).
 - (vi) Pass on Early Years Pupil Premium (EYPP) in full to providers for eligible children.
 - (vii) Pass on Disability Access Fund (DAF) funding in full to providers for eligible children.
36. For 2024/25, a new national funding formula is to be introduced covering both the existing 2-year-old entitlement for disadvantaged children and new working parent entitlements for 2-year-olds and children aged between 9 months and 2 years. The formula will use many of the same criteria as the existing 3 and 4-year-old formula.
37. The funding formula used by local authorities to distribute 2-year-old funding to providers must meet the following criteria:
- (i) Pass-through at least 95% of funding directly to providers in 2024/25 (rising to 97% once the roll-out of the new entitlements has sufficiently progressed).
 - (ii) Have a disadvantaged 2-year-old rate that is at least equal to the rate for 2-year-old children of working parents
 - (iii) Ensure that no more than 12% of the total value of planned funding goes via supplements funding.
 - (iv) Have a Special Educational Needs Inclusion Fund.
 - (v) Pass on Early Years Pupil Premium (EYPP) in full to providers for eligible children
 - (vi) Pass on Disability Access Fund (DAF) funding in full to providers for eligible children

38. The DfE has emphasised that it is important that local authorities reflect deprivation within their local funding approach, recognising the additional costs associated with supporting children from disadvantaged backgrounds.
39. Local authorities can have a single local 2-year-old formula or separate 2-year-old local formulae for working parents, and for disadvantaged children.
40. The deprivation supplement is not mandatory for 2-year-olds and under 2s because if local authorities choose to have separate 2-year-old formulae, the DfE considers it would not be logical to require them to include a deprivation supplement in their local disadvantaged 2-year-old formula.

Proposals

41. The proposed changes to the EY funding formula for 2024/25 are described below. This is followed by a section on the outcome of a consultation with providers, and a summary of the final proposals.

Funding for 3 and 4-year-olds

42. The main change proposed for this entitlement is the removal of the quality supplement.
43. The quality supplement payment is contingent on the qualifications held by staff directly working with this age group. With the new funding entitlements spanning from 9 months to four years old, removing this supplement aims to offer providers greater flexibility in organising their staff based on the specific needs of children, without being excessively constrained by predetermined quality measures for a particular age group and as stated earlier would maximise the base rate passed on to all providers.
44. The removal of the quality supplement would allow this funding (circa £0.950 million in 2023/24) to be reallocated to increase the base rate by 13p per hour for all providers.
45. The quality supplement is not mandatory and is used by less than half of local authorities, as they opt for fewer supplements to maximise the base rate passed on to providers.
46. Whilst there is a risk that the removal of the supplement will have a negative impact on the quality of provision, we consider that additional guidance, support and training that the local authority will be able to facilitate across all age groups will mitigate this.
47. No other changes are proposed to this funding stream.

Funding for under 3s

48. The introduction of a new national funding formula covering both the existing 2-year-old entitlement for disadvantaged children and new working parent entitlements requires a local formula to be introduced to distribute this funding in a similar manner to funding for 3 and 4-year-olds.
49. Local authorities have the option to either treat the two 2-year-old entitlements (for working parents and for disadvantaged children) the same, with a single local 2-year-old formula, or to have separate local formulae for the two entitlements.
50. It is proposed to have two separate formulae for this entitlement, with the base rate for 2-year-old disadvantaged pupils being set at a higher level than that of working parents to recognise the additional costs associated with supporting children from disadvantaged backgrounds.
51. The rate for working parents will be set at £7.13, matching the rate paid for 2-year-old children from September 2023 (via a combination of base rate of £5.53 plus EYSG of £1.60). By setting the working parent rate at this level, there is capacity within the overall 2-year-old funding allocation to set the rate for disadvantaged children 19p higher at £7.32.
52. Most disadvantaged 2-year-olds will also attract additional EYPP funding of £0.68 per hour in 2024/25, meaning overall funding for these children would be £8.00 per hour. (EYPP is described in a later section).

