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Guidance

# Early years supplementary grant 2023 to 2024: methodology

Updated 10 July 2023

## Applies to England

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## 1. Overview

The 2023 Spring Budget announced additional funding for the existing early years entitlements for disadvantaged 2-year-old children and 3 and 4-year-old children for the 2023 to 2024 and 2024 to 2025 financial years. This is on top of the previous settlements for those years.

For the 2023 to 2024 financial year, we will provide £204 million of supplementary funding to local authorities through a new early years supplementary grant (EYSG). This will be used to increase the hourly amounts paid to local authorities, so that they can increase the amount of funding their early years childcare providers receive for delivering the entitlements for the period September 2023 to March 2024.

For the 2024 to 2025 financial year, an additional £288 million will be allocated to local authorities through the dedicated schools grant (DSG). We will publish final local authority hourly funding rates for the 2024 to 2025 financial year in autumn 2023 in the normal way.

## 2. Introduction to the grant

We will provide £204 million of supplementary grant funding to local authorities in the 2023 to 2024 financial year. This will provide supplementary funding for all existing early years funding streams:

- 15 hours entitlement for disadvantaged 2-year-olds
- 15 hours universal entitlement for 3 and 4-year-olds
- 15 hours additional entitlement for 3 and 4-year-old children of working parents
- maintained nursery schools supplementary funding
- early years pupil premium
- disability access fund

The supplementary funding provided to local authorities by the EYSG is separate to the funding provided through the early years block of the DSG for the existing entitlements in the 2023 to 2024 financial year.

This document is to help local authorities understand how we will calculate local authorities' EYSG funding rates for the 2023 to 2024 financial year. It also explains how we expect conditions of grant will require the funding to be distributed by local authorities to early years providers delivering the entitlements. We have also published EYSG local authority funding rates for the 2023 to 2024 financial year.

We expect to publish local authorities' EYSG allocations and the conditions of grant in September 2023.

### 3. Eligibility for the grant

All local authorities in England that fund early years provision are eligible to receive the EYSG.

In turn, all local authorities in receipt of the EYSG will be required to increase the amounts they pay to their early years providers in accordance with the EYSG conditions.

### 4. Funding rates methodology

The amount of EYSG funding local authorities receive will be calculated using hourly rates for each of the existing early years funding streams (the 'EYSG rates'). The EYSG rates are the difference between the effective combined hourly rates (September 2023 to March 2024) (the 'effective combined rate') and the hourly rates local authorities will receive for the entitlements through the DSG (the '2023 to 2024 rate').

The effective combined rates have been calculated using the formulae, formula weightings and formula factors used to calculate the original 2023 to 2024 rates for the early years block of the DSG, with the same data sources. This methodology is set out in the [2023 to 2024 early years funding formulae: technical note](#). Changes are summarised in the methodology below.

We have also published a step-by-step table to show how the EYSG rates have been calculated for the 2-year-old and 3 and 4-year-old entitlements.

#### 4.1 3 and 4-year-old entitlements

The method used to create the effective combined hourly rates is the same as the method used to

create the 2023 to 2024 early years national funding formula (EYNFF) hourly rates published in December 2022, with a few minor changes. The original method can be found in section 3 of the [2023 to 2024 early years funding formulae technical note](#) and the changes are detailed below.

Change 1: 2023 to 2024 universal entitlement total, section 3.2 of the technical note.

For the purposes of using the formula to create the EYSG rates, a notional 2023 to 2024 universal entitlement total allocation for a full year was created to reflect the additional funding made available at the 2023 Spring Budget.

Change 2: Calculation of universal hours funding formula factor allocations, section 3.4 of the technical note.

Using the notional 2023 to 2024 universal entitlement allocation total, a new base rate, FSM rate, EAL rate, and DLA rate were calculated. The 2023 to 2024 rates, EYSG rates, and effective combined rates for each formula factor are shown in the table below. Please note that figures are shown rounded to the nearest penny. This may result in minor differences between the EYSG rate and the difference between the 2023 to 2024 rate and the effective combined rate, when both are rounded.

<b>Formula factor</b>	2023 to 2024 EYNFF hourly factor rate	EYSG supplementary hourly factor rate	Effective combined hourly factor rate (September 2023 to March 2024)
<b>Universal base rate</b>	£4.21	£0.26	£4.47
<b>Free school meals (FSM)</b>	£1.61	£0.10	£1.70
<b>English as an additional language (EAL)</b>	£0.32	£0.02	£0.34
<b>Disability living allowance (DLA)</b>	£1.72	£0.11	£1.82

For each local authority, the area cost adjustment (ACA) and formula factor data were then applied to the effective combined base rate and additional needs factor rates to create the formula driven hourly rates (September 2023 to March 2024).

### Minimum funding floor

The minimum funding floor means that with the additional EYSG funding no local authority will have an effective combined rate for their universal hours and additional hours entitlement lower than £5.20.

The effective combined rate (September 2023 to March 2024) minimum funding floor has been

calculated by increasing the 2022 to 2023 minimum funding floor in line with the expected increase in the effective combined rate national average. The minimum funding floor will increase from £4.87 currently to an effective £5.20 per hour.

### **Protections and capped gains**

As with the 2023 to 2024 EYNFF hourly rates, protections are introduced to ensure that all local authorities see an increase in the effective combined hourly funding rate (September to March) they receive for 3 and 4-year-olds. The minimum increase that local authorities can see between their effective combined hourly rate (September 2023 to March 2024) and their 2023 to 2024 EYNFF hourly rate is +1%.

To pay for the minimum percentage uplift, a gains cap has been set at 10.1%. This limit does not apply to local authorities seeing increases that ensure they receive the £5.20 minimum effective combined funding hourly rate (September 2023 to March 2024).

