Operational Guidance: Early Years Sustainability Funding from DSG

September 2026

This guidance sets out how the Shropshire Council will use Early Years sustainability funding from the Dedicated Schools Grant (DSG) early years block to support the stability, sufficiency and quality of local early years provision. It is intended for private, voluntary and independent providers, childminders, maintained nursery schools, schools with nursery provision, local authority officers and members of Schools Forum.

Contingency funding

Local authorities are able to set aside contingency funding as part of their local budget setting process to help manage fluctuations in take up of the entitlements. Contingency is, and will continue to be, an important tool for local authorities in managing their volumes / budgets throughout the year, playing a key role in local flexibility and responsiveness. However, it is also important that as much funding as is possible reaches providers in a way that is timely and allows for informed business planning. We will continue to monitor local authorities' budgeted contingency funding in line with outturn expenditure data. (Early years entitlements: local authority funding operational guide 2026 to 2027 - GOV.UK)

1. Purpose of the funding

Early Years sustainability funding is a locally managed form of targeted support intended to help maintain sufficient, accessible and financially viable early years places where there is a clear local need. It should be used to protect children's access to funded early education and childcare entitlements, particularly where the loss or reduction of provision would create a sufficiency risk, disadvantage children and families, or reduce access for children with special educational needs and disabilities.

The funding is not a general business grant. It is a short-term, evidence-based intervention to support providers to become sustainable, restructure provision, secure places in priority areas, or manage exceptional and time-limited pressures linked to the delivery of funded early years entitlements.

2. Funding source and statutory context

The DSG is a ring-fenced grant allocated to local authorities by the Department for Education to support schools, high needs, central school services and early years provision. The early years block funds the early years entitlements and associated funding streams, including Early Years Pupil Premium, Disability Access Fund and maintained nursery school supplementary funding where applicable. Local authorities must use DSG in accordance with the relevant grant conditions, regulations and national early years funding operational guidance.

Any local sustainability funding arrangement must be agreed through the local authority's budget-setting and governance arrangements and should be transparent to Schools Forum. The authority must be able to demonstrate that funding retained or deployed centrally from the early years block supports the effective delivery of early years entitlements and is consistent with the pass-through, formula and central spend requirements that apply in the relevant financial year.

3. Core principles

- Funding must be targeted at identified local sufficiency, access or sustainability risks.
- Funding decisions must be evidence-based, proportionate and time-limited.
- Providers must demonstrate a credible route to sustainability rather than ongoing reliance on additional support.
- Funding must support the delivery of funded early years entitlements and outcomes for children.
- Support should be prioritised where there is limited alternative provision, high levels of deprivation, rural isolation, SEND access pressures, or risk to vulnerable children and families.
- The process must be fair, transparent, documented and subject to monitoring.

4. What the funding can be spent on

Eligible expenditure must be directly linked to stabilising or improving the provider's ability to deliver funded early years places.

Examples may include:

- Short-term support to maintain places where closure, reduced opening hours or withdrawal from funded entitlement delivery would create a sufficiency risk.
- Temporary staffing costs where these are essential to maintain safe ratios, continuity of provision or funded places while a provider implements a recovery plan.
- Business planning, financial recovery advice or consultancy where this is commissioned or approved by the local authority and linked to sustainability improvement.
- Targeted support to adapt provision to meet local demand, such as extending hours, changing delivery models or improving take-up of funded entitlements.
- Reasonable costs associated with recruiting, retaining or upskilling staff where this is necessary to maintain funded places and is part of an agreed plan.
- Minor equipment, resources or premises adaptations where these are essential to secure places, remove access barriers or support children with additional needs, and where no other funding stream is more appropriate.
- Transitional support for mergers, relocations, governance changes or restructuring where this protects local sufficiency and represents value for money.
- Exceptional support following unforeseen events, such as urgent premises issues or sudden loss of key staff, where provision would otherwise be at immediate risk.

5. What the funding cannot be spent on

Funding must not be used for activity that is unrelated to the delivery of funded early years provision or that would represent poor value for money. It must not normally be used for (except under exceptional circumstances):

- General profit replacement, owner drawings, dividends or repayment of private debts.
- Routine operating costs where there is no clear sufficiency risk or recovery plan.

