

CUMBERLAND COUNCIL SCHOOLS FORUM

Report Title: Proposed Early Years Funding Formula 2024/25

Meeting date: 2 November 2023

Report of: Dan Barton, Assistant Director, SEND, Education & Inclusion

1.0 Executive Summary

- 1.1 This paper presents the modelling of the proposed new local funding formulae for 2 year olds and Under 2s for 2024/25 and the draft consultation (Appendix 1) with Cumberland early years providers including maintained schools, academies and private, voluntary and independent (PVI) providers.
- 1.2 It is proposed that the new funding formulae comprises of an hourly base rate and the mandatory deprivation supplement. No changes are proposed to the existing 3-4 year old funding formula except that a new methodology is proposed for calculating the deprivation supplement which will reach more disadvantaged children than the current methodology.
- 1.3 The modelling and proposed hourly rates at provider level are based on the illustrative local authority level hourly rates published by the DfE in its consultation on funding the new free entitlements for 2 year olds and Under 2s. Therefore the proposed funding formulae rates at provider level are indicative and subject to the final local authority level hourly rates being confirmed.
- 1.4 It is also proposed that £0.072m of the new 2 year-old and Under 2s funding is centrally retained to support the roll out of the new entitlements. The Schools Forum is asked to support this proposal in principle, subject to the final LA level rates being confirmed and the draft consultation seeking views on the proposals from early years providers which is planned to be opened on Thursday 9 November for a period of 3 weeks.
- 1.5 The consultation outcome will be presented at the 16 January 2024 meeting when the Schools forum will be asked to make a recommendation to Executive who will decide on the final new funding formulae at its meeting on 13 February 2024.

2.0 Link to Council Plan Priorities

2.1 Ensuring that early years providers are appropriately funded is supportive of the Council Plan “to improve the health and wellbeing of its residents” and the priority to “address inequalities and enable its residents to access opportunities that will empower them to achieve their goals.”

3.0 Recommendation

3.1 The Schools Forum is recommended to:

- support the proposed centrally retained budget of £0.072m;
- consult early years providers on the proposed new funding formulae for 2 year olds and Under 2s and new methodology for calculating the deprivation supplement;
- support the draft consultation document at Appendix 1 which includes 4 recommended questions to ask early years providers.

4.0 Rationale & Evidence for the Recommendation

Background

4.1 Currently all parents of 3-4 year olds can access 15 hours of free early education for 38 weeks of the year and working parents can access an additional 15 hours of free entitlement. Parents of disadvantaged 2-year olds can access 15 hours of free entitlement. The government are extending the eligibility to free entitlement so that all eligible working parents will be able to access 30 hours of free entitlement for 38 weeks of the year from the term after their child turns 9 months old. This will be rolled out in stages:

- From April 2024 all eligible working parents of 2-year olds can access 15 hours per week
- From September 2024 all eligible working parents of children aged 9 months up to 3-years old can access 15 hours per work extending to 30 hours from September 2025

4.2 The DfE has consulted local authorities and early years providers on its proposals for funding local authorities for the new early years free entitlement and in July 2023 published illustrative local authority level hourly funding rates for 2 year olds and Under 2s which for Cumberland are as follows:

Phase	LA Hourly Funding Rate
2-year olds	£7.25
Under 2-year olds	£9.84

4.3 The DfE proposes to apply the same funding rules to the new 2 year old and Under 2s funding which currently apply to the 3-4 year old funding which are as follows:

