

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Cabinet

Date: 12/02/2024

Subject: **URGENT DECISION - Early Years Budget (Dedicated Schools Grant) 2024/25**

Report of: Cabinet Member for Children and Education, Councillor Alex Sanderson and Cabinet Member for Finance and Reform, Councillor Rowan Ree

Report author: Tony Burton, Head of Finance Children's Services and Education
Peter Haylock, Director of Education

Responsible Director: Sukvinder Kalsi,-Director of Finance
Jacqui McShannon, Director of Children's Services

REASONS FOR URGENCY

Following consultation with Schools Forum and early years providers, an urgent decision is required by 20th February 2024 to confirm the funding rates for the government's existing and new free childcare entitlements from April 2024.

Confirmation of rates at the earliest opportunity will assist schools, nurseries and child minders in their financial and business planning around the new funded entitlements.

SUMMARY

This report seeks approval of the 2024/25 Early Years Block of the Dedicated Schools Grant for 2024/25 which covers the existing childcare entitlements in addition to the new entitlements for working parents of two year olds and under two year olds from the 2024/25 financial year.

The DfE has extended the number of free childcare offers available to working parents in 2024/25. There will be new working parent entitlements introduced for 2-year-olds and children aged 9 months to 2 years during the year. The 2-year-olds offer will be for a maximum of 15 hours per week from 1st April 2024 and the under 2-year-olds offer for a maximum of 15 hours per week from 1st September 2024. It is intended that these offers will be extended further in 2025/26 to a maximum of 30 hours per week.

Local authorities are required to set a local formula for both the 2-year-old offers and the under 2s offer in the same way as it has for 3 and 4 year olds over the past 6 years.

RECOMMENDATIONS

1. To approve the 2024/25 budget of £12.8m for three- and four-year-olds in line with grant conditions, including the proposed increase in the hourly base rate paid to all early years providers to £6.68 per funded hour from April 2024.
2. To approve the 2024/25 budget of £3.2m for two-year-olds in line with grant conditions, including the proposed new hourly base rate paid to all early years providers at £9.36 per funded hour from April 2024.
3. To approve the 2024/25 budget of £1.2m for children from 9 months to two years old in line with grant conditions, including the proposed new hourly base rate paid to all early years providers at £13.45 per funded hour from April 2024.

Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	The allocation of funding to local schools who are employers within the borough.
Creating a compassionate council	Enables pupils within the borough to receive a good quality education.
Doing things with local residents, not to them	Providing educational opportunities for all pupils within the borough.
Being ruthlessly financially efficient	Contributes to a level of financial stability for schools. The high needs block transfer enables this support to schools to continue and helps to reduce the high needs budget pressure.
Taking pride in H&F	Ensures continuing good quality provision in the borough's schools enabling pupils to take pride in their school and the borough.
Rising to the challenge of the climate and ecological emergency	Assists with the delivery of climate Education to young people within the borough.

Financial Impact

The Early Years proposed budget for 2024/25 will ensure the 95% pass through rate of grant directly to early years providers as required by the funding regulations and grant conditions.

The increases in funding to early years providers proposed is afforded by the increase in the hourly funded rate confirmed by the ESFA for 2024/25. The budget

has been based on expected take-up of the government's funded childcare entitlements in the 2024/25 financial year.

An allowance has been budgeted for contingency in each of the entitlements. This allows for risk around census points that guide funding received by Hammersmith and Fulham versus those paid to providers based on the profiled of uptake of entitlements. The contingency also allows for volatility with respect to the deprivation supplement which is paid on a sliding scale according to the child's home postcode. The deprivation scale has been amended to ensure that the funding paid to providers through the deprivation supplement does not exceed the overall 12% cap set on supplements by the grant conditions. Deprivation payments have been reduced across the 5 least deprived bands whilst sustaining the supplement for settings with high levels of deprivation.

Jill Lecznar, Finance Manager Early Years, 29/01/2024

Verified by Sukvinder Kalsi, Strategic Director of Finance, 31/01/2024

Legal Implications

The Council has the power to create a budget and incur this expenditure as part of its duties to provide support for Early Education and Childcare under the Childcare Acts 2006 and 2016 together with its statutory guidance.

The Early Years block of Dedicated Schools Grant (DSG) is payable to local authorities under section 14 of the Education Act 2002. It is a 'ring fenced grant' that is to say it must be solely spent on the grant conditions, which need to be monitored to ensure compliance. Guidance has been prepared by the Education and Skills Funding Agency (ESFA) to assist local authorities in the operation of the grant, including the 2024 and 2025 Technical Guidance published in December 2023, the Early Years Entitlements: Local Authority Funding Operational Guide 2023 2024 and the School and Early Years Finance and Childcare (Provision of Information About Young Children) (Amendment) (England) Regulations 2024 which all support the changes and new entitlements outlined in the report in relation to how the grant funding must be spent.

