

Schools Forum 17 January 2024	Item 3
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Subject: Dedicated Schools Grant – Early Years, including funding formula 24/25

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1. Setting a funding formula: the context

In Spring 2023 the government announced a significant extension to early years education and childcare entitlements. [Early education and childcare \(applies from 1 April 2024\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/early-years-entitlements-extended)

For 2024 to 2025, the majority of the existing local funding rules are extended to the two new working parent entitlements for under 2-year-olds and 2 – 3-year-olds

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 academies, and early years providers. It must also first consult its Schools' Forum, maintained schools and academies, and early years providers on its formulae for the new working parent entitlements. The final decision on the funding formulae, following any consultation, rests with the local authority. Local authorities are not permitted to amend their funding formulae after the financial year has started.

Local authorities should ensure their early years providers are sufficiently represented at Schools' Forum meetings to enable approvals on specific changes to the formula. Each forum should have at least one representative of the private, voluntary, and independent (PVI) sector among its non-school members.

Whether or not their local formulae have changed, local authorities must deduct any central expenditure by 29 February 2024 and calculate and notify initial budgets to providers by 31 March 2024 for all the early years entitlements, including the hourly rate for the 9 months up to 2-year-olds entitlement which is starting from September 2024, taking into account the 95% pass-through requirement.

[Early years entitlements: local authority funding operational guide 2024 to 2025 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/early-years-entitlements-local-authority-funding-operational-guide-2024-to-2025)

2. RECOMMENDATIONS

That Schools' Forum:

- A) Note the London Borough of Merton's Early Years block of the DSG 2024/25 (as shown in Table 1)

- B) Note the underlying principles that support the rationale and proposal for consultation for the funding formula across the age-related entitlements. (Section 4.)
- C) Approve the early years central retention budget of 5% so the LA can deliver its core statutory functions and support quality and inclusion across EY settings. (Section 5)
- D) Comment on and agree the consultation content and timescales for the early years funding formula process for 24/25, including distribution. (Section 6)
- E) Agree the methodology for the value/budget setting for 24/25 Special educational needs inclusion fund (SENIF). (Section 6)
- F) Note the expected in year additional reporting and the adjustments to the early years block of the DSG.
- G) Note the proposal to consult on the new local SENIF across the age-related entitlements.
- H) Note the consultation timescale with regards to the expected distribution of indicative budgets
- I) Note for information and illustrative purposes only the DRAFT indicative budget calculated on the proposed funding formula – subject to consultation outcome

3. Early Years Block

3.1 There is a significant increase (circa. £8m) to [the Early Years Block of the DSG in 24/25](#), due to the increased investment and expansion to the eligibility of the early years DSG funding streams, which includes:

- expanding the eligibility for Early Years Pupil Premium (EYPP) and Disability Access Fund (DAF);
- increasing funding rates for the existing entitlements; and
- the introduction of the expanded early education and childcare entitlements in 2024/25.

The total indicative early years block of the DSG for 24/25 is **£24m**, and is allocated through the following funding streams shown below.

Table 1

Funding stream	24/25 allocation	PTE (est)	Hourly rate	Hourly rate variance from 23/24
Under 2's entitlement funding	£2,511,539	326.87	£13.48	N/A
2-Year-olds disadvantage entitlement funding	£1,737,819	307.96	£9.90	+ £0.32
2-Year-olds working entitlement funding	£3,640,582	645.15	£9.90	-
3& 4-Year-olds universal funding	£11,921,882	3071.33	£6.81	+£0.38
3&4-year-old extended place funding	£4,11,590	1056.39	£6.81	+£0.38
Disability Access Fund (DAF) 3&4-year-olds	£64,610	71	£910 (per annum)	+£29

Disability Access Fund (DAF) 2-year-olds	£18,200	20	£910 (per annum)	-
Disability Access Fund (DAF) Under 2-year-olds	£4,550	5	£910 (per annum)	-
Early years pupil premium (EYPP) 3&4-year-olds	£108,141	279	£0.68	+£0.02
Early years pupil premium (EYPP) 2-Year-olds	£57,792	149.1	£0.68	-
Early years pupil premium (EYPP) Under 2's	£2,888	7.45	£0.68	-
Total	£24,168,693			

3.2 The Indicative allocations for 2024/2025 are calculated using the estimated Part Time Equivalent (PTE) places recorded on the January 2023 Early years/ Schools and AP census or by assumption on take up of the new entitlement; multiplied by the hourly rate and the number of annual entitlements hours:

$$\text{PTE} \times 570 \text{ hours} \times \text{£per hour}$$

3.3 The Education School Funding Agency (ESFA) will adjust the initial 2024/2025 allocation in July 2024, based on five-twelfths of the January 2023 census numbers (to cover the April 2023 to August 2024 period), and seven-twelfths of the January 2024 census numbers (to cover the September 2023 to March 2024 period).