- LAs must use a universal base rate of funding for all providers regardless of type;
 - LAs must plan to pass-through at least 95% of the funding that it receives in 2024/25 to early years providers (rising to 97% from 2025/26).
 - LAs are required to establish a SEN Inclusion Fund to support children who are taking up the 3-4 year old free entitlements, targeted at children with lower level and emerging SEN.
 - LAs can use a restricted number of supplements in their 3-4 year old funding formula to channel additional funding (up to a cap of 12% of planned formula funding to providers) meeting criteria set by the LA.
 - LAs can set aside contingency funding as part of their local budgetary process to help manage fluctuations in take-up.
- 4.4 All 2 year-olds and Under 2s meeting the existing criteria for Early Years Pupil Premium (EYPP) and Disability Access Funding (DAF) for 3-4 year olds will be eligible for additional funding.
- 4.5 The DfE are not proposing to make any changes to way funding is allocated to local authorities for 3-4 year olds or the maintained nursery school (MNS) supplementary funding. The outcome of the DfE consultation has not yet been published although the principles it will apply are not expected to be significantly different to those proposed in its consultation.

Proposed New 2-Year Olds and Under 2s Funding Formulae

- 4.6 The DfE has provided local authorities with estimated numbers of part-time equivalent (PTEs) children that they anticipate will take-up the new entitlements to help them plan their budgets and shape their local funding formulae.
- 4.7 Currently, the local authority passes on the full hourly funding rate it receives for disadvantaged 2 year olds to early years providers. In 2024/25 local authority will be allowed to retain up to 5% of the new funding it receives for 2 year olds and Under 2s centrally with the support of Schools Forum.
- 4.8 In considering the shape of the new funding formulae at provider level the local authority first needs to consider what level of funding is needed to support early years providers centrally and how much SEN Inclusion Fund will be required. The remaining funding after taking these 2 factors into account is available for the new early years funding formulae for 2 year olds and Under 2s.
- 4.9 Consideration has been given to the additional resource and administration that will be associated with the roll out of the new free entitlements and, based on the principle that as much funding as possible should be passed directly onto early years providers with central spend kept at a minimum, it is proposed that £0.072m (split as £0.053m for 2 year olds and £0.019m for Under 2s) of the new funding is retained centrally to support the early years staffing team.
- 4.10 Currently, the SEN Inclusion Fund budget for disadvantaged 2-year olds is £0.026m. Based on estimated take-up of the new free entitlements it is

anticipated that £0.174m (split as £0.128m for 2 year olds and £0.046m for Under 2s) will be required. This has been calculated based on the estimated number of children taking up the new entitlements requiring SEND support multiplied by the current average hourly funding rate claimed of £3.09 x 15 hours x 38 weeks. It is estimated that 4% of total children taking up the new entitlements will access the fund and this has been based on the same percentage of children currently receiving support from the fund. It is proposed the current criteria for accessing SENIF and the 3 Levels of support based on need will remain the same as it is currently for the time being.

- 4.11 It is proposed that the new funding formulae at provider level comprise of an hourly base rate and the mandatory deprivation supplement mirroring the current 3-4 year old funding formula (with the exception of the quality supplement which provides additional funding to school-based providers of early years provision that were in receipt of the former teacher pay and pension grants).
- 4.12 It is not proposed to use any of the other optional supplements available for local authorities to use which are as follows:
- Flexibility: to support providers offering flexible provision for parents – e.g. out of hours / wraparound;
 - Rurality / Sparsity: to enable local authorities to support providers serving rural areas less likely to benefit from economies of scale;
 - English as an additional language: to recognise differences in attainment in the Early Years Foundation Stage between children whose first language is English, and those who have English as an additional language (EAL).
- 4.13 There are 2 main reasons why the use of the optional supplements is not recommended. Firstly, the hourly funding rate at local authority level does not reflect any additional funding in recognition of rurality or flexibility and secondly channelling funding through supplements reduces the hourly base rate for all providers as the funding available for the formula is a fixed amount.
- 5.0 The current deprivation supplement for the 3-4 year old funding formula is £0.21 per hour. It is allocated to providers based on eligible children using a combination of deprivation measures comprising of 60% ACORN, 20% IDACI and 20% IMD. In the 2022/23 academic year 28.42% of 3-4 year olds in the local authority attracted funding through this supplement.
- 6.0 It is proposed to use the same rate for the new 2 year old and Under 2s funding formulae but to change the methodology used to allocate the supplement to providers to target more disadvantaged children. It is proposed to allocate the supplement to providers using IDACI by allocating it to children whose postcodes are in the IDACI Bands A to F:

Band	Ranks	Description
A	1 to 821	Children in the most deprived 2.5% of LSOAs*
B	822 to 2463	Children in the next most deprived 5% of LSOAs
C	2464 to 4105	Children in the next most deprived 5% of LSOAs
D	4106 to 5747	Children in the next most deprived 5% of LSOAs
E	5748 to 9032	Children in the next most deprived 10% of LSOAs
F	9033 to 12316	Children in the next most deprived 10% of LSOAs
* LSOA - Lower Layer Super Output Area		

7.0 This will target funding to those children living in the 37.5% most deprived areas. By using this new proposed methodology it is estimated that 36.47% of 3-4 year olds would attract funding through this supplement. It is estimated that the same proportion of children taking up the new free entitlements would attract funding through this supplement.

7.1 Therefore, after taking into consideration the proposed centrally retained budgets, the SEN Inclusion fund and the estimated funding channelled through the deprivation supplement of £0.21 per hour the proposed base rate for the 2 year olds has been calculated as £7.00 and £9.59 for the Under 2s as summarised in the 2 tables below:

2 Year Olds	Estimated PTEs	LA Hourly Rate	Total Funding	%
Illustrative funding for 2024/25	1,816.53	£7.25	£7,506,810	100.00%
Proposed Centrally Retained Element:			£53,170	0.71%
Proposed SEN Inclusion Fund:	72.66	£3.09	£128,034	1.71%
Funding Available for Formula:			£7,325,606	97.59%
<u>Proposed EYFF</u>				
Base Rate:	1,816.53	£7.00	£7,246,305	96.53%
Deprivation:	662.5	£0.21	£79,301	1.06%
Total Early Years Formula Funding:			£7,325,606	97.59%

Under 2 Year Olds	Estimated PTEs	LA Hourly Rate	Total Funding	%
Estimated funding for 2024/25	648.80	£9.84	£3,638,989	100.00%
Proposed Centrally Retained Element:			£18,990	0.52%
Proposed SEN Inclusion Fund:	25.952	£3.09	£45,730	1.26%
Funding Available for Formula:			£3,574,269	98.22%
<u>Proposed EYFF</u>				
Base Rate:	648.80	£9.59	£3,545,946	97.44%
Deprivation:	236.62	£0.21	£28,323	0.78%
Total Early Years Formula Funding:			£3,574,269	98.22%

7.2 For the Under 2s it should be noted that the modelling has been based on a full year impact however, the proposed funding rates will apply from September 2024 in line with the planned roll out of this phase.

7.3 For the 2 year olds, it is recognised that the proposed combined base rate of £7.00 plus the deprivation supplement of £0.21 which totals £7.21 is lower than the current funding rate that providers receive of £7.24 for disadvantaged

2 year olds (which comprises of a base rate £5.63 and early years supplementary grant of £1.61).

7.4 This is partly due to the new funding formula used by the DfE to calculate the LA level funding rate which is based on a (national rate + additional needs) x area cost adjustment and funds both disadvantaged 2 year olds and working parents of 2 year olds whereas the current funding formula only funds disadvantaged 2 year olds.