### **EYSG hourly amounts**

The EYSG rate a local authority will receive is the difference between their effective combined rate and their 2023 to 2024 EYNFF hourly rate. These effective combined rates are the formula driven universal hours rates, with the minimum funding floor, year-on-year protection, and gains cap applied. These rates are then rounded to the nearest penny.

The EYSG supplementary hourly funding amount is on average 33 pence for 3 and 4-year-olds, which is the difference between the national averages of the effective combined hour rate (September 2023 to March 2024) and the 2023 to 2024 EYNFF hourly rate.

The same EYSG hourly amounts will be applied for both the 3 and 4-year-old universal and additional hours entitlements.

## **4.2 2-year-old entitlement funding**

The effective combined hourly funding rates for the 2-year-old entitlement have been calculated using the methodology set out in section 5 of the [2023 to 2024 early years funding formulae technical note](#), with one change set out below.

Change 1: calculation of 2-year-old funding formula base rate, section 5.4 of the technical note.

To calculate the effective combined base rate, a notional allocation total was calculated for a full year to reflect the supplementary funding made available at the Spring Budget. This results in a 2-year-old effective combined base rate of £7.11, an increase of £1.74 on the original 2023 to 2024 base rate of £5.36, when rounded to the nearest penny.

For each local authority, the ACA was applied to the base rate to create the formula driven rates (September 2023 to March 2024).

## **Protections and capped gains**

For the 2-year-old hourly rates in the 2023 to 2024 financial year, we applied a year-to-year protection set at +1% paid for through a gains cap of 10.0%. No protection or gains cap have been applied in calculating the effective combined hourly funding rates (September 2023 to March 2024) because all local authorities will see a substantial increase to their hourly funding rates.

## **EYSG hourly amounts**

The EYSG rate a local authority will receive is the difference between their effective combined rate and their 2023 to 2024 2-year-old rate. The effective combined hourly rates (September 2023 to March 2024) are the formula driven rates, rounded to the nearest penny.

The EYSG supplementary hourly funding amount is on average £1.95 for 2-year-olds, which is the difference between the national averages of the effective combined hourly funding rate (September 2023 to March 2024) and the 2023 to 2024 hourly rate.

## **4.3 Maintained nursery school (MNS) supplementary funding**

The EYSG rate for MNS supplementary hourly funding has been derived by uplifting the pre-reform 2022 to 2023 MNS supplementary funding hourly rate in line with 3 and 4-year-old entitlement increases. The reforms introduced in 2023 to 2024 are then applied. This results in an effective combined average hourly rate (September 2023 to March 2024) of £4.63 and an average EYSG rate of 24 pence per hour.

For 2023 to 2024 financial year we introduced a minimum supplementary funding hourly rate that local authorities received for their MNSs of £3.80. This has been increased by an additional 21 pence to an effective combined minimum supplementary funding hourly rate of £4.01 per hour with the EYSG supplementary funding.

This does not affect the MNS supplementary funding cap of £10 per hour or the transitional arrangement for 2023 to 2024.

## **4.4 The early years pupil premium (EYPP)**

The national 2023 to 2024 rate for EYPP is 62 pence per hour per eligible child. Through the EYSG, we will provide an additional 4 pence per hour per eligible child to be paid based on EYPP eligibility which is in line with the increases made to the 3 and 4-year-old entitlements. This will result in a national effective combined hourly funding rate (September 2023 to March 2024) for EYPP of 66 pence per eligible child.

## 4.5 The disability access fund (DAF)

The national 2023 to 2024 rate for DAF is £828 per eligible child per annum. Through the EYSG, we will provide an additional equivalent yearly funding rate of £53 per eligible child to be paid based on DAF eligibility which is in line with the increases made to the 3 and 4-year-old entitlements. This will result in a national effective combined equivalent yearly funding rate for DAF of £881 per eligible child. The actual EYSG payable rate for September 2023 to March 2024 period for DAF is £30.92 (equivalent to £53 multiplied by seven twelfths).

## 5. Paying the grant

The EYSG will be paid for the 2023 to 2024 financial year only.

Local authorities in England will receive allocations under the EYSG for 2023 to 2024 to cover the period 1 September 2023 to 31 March 2024.

Local authorities will receive their payments for 2023 to 2024 in a single payment in September 2023.

## 6. Initial allocations

Initial EYSG allocations will be based on part-time equivalents (PTEs) data from the January 2023 early years, schools and alternative provision censuses. One PTE is defined as a child taking up 15 hours per week over 38 weeks.

We expect to publish the EYSG allocations for each local authority and the conditions of grant in September 2023.

## 7. Adjustment

Initial allocations for the EYSG will be paid based on PTE data from the January 2023 early years, schools and alternative provision censuses. We then intend to make an adjustment to reflect the actual numbers of children taking up the entitlements from the January 2024 censuses. This is in line with the way the DSG early years block allocations are normally calculated, that is the final funding allocations for the 2023 to 2024 financial year (to cover the period September 2023 to March 2024) will be based on PTE data from the January 2024 censuses. This is designed to support local authorities to manage year-on-year fluctuations.

The final adjustment will be made to the local authority's funding payments in summer 2024.

We expect local authorities to manage any fluctuation in hours beyond the annual census adjustment described above, as part of business as usual.

## 8. Conditions of grant

The EYSG will be subject to conditions of grant which we expect to publish in September.

Our intention is that local authorities must pass on the EYSG, in full, to early years providers for each of the funding streams. For the main entitlements, we expect this will be through additional payments to providers calculated on an hourly basis. To ensure that payments to providers can be made promptly, we will not require local authorities to consult their schools forum but encourage local authorities to engage appropriately with their early years providers about the funding amounts from September.

## 9. Monitoring and compliance

Further details of reporting will be set out in the conditions of grant.

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