

# LONDON BOROUGH OF HAMMERSMITH & FULHAM

**Report to:** Cabinet

**Date:** 10/02/2025

**Subject:** Early Years Budget (Dedicated Schools Grant) 2025/26

**Report of:** Deputy Leader (responsible 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, Executive Director Finance and Corporate Services  
Jacqui McShannon, Executive Director Peoples Services

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## SUMMARY

This report seeks approval of the 2025/26 Early Years Block of the Dedicated Schools Grant which covers the existing childcare entitlements in addition to the expanding entitlements for working parents of 2-year-old children and children from 9 months up to 2 years old.

The government has extended the number of free childcare offers available to working parents (subject to eligibility) from September 2025 to a maximum of 30 hours per week for 38 weeks for all preschool children from the term after they turn 9 months old.

Local authorities are required to set a local formula for all government funded childcare entitlements for the 2025/26 financial year.

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## RECOMMENDATIONS

1. To approve the 2025/26 budget of £12.920m for 3 and 4-year-olds in line with grant conditions and according to the detailed model outlined in the report.
  2. To approve the 2025/26 budget of £3.781m for 2-year-olds in line with grant conditions and according to the detailed model outlined in the report.
  3. To approve the 2025/26 budget of £3.611m for children from 9 months to 2 years old in line with grant conditions and according to the detailed model outlined in the report.
  4. To note the Department for Education Grant for Maintained Nursery School Supplementary funding estimated at £1.103m for 2025/26.
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## Wards Affected: All

<b>Our Values</b>	<b>Summary of how this report aligns to the H&amp;F Values</b>
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 2025/26 will ensure the 96% 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 2025/26. The budget has been based on expected take-up of the government's funded childcare entitlements in the 2025/26 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 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 bands remain unchanged from the 2024/25 financial year and affordability within the proposed funding model has been validated with respect to IDACI deprivation ratings in the Autumn 2024 cohort as represented in the termly census.

*Tony Burton, Head of Finance Children's Services and Education, 16 December 2024*  
*Verified by Sukvinder Kalsi, Executive Director of Finance and Corporate Services, 28 January 2025*

## 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 2025 and 2026 Technical Guidance published in December 2024, the Early Years Entitlements: Local Authority Funding Operational Guide 2025 2026 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 and Childcare (Provision of Information About Young Children) (Amendment) (England) Regulations 2024. 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, 16 December 2024*

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## Background Papers Used in Preparing This Report

Schools Forum Papers and draft minutes:

- Schools Forum 21<sup>st</sup> January 2025 – Proposed Early Years Budget 2025/26  
[Schools Forum](#) – see item 4
- Early Years Operational Guidance 2025 to 2026  
[Early years entitlements: local authority funding operational guide 2025 to 2026 - GOV.UK](#)

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## DETAILED ANALYSIS

### Background to the Early Years National Funding Formula 2025/26

1. The 2025/26 Early Years Block funding allocation and operational guidance was received on 10<sup>th</sup> December 2024.

2. The proposed budget for 2025/26 early years entitlements is based on the January 2024 early years census and estimates of expected take-up of the new entitlements in 2025/26. Table 1 below gives a high-level summary of the proposed budget which totals £21.407m across all funding elements.
3. Summary explanations of the funded childcare offer including funding rates applicable in 2025/26 are set out below:
4. Universal entitlement for 3 and 4-year-olds – 15 hours free childcare for all 3 and 4-year-olds available from the term after their 3rd birthday for a maximum of 38 weeks per year. Funding will be received by LBHF at £8.87 per hour in 2025/26. This is a £0.16 per hour increase or 1.84% increase on the final 2024/25 funded rate at £8.61.
5. Note that of the £0.16 per hour increase, £0.12 per hour relates to mainstreaming of the Early Years Block Grant of £0.12 per hour for primary schools with Nursery provision. The Early Years Block Grant was introduced as a separate grant for schools from September 2024 to meet the national pay award for qualified teachers from September 2024.
6. Additional entitlement working parents 3 and 4-year-olds – additional 15 hours free childcare for eligible working parent 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 £8.87 per hour in 2025/26 financial year.
7. Targeted offer for families receiving additional support (formerly known as the disadvantaged offer for 2-Year Olds) – 15 hours free childcare for eligible 2-year-old children from the term after their 2nd birthday for a maximum of 38 weeks per year. Funding received is £11.98 per hour in the 2025/26 financial year.
8. Working Parent entitlement for 2-year-olds – this is a new offer of 15 hours free childcare for eligible children following their 2nd birthday for a maximum of 38 weeks per year. 30 hours will be available to eligible parents from September 2025. Funding received is £11.98 per hour in the 2025/26 financial year.
9. Working Parent entitlement for 9 months up to 2 years old – 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. 30 hours will be available to eligible parents from September 2025. Funding received is £16.58 per hour in the 2025/26 financial year.
10. Maintained Nursery School Supplementary Funding – this additional funding for maintained nurseries was initiated as part of the move to the National Funding Formula to provide funding protection with respect to historic duties to 3 and 4-year-olds. An estimated initial allocation of £1.103m in 2025/26 is based on the January 2024 census for 3 and 4-year-olds accessing the universal entitlement. This figure includes the allowance for MNS share of Teachers Pay and Pension Grant and the September 2024 Early Years Block Grant for Teachers pay. This allocation is subject to change depending on actual participation and will be adjusted accordingly in July 2026 as a result of the January 2026 census.