- Long-term subsidy of an unsustainable business model.
- Retrospective costs incurred before approval, unless the local authority has agreed this in exceptional circumstances.
- Capital works, major premises improvements or expansion projects unless specifically approved and allowable within the relevant funding rules.
- Activities more appropriately funded from another source, such as Disability Access Fund, Early Years Pupil Premium, SEN Inclusion Fund, insurance, landlord responsibilities, charitable grants or the provider's own reserves.
- Costs related to non-funded childcare activity, wraparound provision, holiday clubs or private provision unless there is a clear and evidenced link to maintaining funded entitlement places.
- Marketing, branding, entertainment, hospitality or discretionary expenditure not essential to sustainability.
- Any expenditure that would breach DSG conditions of grant, procurement requirements, subsidy control rules or local financial regulations.

6. Eligibility

To be considered, a provider must normally be registered with Ofsted or a childminder agency, deliver or be preparing to deliver funded early years entitlements, and operate within the local authority area. The provider must be able to evidence financial pressure, explain the risk to local sufficiency, and commit to working with the local authority on an agreed sustainability plan.

Priority will be given to providers where the local authority's sufficiency assessment identifies a shortage of places, where families would have limited practical alternatives, where funded entitlement take-up is at risk, or where the provider offers places for children with SEND, children from low-income households, looked after children, children subject to child protection or child in need plans, or other children experiencing disadvantage.

7. Application and assessment process

Shropshire Council withholds the right to request access to financial records and accounts relating to the early years setting to ensure thorough review and consideration.

1. **Initial discussion:** The provider contacts the local authority early years sufficiency or funding team as soon as a sustainability concern is identified.

2. **Screening:** The local authority reviews the issue against local sufficiency data, entitlement delivery, Ofsted status, occupancy, financial position and the availability of alternative provision.
3. **Evidence submission:** The provider submits recent accounts, cashflow forecasts, occupancy data, staffing information, fee and funding income, details of reserves, debts, proposed use of funding and actions already taken.
4. **Sustainability plan:** The provider prepares a short recovery plan showing how the requested funding will stabilise provision, what changes will be made, timescales, risks and expected outcomes.
5. **Assessment:** Officers assess value for money, compliance with funding rules, impact on sufficiency, risks to children and families, and whether other funding routes are more appropriate.
6. **Decision:** Recommendations are considered through the agreed local authority approval route. Decisions, conditions and payment arrangements are confirmed in writing.
7. **Funding agreement:** Approved providers sign an agreement setting out eligible spend, reporting requirements, clawback provisions, audit expectations and review dates.
8. **Monitoring:** The provider submits evidence of spend, updated financial information and progress against agreed outcomes. These are conducted by the Early Years budget holder and School finance team depending on the setting.
9. **Review and closure:** The local authority reviews whether the intervention achieved the intended impact and records learning for future sufficiency planning.

8. Decision-making criteria

Applications will be assessed against the following criteria: the level of risk to local sufficiency; the number and type of funded places affected; the impact on vulnerable children and families; evidence of financial need; whether the provider has taken reasonable steps to address the issue; the strength of the sustainability plan; value for money; availability of alternative provision; and compliance with DSG, early years funding and local financial requirements.

9. Effective use of sustainability funding

Sustainability funding should be used alongside wider business support rather than as a standalone payment. Providers should use the process to review occupancy, staffing structures, fee policies, funded entitlement delivery models, marketing,

SEND access, partnership options and financial controls. Where appropriate, the local authority may require providers to engage with business support, childcare sufficiency officers, early years quality advisers, SEND inclusion services or finance colleagues as a condition of funding.

Effective use means that the funding should leave the provider in a stronger position than before the intervention. This may include improved occupancy, revised delivery patterns, better cost control, strengthened leadership, increased take-up of entitlements, improved access for children with SEND, or a planned and safe transition for children if provision cannot be sustained.

10. Monitoring, audit and clawback

Providers must retain evidence of expenditure and make this available to the local authority on request. Funding may be withheld, reduced or recovered if it is not used for the approved purpose, if evidence is not supplied, if information provided during the application was inaccurate, or if the provider does not comply with the funding agreement.

The local authority will maintain records of decisions and report the use and impact of sustainability funding through appropriate governance arrangements.

Adopted by Schools Forum

November 2026

11. Roles and responsibilities

Role	Responsibility
Provider	Identify risks early, provide accurate evidence, prepare a sustainability plan, use funding only for approved purposes and report progress.
Early years finance/funding & School finance team	Assess local sufficiency risk, advise on options, support providers and monitor impact. Check compliance with DSG and local financial requirements, process payments and monitor expenditure.
Schools Forum	Receive information on the local approach, central spend and impact where required as part of early years budget governance.