7.5 Consideration has been given to increasing the deprivation supplement rate of £0.21 to a level that would uplift the combined base and deprivation rate to £7.24. However, as the funding available for the funding formula is a fixed amount the more funding allocated through the deprivation supplement the lower the amount of funding available for the base rate as the below example tables demonstrate:

Table 1 – Deprivation held at £0.21 per hour:

2 Year Olds	Estimated PTEs	LA Hourly Rate	Total Funding	%
<u>Proposed EYFF</u>				
Base Rate:	1,816.53	£7.00	£7,246,305	96.53%
Deprivation:	662.5	£0.21	£79,301	1.06%
Total Early Years Formula Funding:			£7,325,606	97.59%

Table 2 – Impact on base rate of increasing Deprivation rate:

2 Year Olds	Estimated PTEs	LA Hourly Rate	Total Funding	%
<u>Proposed EYFF</u>				
Base Rate:	1,816.53	£6.96	£7,204,766	95.98%
Deprivation:	662.5	£0.32	£120,840	1.61%
Total Early Years Formula Funding:			£7,325,606	97.59%

7.6 As shown in Table 2, the deprivation supplement would need to be set at £0.32 to achieve a combined rate of £7.24 but the base rate for all providers would reduce to £6.96 having a wider and significant impact on overall funding levels for all providers.

7.7 The impact of the proposed 2 year old base rate for the new free entitlement on those providers that currently charge parents has also been considered. The current hourly rates charged by providers to fee paying parents of 2 year olds varies but the average is in the region of £7.00 locally. Therefore, it is proposed to hold the deprivation rate at £0.21 to ensure that the base rate is as close to the average charged by providers as possible so that the impact of moving from fee paying to free entitlement is kept to a minimum.

7.8 In addition to the deprivation supplement additional funding to support disadvantaged children is available through the EYPP. The DfE have not yet announced the EYPP hourly rate for 2024/25 which local authorities are required to pass on to providers in full.

7.9 The indicative funding rates assume a standard 190 term days in the financial year (April to March), however, early years providers will continue to be funded

based on the actual numbers of term days which can be higher or lower than 190 days each financial year.

7.10 The local authority is obliged to consult providers on any changes to existing and new early years funding formulae. Therefore, in anticipation that Schools Forum support the proposals attached at Appendix 1 is a draft consultation document seeking views from maintained schools, academies and PVI's.

7.11 The draft consultation asks 4 questions:

- 1) Local authorities are allowed to retain up to 5% of the new funding in 2024/25. Do you agree with your Schools Forum recommendation that the centrally retained funding for 2 year olds and Under 2s should be kept to a minimum to maximise the amount of the funding available to distribute to early years providers?
- 2) Do you agree that the new funding formulae for 2 year olds and Under 2s should comprise of a base rate and the mandatory deprivation supplement only and not use the optional supplements?
- 3) Do you agree that the deprivation supplement should be allocated to providers based on early years children accessing free entitlement living in IDACI bandings A to F instead of the current methodology for deprivation?
- 4) Do you agree that the deprivation supplement hourly funding rate should be fixed at £0.21 to maximise the base rate paid to providers?

7.12 Schools Forum can recommend alternative questions to include. The consultation is planned to open on 9 November and run for a period of 3 weeks. The outcome of the consultation will be presented to Schools Forum on 16 January 2024 when it will be asked to make a recommendation to Executive members who will decide on the final early years funding formula for 2024/25 at its meeting on 13 February 2024.

8.0 Options

8.1 Schools Forum can:

- support the proposed centrally retained budget of £0.072m;

or

- not support the proposed centrally retained budget of £0.072m;

and

- support the proposed new funding formulae for 2 year olds and Under 2s comprising of a base rate and a mandatory deprivation supplement;
- support the proposed new methodology for calculating the deprivation supplement;
- support the draft consultation document at Appendix 1 and the 4 recommended questions to ask;

or

- recommend alternative questions to ask early years providers.

8.2 It should be noted the proposed hourly rates for the 2 year olds and Under 2s formulae is subject to final confirmation of the LA level hourly rates which are expected to be published later in the Autumn term.

9.0 Financial and Other Relevant Implications

9.1 Resource and value for money implications are considered throughout this report. No equality/legal/ implications have been identified.

25 October 2023

Appendices:

1. Draft Cumberland Early Years Funding Formula 2024/25 Consultation

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