Each year new regulations are issued as they only cover one year the current being School and Early Years Finance (England) Regulations 2023. These Regulations provide that Local Authorities must consult their Schools Forum and schools maintained by them when determining the school funding formula. Cabinet is the decision-making body for the schools funding formula and must consider the outcome of the consultation and take that into consideration when making a decision on whether to adopt the NFF, as per Schools Forum's recommendation. Although not duty bound to follow the recommendation of Schools Forum following the consultation, if Cabinet departs from the recommendation clear reasons must be given.

Implications verified by Jade Monroe, Chief Solicitor, Social Care, 31 January 2024

Background Papers Used in Preparing This Report

Schools Forum Papers and draft minutes:

- Schools Forum 16th January 2024 – Draft Proposed Early Years Budget 2024/25
[Schools Forum 16th January 2024](#)
 - Early Years Operational Guidance 2024 to 2025
[Early years funding: 2024 to 2025 - GOV.UK \(www.gov.uk\)](#)
-

DETAILED ANALYSIS

Proposals and Analysis of Options

1. The 2024/25 Early Years Block funding allocation and operational guidance was received on the 29th November 2023.
2. The proposed budget for 2024/25 early years entitlements is based on the January 2022 early years census and estimates of expected take-up of the new entitlements in 2024/25. Table 1 below gives a high-level summary of the proposed budget which totals £18.5m across all funding elements.
3. Summary explanations of the funded childcare offer including funding rates applicable in 2024/25 are set out below:
4. Universal entitlement for 3- & 4-Year Olds – 15 hours free childcare for all 3- and 4-YO available from the term after their 3rd birthday for a maximum of 38 weeks per year. Funding will be received by LBHF at £8.71 per hour in 2024/25. This is a £0.21 per hour increase or 2.47% increase on the final 2023/24 funded rates at £8.50 per hour inclusive of Teachers Pay and Pension Allowance of £0.17 per hour.
5. Additional entitlement working parents 3- & 4-Year Olds – additional 15 hours free childcare for eligible 3- and 4- YO from the term after their 3rd birthday for a maximum of 38 weeks per year. Parents are required to obtain a 30-hour code. Funding will be received by LBHF at £8.71 per hour in 2024/25 financial year.
6. Disadvantaged 2-Year Olds – 15 hours free childcare for eligible 2-YO from the term after their 2nd birthday for a maximum of 38 weeks per year. Funding received is £11.30 per hour. This is a £0.50 per hour increase in funding or circa 4.6% versus final 2023/24 rate of £10.80 per hour. The rate to be paid to providers in 2024/25 will need to be agreed by Schools Forum in line with the requirements for this offer as detailed above in paragraph 2.2.
7. Working Parent 2-Year Olds – this is a new offer of 15 hours free childcare for eligible 2-YO from the term after their 2nd birthday for a maximum of 38 weeks per year. Funding received is £11.30 per hour in line with the Disadvantaged 2-year-old offer. The rate to be paid to providers in 2024/25 will need to be agreed by Schools Forum in line with the requirements for this new offer are as detailed above in paragraph 2.2.

8. Working Parent 9 months to 2-Year Olds – this is a new offer of 15 hours free childcare for eligible children from the term after they are 9 months for a maximum of 38 weeks per year. This offer will be introduced in September 2024 so the maximum number of weeks available in 2024/25 is 22 rather than 38. Funding received is £15.41 per hour which reflects the higher level of staffing required for this cohort. The rate to be paid to providers in 2024/25 will need to be agreed by Schools Forum in line with the requirements detailed above in paragraph 2.2.
9. Early Years (EY) Pupil Premium – additional funding for disadvantaged children has been extended to all the Early Years offers detailed above. It will be paid as a top up of £0.68 per hour up to a maximum of £378.60 per year (38 weeks). Eligibility relates to benefits received by the family and must be confirmed by the provider and recorded on the termly head count.
10. Disability Access Fund – additional per pupil funding for those receiving DLA to access all EY entitlements. This was previously for 3 and 4 YO only and has been extended to all Early Years offers from 1st April 2024. Funding has increased to £910 per eligible pupil per annum. (2023/24 £828)
11. Maintained Nursery School Supplementary Funding – this additional funding for maintained nurseries was initiated as part of the move to the NFF (National Funding Formula) to provide funding protection with respect to historic duties to 3 and 4YO. An estimated initial allocation of £1,014,281 in 2024/25 is based on the January 2023 census for 3 and 4YO accessing the universal entitlement. This figure includes the allowance for MNS share of Teachers Pay and Pension Grant. This allocation is subject to change depending on actual participation and will be adjusted accordingly in July 2024 and finally in July 2025 as a result of the January 2025 census.