3.4 To ensure LAs receive more accurate funding during the roll out of the new entitlements, the council is expected to submit termly headcount data for the new entitlements only, that will be used to adjust the allocation for the new entitlements.

3.5 DAF and EYPP will be extended to eligible children taking up their free early education and childcare entitlement from 9 months- 5 years.

3.6 The indicative allocation for DAF is calculated on the estimated number of Disability Living Allowance claimants of children under 5's. This allocation will not change and is final for 2024/25

3.7 The indicative budget for EYPP is calculated as follows:

- the number of EYPP places as recorded on the January 2023 schools, early years and AP censuses.
- multiplied by 15 hours x 38 weeks x £0.62

3.8 ESFA will update these initial allocations in:

- July 2024 based on January 2024 census number; and
- July 2024, based on five-twelfths of the January 2024 census numbers (to cover the April 2023 to August 2023 period), and seven-twelfths of

the January 2024 census numbers (to cover the September 2023 to March 2024 period).

3.9 For the Early Years DSG allocations that are based on headcount (i.e. places and EYPP) the following applies:

- Final allocations are based on five-twelfths January 2024 census numbers + seven-twelfths January 2025 census numbers.
- Final 2024/25 budgets are not finalised until July 2025, and financial year 2024/24 grant is either increased or decreased based on updated census data.

3.10 The indicative Early Years DSG allocations at the start of the financial year are based on the previous year's take up and an estimated number of eligible children for the new entitlements. The funding allocation is then updated and adjusted mid-year to reflect more recent data, followed by a final reconciliation made in July of the following financial year based on the actual take up.

4. Merton's Funding Formula Principles

4.1 To maximise the amount of funding all providers receive for all children and to reduce bureaucracy, the local authority proposes to apply the following established and embedded principles to the proposed 24/25 local funding formulas for each age-related funding stream.

4.2 Elements within the formula:

- (i) To pass through 95% of each of the early education and childcare entitlement funding stream: (i) Expanded entitlements from 9-month to 2 years; (ii) existing and expanded entitlement for 2-year-olds and (iii) universal and extended 3&4year olds, to early years providers and schools.
- (i) To apply a single base rate for each age-related entitlement funding formulas to simplify the distribution of funding and market management.
- (ii) To limit the number of supplements used in LBM's funding formula to ensure the base rate is maximised, to support high quality ordinarily available provision.
- (ii) To apply a deprivation supplement that supports a narrowing of the gap at the end of the EYFS and is aligned to EYPP eligibility across all age-related entitlements.

4.3 To meet the statutory duties, support the sector and families, and promote early childhood development and school readiness, the local authority proposes the following for elements outside of the formula (**non-formula elements**):

- (iii) To create a SENIF for each age range as part of the 95% pass through, to be administered via an application process that supports our overarching approach to SEND and ordinarily available provision in the Early Years Foundation Stage.
- (iv) To create a contingency fund for each of the entitlements from the 95% pass through rates to manage the fluctuation in participation

- throughout the year, supporting any additional growth in demand for SENIF or Deprivation. Any underspend will be distributed fairly based on participation levels at the end of the year where appropriate.
- (v) To retain 5% of each of the early education and childcare entitlement funding streams for statutory administration, management and support services that work directly with settings to improve outcomes for children and narrow the gap for vulnerable children.

5. Centrally retained element

5.1 A limit for centrally retained items of a maximum 5% has been set by the DfE. The items below will continue to be funded via the retained element, based on the anticipated percentage of the total budget to:

- fund continuous improvement with a focus on settings requiring improvement;
- training and workforce development;
- inclusion and early intervention work with settings supporting children with SEND and/or other additional needs;
- management, coordination and reporting of the Council's statutory duties with regards to childcare and sufficiency;
- administration including communication and promotion activities;
- provider and resident engagement; and
- IT system development and maintenance.

5.2 Schools' Forum approval is required for the overall centrally retained items of the Early Years Block.

5.3 The total centrally retained budget in 2024/25 is estimated as £1.1m devised from the 3 place funding streams below

Table 2

Under 2	2-year-olds	3&4-year-olds	Total
£125,577	£268,920	£801,128	£1,195,625

5.4 It is expected that the centrally retained element will reduce to 3% once the childcare reforms are fully embedded- no timescale provided.