SEN Inclusion Fund

53. With the introduction of the new working parent entitlements for 2024/25, local authorities are expected to establish SENIFs for 2-year-olds and under in addition to the existing 3–4-year-old SENIF.
54. These funds are intended to support local authorities to work with providers to address the needs of individual children with SEN who are taking up the entitlements. This fund will also support local authorities to undertake their responsibilities to strategically commission SEN services as required under the Children and Families Act 2014.
55. For 2023/24 we set aside 8p (equating to 1.5%) of the 3–4-year-old funding stream for the purpose of SENIF.
56. For 2024/25 we propose to set aside 1.5% of all entitlement funding for the purpose of establishing SENIFs across all entitlement types. Based on indicative allocations, this equates to £0.781m of funding.

Contingency Fund

57. For 2024/25 we propose to set aside 0.5% of each funding stream as a contingency fund to provide for any unexpected impact of the changes to funding this year. Based on indicative allocations, this equates to £0.252 million.
58. The contingency fund would be regarded as funding for providers and would count towards the 95% pass through requirement. We anticipate that a contingency sum will be part of the formula in 2024/25 and 2025/26 whilst the new entitlements are introduced and will review the level of contingencies set aside on an annual basis.

Centrally Retained Funding

59. In 2023/24 the authority (following consultation with Early Years providers) retained 4.7% of the 3 and 4-year-old rate, which amounted to £1.283 million. This funding supports services provided centrally by the local authority, including training, quality improvement setting and leadership support, safeguarding advice and guidance, SEND training and support and administration of the entitlement payments.
60. Whilst it is clear the introduction of the new entitlements will increase the local authority workload and additional resource capacity will be required, it is difficult to be certain what will be needed, and this is unlikely to become clear until all new entitlements are embedded and there is greater clarity about demand.
61. In guidance DfE have indicated the direction of travel for the new entitlement funding streams is to reduce the allowable central retention from 5% in the 2024/25 to 3% once the roll-out of new entitlements is sufficiently progressed to allow this.
62. For 2024/25 we propose to retain 4.7% (as per the level in the current year for 3 and 4-year-old-funding) across all entitlements. Based on indicative allocations, this will provide total centrally retained funding of £2.368m.

Disability Access Funding (DAF)

63. The Disability Access Fund (DAF) was introduced in April 2017 to support disabled children's access to the 3- and 4-year-old entitlements. For 2024/25, DAF will be extended to eligible 2-year-olds and under.
64. The national funding rate for DAF will increase by £82.00, from £828 to £910 per eligible child per year in 2024/25, or from £881 following the EYSG uplift. The funds can be used to support providers in making

reasonable adjustments to their settings and / or helping with building capacity, be that for the child in question or for the benefit of children attending the setting.

65. Children do not have to take up their full early education entitlement in order to receive the DAF. Children will be eligible where they take up any period of free entitlement and receive Disability Living Allowance.

Early Years Pupil Premium (EYPP)

66. The EYPP gives providers additional funding to support disadvantaged children accessing an entitlement place. For 2024/25, EYPP will be extended to all 2-year-olds and under accessing the entitlements and meeting the eligibility criteria. The EYPP remains distinct from the EYNFF and is not the same as the Pupil Premium provided to primary and secondary schools.
67. The national funding rate for EYPP will increase by £0.02p, from £0.66p to £0.68p per eligible child per hour in comparison to the September 2023 to March 2024 rate. All providers with eligible children will be funded at the national rate of £0.68 per pupil per hour for 38 weeks up to a maximum of 570 hours (or £387.60 per year). EYPP is paid on the 15 hours only, up to a total of 570 hours in the year.

MNS Supplementary Funding

68. The MNS supplementary funding for 2024/25 now includes funding for Teacher Pay and Pension Grant that was previously paid as a separate funding stream.
69. The formula for allocating lump sums to MNS for 2024/25 remains unchanged.