Table 1: Breakdown of Initial Early Years Funding Allocations 2024/25 (January 2023 headcount and DfE estimates)

Element	Amount £m
3- and 4-YO universal offer	10.595
3- and 4-YO extended offer	2.206
Sub-total 3- and 4-Year Old Offer	12.801
2-YO Disadvantaged offer	1.461
2-YO Working Parent offer	1.746
Sub-total 2 Year old offers	3.207
9 month to 2 YO Working Parent offer	1.207
EY Pupil Premium (all offers)	0.138
Disability Access Fund (all offers)	0.089
MNS supplementary funding	1.014
TOTAL	18.456

2024/25 Proposed Budget Model – All Entitlements

12. The 2024/25 draft budget model is based on the initial allocation detailed above and summarised in Table 2 below for the first five elements of funding in Table 2 below.

13. The proposed breakdown of the use of the new hourly funding rates for each entitlement is shown in the Table 3 below.

Table 2: Draft 2024/25 Early Years Budget by entitlement

	24/25	24/25	24/25
	3 and 4 YO Entitlements (Universal & Extended)	2 YO Entitlements (Working Parents & Disadvantaged Children)	Under 2 YO Entitlements (Working Parents)
	£m	£m	£m
A. Base Rate - Participation based on estimated hours	9.817	2.658	1.054
B. Deprivation Supplement - Participation based on hrs	1.058	0.252	0.060
C. Supplement for Quality	250	0	0
D. SEN Inclusion Fund	0.500	0.097	0.027
E. Lump Sum to MNS - Help & Support Families in Need	0.397	0	0
F. Contingency	0.147	0.040	0.008
G. Central expenditure - 5%	0.632	0.160	0.058
TOTAL Planned Expenditure	12.801	3.207	1.207

Table 3: Factors and Hourly Rates Proposed 2024

	24/25	24/25	24/25
	3 and 4 YO Entitlements (Universal & Extended)	2 YO Entitlements (Working Parents & Disadvantaged Children)	Under 2 YO Entitlements (Working Parents)

	£ per hour	£ per hour	£ per hour
A. Base Rate - Participation based on estimated hours	6.68	9.36	13.45
B. Deprivation Supplement - Participation based on estimated hours	0.72	0.89	0.77
C. Supplement for Quality	0.17	NIL	NIL
D. SEN Inclusion Fund	0.34	0.34	0.34
E. Lump Sum to Maintained Nurseries - Help and Support for Families in Need	0.27	NIL	NIL
F. Contingency	0.10	0.14	0.10
G. Central services expenditure - 5% maximum allowed	0.43	0.57	0.75
TOTAL Funded Rate	8.71	11.30	15.41

Key Elements of the Proposed Budget Models 2024/25

14. All providers, both schools, private & voluntary nursery providers and childminders to be funded according to the DFE regulations. For 3 and 4YO it is mandatory to pay a universal base rate and a supplement for deprivation based on IDACI bandings for individual children. This principle has been extended to both 2YO and under 2YO offers although not mandatory in 2024/25. The value of supplements for each entitlement must not exceed 12% of the total amount of the payments made.
15. Factor A - Universal base rates paid for every hour under the governments early years Entitlements for the financial year starting April 2024.
- Note for 3 and 4 YO – The proposed rate is £6.68 per hour. This is an increase of 12 pence per hour on the September 2023 rate (1.8% increase) and an increase of 20 pence per hour on the March 2023 rate (2.99% increase).
16. Factor B - Deprivation.
- This is a mandatory supplement for 3 and 4 YO offer and in order to remain within the overall supplements limit of 12% (including Factor C Quality). Modelling of current payments indicates that the current IDACI banding hourly rates pay over this limit. The rates have been amended in 2024/25 to protect the children with the highest levels of deprivation.
 - A deprivation supplement has been included for both 2 YO offers and Under 2YO offer on the same basis as the 3 and 4 YO offer. Based on current data we expect the average deprivation supplement for a child within the disadvantaged entitlement cohort to be £1.03 per hour
17. Factor C - Quality. This supplement is for 3 and 4 YO offer only and relates solely to the Teachers Pay and Pension grant which was rolled into the EY funding in 2023/24 and continues to be applicable in 2024/25.
- This funding also now includes the Teachers Pay Additional Grant paid to schools in 2023/24 which has been mainstreamed for 2024/25 plus an

allowance for the proposed Teachers Pension Employer contribution increase from April 2024.