RECOMMENDATION C: *Approve the early years central retention budget of 5% so the LA can deliver its core statutory functions and support quality and inclusion across EY settings*

6. Early Years Funding formula proposal and EYDSG Distribution 24/25

6.1 In preparation for the expanded early education and childcare entitlements, the DfE consulted in the Summer 2023, on the proposed funding arrangements in financial year 2024/25. The [consultation response](#) in late November 2023, identified that the main changes effective from 2024 are as follows

- LA's can retain a maximum of 5% of the 3 age-related allocations for central services to deliver statutory functions.
- LA must pass through 95% of each of the place funding allocations to early years providers and schools via a local funding formula.
- The local funding formula can include eligible supplements up to a maximum of 12% of the pass-through rate (95%)
- The base rate for the (existing) disadvantage 2 years old entitlement must be at least equal, or higher to the base rate for the new expanded entitlement.
- LA's must make available Inclusion Funding to support the needs of children with SEND accessing any of the early education and childcare entitlements from the age of 9 months to 5 years.
- The Inclusion fund is calculated as part of the 95% pass through rate to providers.
- LA's can also calculate a contingency fund for the 95% pass through to providers.

Merton's local Early Years Funding Formula Consultation – place funding allocation

6.2 Merton's proposed Early Years funding formula 2024/25 details and rationale can be found in the [full consultation document](#).

6.3 Schools and providers are asked to provide their feedback to the consultation via this [Consultation feedback form](#) by **1 February 2024**.

6.4 The indicative percentages of the formula elements within the proposed funding formula are shown below.

Table 3

Funding formula	Under 2	2-year-olds	3&4-year-olds
Base rate Percentage of passthrough	91%	91%	84%
Deprivation Percentage of passthrough	2%	3%	8%
Quality supplement (TPPG) Percentage pass through	N/A	N/A	2%

RECOMMENDATION D: Comment and agree the consultation content for the early years funding formula process for 24/25, including distribution.

Early Education and Childcare Entitlement Place funding distribution

6.5 By the end of February, schools and PVI settings will receive an indicative budget - an indication of their annual income based on the previous year's headcounts/claims. i.e., May 2023, October 2023, and January 2024 where applicable.

- 6.6 PVI settings will be asked to confirm their anticipated/realistic numbers ahead of each funding period for all entitlement (new and existing) to reflect any changes more accurately to be reflected the level of funding that is paid up front to providers.
- 6.7 During financial year 24/25, as per usual schools and settings actual funding allocations and budgets will be adjusted based on their actual headcount/census in each funding period during the financial year.
- 6.8 [Draft indicative budgets for 24/25](#) have been prepared for illustrative purposes based on the proposed funding formula.
- 6.9 Following the outcome of the consultation, reviewed final indicative budgets will be circulated with the confirmed funding rates for 24/25 during the week commencing 12 February.

Non-formula elements included in the high passthrough rate 95%

Contingency

- 6.10 The proposed contingency percentages are shown below

Table 4

Under 2's entitlement	2-year-old entitlement	3& 4-year-old entitlement
Circa.£17K	Circa. £13K	Circa.£26K
1%	0.3%	0.2%

Special Educational Need Inclusion Fund (SENIF)

- 6.11 Excerpt from DfE: [Early years entitlements: local authority funding operational guide 2024 to 2025 - GOV.UK \(www.gov.uk\)](#) states the following.

“With the introduction of the new working parent entitlements for 2024 to 2025, local authorities should establish SENIFs for all children with SEN eligible for or taking up the entitlements, regardless of the number of hours taken. 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.

Eligibility

Local authorities should target SENIFs at children with lower level or emerging SEN. Children with more complex needs and with an education, health and care plan (EHC) plan continue to be eligible to receive funding via the high needs block of the DSG. Further information on the high needs funding system can be found in the [high needs funding arrangements: 2024 to 2025](#). As with other elements of early years funding, SENIFs should apply to children attending settings in the relevant local authority area, regardless of where they live.

Value

*The value of the fund should consider the number of children with SEN in the local area, their level of need, and the overall capacity of the local childcare market to support these children. **Local authorities should consult with early years providers to set the value of their local SENIF.***

Sources of funding

Local authorities should establish their SENIFs using funding from the early years block and/or the high needs block of their DSG allocation.

