

School Forum 5th March 2024

Proposed Early Years Funding Formula 2024/25

1. Purpose of report

- 1.1 The Early Years funding formula is the local process that is utilised (informed by national early years funding guidance) to allocate the Early Years block of the Dedicated Schools Grant (DSG) funding that the Council receives to the early years providers in Walsall.
- 1.2 This report seeks to inform schools forum of the Local Early Years Funding Formula proposed to be utilised in allocating the Early Years Block of the Dedicated Schools Grant (DSG) to Early Years Providers in 2024/25.

2. Recommendations

- 2.1 That Schools Forum notes the work undertaken by officers and recommends the Early Years Funding Formula that is proposed for 2024/25 to Cabinet.
- 2.2 Schools Forum are asked to note that this recommendation will then be reported to Cabinet on 20th March 2024 to seek their approval.

3. Background

- 3.1 Central Government, in line with the commitment set out in its manifesto document, introduced an Early Years National Funding Formula (EYNFF) in April 2017 which was to deliver affordable, flexible and high quality childcare for all parents and children via a funding system which is fair for providers and local authorities.
- 3.2 The Early Years Block of the Dedicated Schools Grant (DSG) is paid to local authorities, who have a statutory duty to ensure sufficient early years places are available to meet the requirements in their area, and this funding is then paid by the local authority to providers based on the actual number of hours of funded childcare that is delivered.
- 3.3 In England all children aged 3 and 4 are currently entitled to 570 hours of funded childcare per year (normally provided as 15 hours per week over the 38 week school year). 2017 funding reforms further expanded provision for 3 and 4 year olds to include a further 15 hours funded child care per year (30 hours in total) for eligible working parents.
- 3.4 Additionally, further reforms are being introduced including 15 hours funded childcare per year for 2 year olds with eligible working parents from April 2024 and extending to eligible working parents of children from the age of 9 months old from September 2024. From September 2025, eligible parents of all children aged 9 months old up to school age will be entitled to 30 hours funded childcare per year.

3.5 A further element of the EYNFF is funding of 15 hours childcare per year for disadvantaged 2 years olds. Unlike funding for 3 and 4 year olds, which must be allocated via a local early years funding formula, local authorities are encouraged to fund providers on the basis of a flat hourly rate.

3.6 Early Years Funding operational guidance sets out the funding factors permitted within the local funding formula for early years and the requirement of a 95% pass-through of funding to early years providers, thereby limiting the amount of funding that can be retained by the local authority to fund central expenditure on early years entitlement to a maximum of 5%.

4. Proposed Early Years Funding Formula

4.1 Operational guidance sets out the funding factors that are permitted within the Early Years Local Funding Formula. These include a universal hourly base rate, a mandatory deprivation factor, discretionary supplements and additional funding in respect of maintained nursery schools.

4.2 Table 1 therefore sets out the proposed areas of the local Early Years Funding Formula (EYFF), highlighting the estimated cost of each area to be funded from the indicative allocation of £33.869m of Early Years Block Funding of the DSG that will be received in 2024/25, with a narrative describing each area set out below the table.

4.3 It should be noted that Early Years allocations are indicative at this stage and will be revised throughout the year as they are based on an estimated number of hours to be provided throughout the year. Final funding is then updated based on actual hours delivered.

Table 1 – Proposed 2024/25 Early Years Expenditure	
Provision	Estimated Cost against Early Years Block of DSG for 2024/25 (£m)
Universal and additional hours for 3 and 4 year olds	18.567
Deprivation Supplement	0.138
Entitlement hours for disadvantaged 2 year olds	4.584
Entitlement hours for working parents of 2 year olds	4.109
Entitlement hours for 9 months – 2 year olds	2.842
Maintained Nursery Schools Supplement (MNSS)	1.959
Early Years Pupil Premium (EYPP)	0.507
Disability Access Fund (DAF)	0.245
SEN Inclusion Fund (SENIF) 3&4 years olds	0.090
SEN Inclusion Fund (SENIF) 2 years olds	0.050
Central expenditure on early years entitlement	0.778
Total	33.869

Universal and additional hours for 3 and 4 year olds

- 4.4 The operational guidance includes a requirement to pay a universal hourly base rate to all early years' providers for the provision of free entitlement hours for 3 and 4 year olds. The universal hourly base rate must, in all cases, be multiplied by the hours of attendance of children at each setting – up to a maximum of 570 hours of funded childcare per year (or a maximum of 1140 hours for those children eligible for the additional offer for working parents).
- 4.5 The proposed Local Early Years Funding Formula ensures that the full increase in 3 and 4 year old hourly rate funding that the authority receives is passported in totality within the universal hourly rate paid to 3 and 4 year old providers for 2024/25.