- This funding will be used for mainstream primaries with nurseries as prescribed by the DfE guidance. Maintained Nursery Schools are not eligible for this funding as pay grants have been added to the Maintained Nursery School supplement.

18. Factor D - SEN Inclusion Fund. All providers at some stage may require additional funding to help them support the needs of individual children with lower level or emerging SEN in their settings. The 2024/25 budget is proposed across all entitlements is based on actual funding passed to providers in 2022/23 with an allowance for the new entitlements.

- The Early Years Inclusion Fund has been expanded to include all children covered by the extended entitlements who have a low level or emerging SEN from April 2024 as required by regulation.
- The funding is for use in the setting and is allocated to the provider on an individual basis.

19. Factor E – Help and Support for Families in Need. Paid as a lump sum to maintained nursery schools to support the enhanced offer available to families and children requiring additional support.

20. Factor F – contingency funding. The contingency is available to manage volatility in funding versus activity between terms.

- The contingency is also intended to manage the risk with respect to deprivation for the new entitlements where average IDACI is based on estimates using past data for disadvantaged children and the 3&4 year old targeted offer.
- Contingency is included for the new extended entitlements.
- 2022/23 closed with a small final deficit after retrospective funding adjustments for the January 2023 census. The contingency amounts have been increased slightly to accommodate the increased volatility and will be kept under review. In addition, there is volatility around activity and potential clawback of funding for 2023/24.

21. Factor G - Central Services Expenditure. The model assumes a budget for central services of £0.850m which is the maximum amount allowed across the entitlements under regulations. The proposed allocation of the central items is detailed in Table 4 below.

Table 4: Proposed Central Services Budget 2024/25

Item of Central Expenditure	24/25	24/25	24/25	24/25
	3 and 4 YO Offers	2 YO Offers	Under 2 YO Offer	Total
	£m	£m	£m	£m
i. Education Early Years Services	0.444	0	0	0.444
ii. Help and Support	0.071	0.160	0.058	0.289

	for Families in Need				
iii.	Finance	0.106	0	0	0.106
iv.	Business Intelligence census and Assessments	0.011	0	0	0.011
Total Central Spend		0.632	0.160	0.058	0.850

Reasons for Decision

22. The Early Years Block of the Dedicated Schools Grant (DSG) are set out and agreed annually according to the process and regulations set out by the Education and Schools Funding Agency (ESFA).
23. The Local Authority must approve the basis for the allocation to schools. Hammersmith & Fulham Schools Forum and Providers have been consulted in January 2024 with the budget details and provider funding rates proposed in this report.

Equality Implications

24. There are no direct negative equality implications for groups with protected characteristics, under the Equality Act 2010, by the approval of these funding proposals set out in the Recommendations.
25. Officers anticipate a neutral impact as the funding model outlined in this report is determined by the National Funding Formula for Early Years.
- Deprivation funding at the maximum level permitted is being sustained and applied across all the entitlements.
 - The Special Educational Needs Inclusion Fund is being extended across the new entitlements to continue the support provided to meet needs early. This element of the budget will grow over the medium term as the take-up and extension of the entitlements proceed.

Risk Management Implications

26. The report recommends the basis of allocation of Early Years funding to schools for the provision for services for pre-school age children. The report sets out the basis of allocation for existing and new entitlements and includes contingency to cater for the impact of deprivation on entitlement, which could be subject to fluctuation in funded census and termly census data. The report's recommendations are in line with the council's objectives, including creating a compassionate council

David Hughes, Director of Audit, Fraud, Risk and Insurance, 29 January 2024

Climate and Ecological Emergency Implications

26. There are no climate implications to this decision. This report covers the revenue budgets for the local authority and all early years providers including school in Hammersmith & Fulham. There is no expectation from the DfE that these budgets are used by education providers for anything other than the provision of the government's free childcare entitlements, and the local authority is not able to impose any additional requirements on providers.

Verified by: Jim Cunningham, Climate Policy & Strategy Lead, 31st January 2024

Consultation

27. The local authority consulted with Schools Forum on 16th January 2024 with respect to this budget model. Subsequently the local authority began a short consultation with schools, private and voluntary nurseries and childminders. The consultation ends 2nd February 2024.
28. Feedback from providers across the sector to date and at workshops held in January suggest broad sufficiency for the new entitlements in Hammersmith and Fulham. This will need to be monitored as uptake of the new government entitlements becomes clearer in the coming months.

LIST OF APPENDICES

None