Allocation of funding

As part of the preparation and review of their 'SEND local offer', local authorities must consult with various bodies including early years providers, parents and SEN specialists on the services and provision available to support children and young people with SEN and disabilities, and their families. As part of this 'SEND local offer', local authorities should publish details on how their SENIF will be used to support their early years SEN cohort. These details should include the eligibility criteria for the fund, the planned value of the fund at the start of the financial year, and the process for allocating the fund to providers.

*Local authorities should pass the majority of their SENIF to providers in the form of top-up grants on a case-by-case basis. Local authorities can also support specialist SEN services in their local area. **Funding used for these local authority-wide support services will not count towards the 95% pass-through; they will be counted within the 5% centrally retained funding.***

Eligible providers

All early years providers that are eligible to receive funding for the entitlements are eligible to receive funding from the SENIF to support children with SEN attending their settings.

Compliance

Local authorities must record the planned value of their SENIFs in their early years proforma of the s251 budget returns."

6.12 There is a requirement to publish the value of the fund each year. The proposed value of the mandatory SENIF for 2024/25 will be based on the following methodology:

1. Where applicable, previous year's average SENIF participation for three funding periods January 2023, May 2023 and October 2023
 - 2-year-olds existing

- 3- and 4-year-olds universal and extended
2. An estimated participation of eligible children for expanded entitlement.
- Under 2s (4)
 - 2- 3s expanded (5)

6.13 The indicative value and the percentage of the pass though used to develop the SENIF in 24/25 is shown below:

Under 2's entitlement	2-year-old entitlement	3& 4-year-old entitlement
Circa. £8K (est. 4 children)	Circa. £36K (est. 9 children)	Circa. £193K (est.48 children)
0.3%	0.7%	1.3%

Early Years Pupil Premium (EYPP)

6.14 EYPP is a separate funding stream within the Early Years block of the DSG the 24/25 that does not form part of the funding formula and is distributed separately.

6.15 Merton's indicative EYPP budget is £168,821, based on a DFE estimated the number of eligible children from 9 months taking up their early education entitlement in 24/25.

6.16 Prior to 24/25, EYPP was only allocated for eligible 3&4-year-olds.

6.17 EYPP is only allocated to a maximum of 15 hours a week and must be paid to providers at the DFE the fixed rate of £0.68. This is an increase of 4 pence compared with 23/24.

6.18 Schools and Early Years providers receive this funding in their payment at the end of each funding period based on a child eligibility at the funding period/termly headcount.

6.19 Any underspend on EYPP allocation is expected to be clawed back by the DFE.

Disability Access Fund (DAF)

6.20 DAF is another funding stream within the Early Years Block of the DSG. 25 that does not form part of the funding formula and is distributed separately.

6.21 The DAF allocation is calculated on the estimated number of eligible children aged from 9 months taking up their early education entitlement.

6.22 Prior to 24/25 DAF was only allocated to children aged 3&4- years.

6.23 Merton's DAF allocation is £87,360, to be paid to providers via a fixed annual lump sum of £910 this is an increase of £29 compared with 23/24

6.24 The LA is currently able to retain any of the DAF allocation, which has not been distributed to a setting, and use this in line with the principles and aims of DAF.

Funding formula consultation timetable

17 January 2024 - Schools Forum meeting

18 January –1 February 2024 - consultation period

18 January 2024 – consultation item at Merton’s headteachers meeting

23 January, 25 January and 30 January 2024 - provider engagement meetings
w/c 5 February 2024– LA publishes consultation response and local funding rates.

w/c 12 February 2024 - publish consultation outcome and local funding rates and indicative budgets.

20 March 2024 - Schools Forum meeting

Background papers

- [Merton Early Years funding Formula consultation document 24/25](#)
- [Merton’s Early years Funding Formula Consultation Appendix A Additional information EYDSG and non- formula elements](#)
- [Merton Early Years funding formula Consultation feedback form](#)
- [DRAFT Schools and PVI setting Indicative Budgets 24/24](#) (for illustrate purposes only) - subject to consultation and will be updated
- [Early years funding: 2024 to 2025 - GOV.UK \(www.gov.uk\)](#)
- [Merton \(skillsfunding.service.gov.uk\)\)Dedicated schools grant \(DSG\) 2024 to 2025 \(skillsfunding.service.gov.uk\)](#)
- [Early years funding – extension of the entitlements - GOV.UK \(www.gov.uk\)](#)
- [Schools forum operational and good practice guide - GOV.UK \(www.gov.uk\)](#)