Consultation

70. It is a statutory requirement for the Council to consult with providers and the Schools Forum before making changes to the EY funding formula.
71. Over a two-week period between 24 January 2024 and 7 February 2024, the Council held a consultation on the proposals described above, and a copy of the consultation questions are shown at Appendix A.
72. There were 145 responses to the consultation and the breakdown by type of provider is shown overleaf:

Type of provider	Number of responses	Proportion of responses
Maintained Nursery School	8	6%
Maintained school with nursery unit	17	12%
Academy with nursery unit	4	3%
Private/Voluntary/Independent nursery	44	30%
Childminder	71	49%
Other	1	1%

73. Summaries of the consultation responses are shown below.

How do you view the authority's proposal to retain 4.7% of all funding in line with the percentage retained from 3-4-year-old funding in 2023/24?	Number of responses	Proportion of responses
It should be more	13	9%
It is about right	86	60%
It should be less	45	31%

How do you view the proposal to set aside a contingencies fund of 0.5% for all entitlement funding?	Number of responses	Proportion of responses
It should be more	8	6%
It is about right	120	85%
It should be less	14	10%

How do you view the authority's proposal to set aside a SEN Inclusion fund of 1.5% across all entitlements?	Number of responses	Proportion of responses
It should be more	27	19%
It is about right	95	67%
It should be less	20	14%

The authority is proposing to remove the quality (staff qualifications) supplement from the 3-4-year-old rate (to redirect an increase of 13p per hour to all providers through the base rate). Do you agree or disagree with the proposal?	Number of responses	Proportion of responses
Strongly agree	36	25%
Agree	42	29%
Neither agree nor disagree	26	18%
Disagree	22	15%
Strongly disagree	18	13%

Generally, the disadvantaged cohort of 2year olds require further additional support than those children who are not in this cohort. The authority is proposing to transfer 8p of working parent 2-year-old funding to the disadvantaged 2-year-old rate to facilitate a 19p difference between the two provider rates. Do you agree or disagree with this proposal?	Number of responses	Proportion of responses
Strongly agree	15	11%
Agree	41	29%
Neither agree nor disagree	36	25%
Disagree	33	23%
Strongly disagree	18	13%

74. For the first four proposals the majority of respondents agreed with what was proposed and for the final proposal more agreed (40%) than disagreed (36%).

75. It is proposed therefore to proceed with the proposals as originally outlined.

Summary of proposals

76. The table below shows the proposed base rate for each entitlement and compares this to the current rates for 2023/24 (both with and without EYSG):

Entitlement type	3–4-year-olds	2-year-olds (Disadvantaged)	2-year-olds (Working Parents)	Under 2's	Total Allocation
Indicative pupil PTE		1,496	2,041	1,034	
	(£)	(£)	(£)	(£)	(£m)
Overall funding rate	5.47	7.73	7.73	10.53	50.379
Centrally retained	-0.26	-0.36	-0.36	-0.49	-2.368
Balance to providers	5.21	7.37	7.37	10.04	48.011
SEN Inclusion Fund	-0.08	-0.12	-0.12	-0.16	-0.781
Contingency	-0.03	-0.04	-0.04	-0.05	-0.252
Balance	5.10	7.21	7.21	9.83	46.978
Supplements	-0.16				-0.917
Transfers		0.11	-0.08		0
Base rates 2024/25	4.94	7.32	7.13	9.83	46.061
Base rates 2023/24	4.13	5.53			
% increase in 2024/25	+19%	+32%			
Base rates + EYSG 23/24	4.45	7.13			
% increase in 2024/25	+11%	+2.7%			

77. The base rate for the 3 and 4-year-old entitlement will increase from £4.13 in 2023/24 to £4.94 in 2024/25, an increase of 19%. When measured against the current position of base rate plus EYSG, the increase is 11%.
78. The base rate for the 2-year-old disadvantaged entitlement will increase from £5.53 in 2023/24 to £7.32 in 2024/25, an increase of 32%. When measured against the current position of base rate plus EYSG, the increase is 2.7%.
79. The base rate for the 2-year-old working parent entitlement is new for 2024/25 will be set at the rate of £7.13.