11. 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 £1.00 per hour up in 2025/26 to a maximum of £500 per year (38 weeks). This is a 51.5% increase on the 2024/25 rate. Eligibility relates to benefits received by the family and must be confirmed by the provider and recorded on the termly head count.
12. Disability Access Fund – additional per pupil funding for those receiving DLA to access all EY entitlements. This was previously for 3 and 4-year-olds only and has been extended to all Early Years offers from 1st April 2024. Funding has increased by £28 to £938 per eligible pupil per annum.

**Table 1: Breakdown of Initial Early Years Funding Allocations 2025/26**  
(January 2024 headcount and DfE estimates)

<b>Childcare Entitlement</b>	<b>Amount £m</b>
<b>3 and 4-year-olds</b>	
Universal Offer - 15 hours	10.573
Extended Offer for Working Parents - Additional 15 hours	2.151
Disability Access Fund	0.076
EY Pupil Premium	0.12
<b>Sub-total 3 and 4-year-olds offer</b>	<b>12.920</b>
<b>Two-year-olds</b>	
Targeted Offer - Families Receiving Additional Support - 15 Hours	1.332
Working Parent offer - 15 hours rising to 30 September 2025	2.388
Disability Access Fund	0.014
EY Pupil Premium	0.047
<b>Sub-total 2-year-old Offer</b>	<b>3.781</b>
<b>9 Month up to 2 years</b>	
Working Parent offer - 15 hours rising to 30 September 2025	3.601
Disability Access Fund	0.006
EY Pupil Premium	0.004
<b>Sub-total 9 Months up to 2 years old offer</b>	<b>3.611</b>
<b>Maintained nursery school supplementary grant funding</b>	<b>1.103</b>
<b>TOTAL</b>	<b>21.415</b>

## 2025/26 Proposed Budget Model – All Entitlements

13. The 2025/26 draft budget model is based on the initial allocation detailed above and summarised in Table 2. The proposed breakdown of the use of the new hourly funding rates for each entitlement is shown in the Table 3.

**Table 2: Draft 2025/26 Early Years Budget by entitlement**

	<b>25/26</b>	<b>25/26</b>	<b>25/26</b>
	<b>3 and 4 YO Entitlements (Universal &amp; Extended)</b>	<b>2 YO Entitlements (Working Parents &amp; Targeted Additional Support)</b>	<b>Under 2 YO Entitlements (Working Parents)</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
A. Base Rate - Participation based on estimated hours	9.640	3.121	3.125
B. Deprivation Supplement - Participation	1.033	0.270	0.167
C. Supplement for Quality	0.416	0.000	0.000
D. SEN Inclusion Fund	0.502	0.149	0.143
E. Lump Sum to MNS	0.574	0.000	0.000
F. Contingency	0.057	0.031	0.022
G. Central expenditure - 4%	0.502	0.149	0.143
<b>TOTAL Planned Expenditure</b>	<b>12.724</b>	<b>3.720</b>	<b>3.600</b>

**Table 3: Factors and Hourly Rates Proposed 2025/26**

	<b>25/26</b>	<b>25/26</b>	<b>25/26</b>
	<b>3 and 4 YO Entitlements (Universal &amp; Extended)</b>	<b>2 YO Entitlements (Working Parents &amp; Targeted Additional Support)</b>	<b>Under 2 YO Entitlements (Working Parents)</b>
	<b>£ per hour</b>	<b>£ per hour</b>	<b>£ per hour</b>
A. Base Rate - Participation based on estimated hours	6.72	10.05	14.39
B. Deprivation Supplement - Participation	0.72	0.87	0.77
C. Supplement for Quality	0.29	Nil	Nil
D. SEN Inclusion Fund	0.35	0.48	0.66
E. Lump Sum to MNS	0.40	Nil	Nil
F. Contingency	0.04	0.10	0.10
G. Central expenditure - 4%	0.35	0.48	0.66
<b>TOTAL Funded Hourly Rate</b>	<b>8.87</b>	<b>11.98</b>	<b>16.58</b>

## Key Elements of the Proposed Budget Models 2025/26

14. All providers, both schools, private & voluntary nursery providers and childminders to be funded according to the DFE regulations. 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 2025.
16. Factor B – Deprivation Supplement
  - This is a mandatory supplement for 3 and 4-year-old 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 held at 2024/25 levels. Details are provided in Appendix A.
  - A deprivation supplement has been included for both 2-year-old offers and under 2-year-old offer on the same basis as the 3 and 4-year-old offer.
17. Factor C - Quality. This supplement is for 3 and 4-year-old offer only and relates solely to the Teachers Pay and Pension grants which was rolled into the EY funding in 2023/24 and continues to be applicable in 2025/26. This funding includes:
  - Teachers Pay Additional Grant paid to schools in 2023/24 which was mainstreamed for 2024/25
  - an allowance for the proposed Teachers Pension Employer contribution increase from April 2024.
  - Early Years Block Grant paid separately to schools by government grant in 2024/25 and now mainstreamed into the Early Years Block from 2025/26
  - 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 2025/26 budget is proposed across all entitlements is based on 4% of the funded rate for each element. This will enable to budget to grow as the activity from new entitlements expands in 2025/26 and 2026/27 financial years.
  - 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 – Lumps sum to maintained nursery schools to support the enhanced offer available to families and children requiring additional support. Increased in 2025/26 to include sector wide early intervention support which had been provided centrally by the Local Authority in 2024/25.

20. Factor F – contingency funding. The contingency is available to manage volatility in funding versus activity between terms and also intended to manage the risk with respect to deprivation for the new entitlements where average IDACI is based on estimates of uptake.
21. Factor G - Central Services Expenditure. The model assumes a budget for central services of £0.794m which is the maximum amount allowed across the entitlements under regulations with the new requirement to pass through 96% of funding to providers.
- The proposed allocation of the central items is detailed in Table 4 below. This represents a reduction in the central budget of circa £0.056m per annum for central spend versus the 2024/25 original budget.
  - A further reduction in central expenditure of circa £0.116m could be expected in 2026/27 financial year if passthrough requirement is further increased from 96% to 97%.
  - Early Intervention services and outreach are therefore proposed to be delivered via H&F maintained nursery schools via an increase in the lump sum budget provision within the 3 and 4 year old budget model.

**Table 4: Proposed Central Services Budget 2025/26**

Item of Central Expenditure	25/26
	Total
	£m
i. Education Early Years Services	0.418
ii. Help and Support for Families in Need	0.237
iii. Finance	0.076
iv. Business Intelligence incl. census	0.063
<b>Total Central Spend</b>	<b>0.794</b>

### 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 December 2024 to January 2025 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.

*Jules Binney, Risk and Assurance Manager, 9 December 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: Hinesh Mehta, Assistant Director Climate Change, 13 December 2024*

### **Consultation**

27. The local authority consulted with Schools Forum on 21<sup>st</sup> January 2025 with respect to this budget model and to agree the central deployment of funds as required by grant conditions.
28. Prior to Schools Forum the local authority began a short consultation in January 2025 with both schools and private and voluntary nurseries and childminders.
29. 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:**

Appendix 1 – Deprivation Supplement

## Appendix 1 – Deprivation Supplement

IDACI Deciles Sliding Scale on postcodes – Decile 1 is most deprived

IDACI Bandings used for Deprivation Supplement to universal hourly rate across all entitlements from April 2025.

IDACI banding	2024/25
	Hourly Rate Proposed (All Entitlements)
	£
1	1.33
2	1.23
3	1.12
4	1.02
5	0.92
6	0.40
7	0.20
8	0.05
9	0.00
10	0.00

END