Deprivation Supplement

- 4.6 This supplement recognises deprivation in local authorities' areas and supports children in those areas in taking up the early years entitlements. Use of the deprivation supplement is mandatory for 3 and 4-year-olds and discretionary for 2-year-olds and children aged 9 months up to 2 years.
- 4.7 The proposed Walsall Local Early Years Funding Formula allocates deprivation funding on the number of children recorded on prior year January census and headcount, whose postcode falls within band A of the Income Deprivation Affecting Children Index (IDACI).

Entitlement hours for 2 year old children and children aged 9 months up to 2 years old

- 4.8 The introduction of the new working parent entitlements for 2-year-old children and children aged 9 months up to 2 years old in 2024 to 2025 means that, for the first time, there will be 2 separate 2-year-old entitlements.
- 4.9 Local Authorities are required to ensure that the final hourly funding rate they pay to providers for the disadvantaged 2 year old entitlement is **at least** equal to the final hourly funding rate for the 2 year old working parent entitlement.
- 4.10 As detailed in Appendix A, the proposed Walsall Early Years Funding Formula sets the same base rate of £7.95 per hour for both disadvantaged 2 year olds and for the 2 year old working parent entitlement. To note, the formula also ensures that ensures that the full increase in disadvantaged 2 year old hourly rate funding the authority receives is passported in totality to providers for 2024/25.
- 4.11 For the entitlement for working parents of children aged 9 months up to 2 years, local authorities can use the same formula structure as the 2-year-old working parent entitlement or set a different formula. However, higher funding rates for these younger children should be reflected. Walsall's proposed rate for 2024/25 is £10.85.

Maintained Nursery Schools Supplement (MNSS)

- 4.12 Local authorities with MNS will receive supplementary funding for the 2024 to 2025 financial year for universal 3 and 4-year-old entitlement hours only. This funding was introduced to enable local authorities to protect their 2016 to 2017 funding rates for the universal 15-hour entitlement for MNS (that is, the rates that existed before the EYNFF).
- 4.13 In 2024 to 2025, local authorities' MNS supplementary funding rates include a notional allocation to acknowledge the additional pressures that their MNSs may face in respect of increases to teachers pay and employer pension contributions.
- 4.14 From 2023/24 the funding for this supplement that is paid to local authorities has changed to ensure that it is being shared more evenly across all local authorities with MNSS, and the DFE, following consultation, have now introduced a minimum value and a cap value on the hourly funding rate that local authorities can receive for their MNSS and which can then be allocated to maintained nursery schools. In 2024/25, the minimum hourly rate is £4.64 and the cap has been set at £10 per hour.
- 4.15 The allocated funding to local authorities will be based on an estimate of hours to be provided by maintained nursery schools, and unlike in previous years the final value paid to the local authority will vary based on the actual number of hours provided. As such the authority cannot continue to retain a static lump sum MNSS allocation (as funding will not be static) and the way in which MNSS funding is allocated has to change.
- 4.16 The local EYFF therefore proposes that for 2024/25 the full allocation that the authority receives for MNSS funding, of £4.64 per hour, is also utilised as the basis for allocating the MNSS funding i.e. the full value received will be passed on to maintained nursery schools based on the actual number of hours provided – if the number of hours increases the funding allocated to the local authority and then paid to the setting will also increase, and if the number of hours reduces so will the funding.

Early Years Pupil Premium (EYPP)

- 4.17 The Early Years Pupil Premium (EYPP) gives early year providers additional funding to support disadvantaged children accessing an entitlement place. For 2024/25, EYPP will be extended to all 2 year olds and under accessing the entitlements and meeting the eligibility criteria detailed in Early Years Operational Guidance.

Disability Access Fund (DAF)

- 4.18 The Disability Access Funds (DAF) was introduced to support disabled children's access to the entitlements for 3 & 4 year olds. For 2024/25, DAF eligibility will be extended to eligible 2 year olds and under, accessing the entitlements.

- 4.19 DAF funds can be used, for example, to support providers in making reasonable adjustments to their settings and/or helping with building capacity, be that for the child in question or for the benefit of children attending the setting.

Special Education Needs Inclusion Fund

- 4.20 In addition to the funding areas shown in Table 1, there is a requirement for local authorities to operate a Special Educational Needs Inclusion Fund (SENIF) for all children with SEN eligible for or taking up the entitlements, regardless of the number of hours taken.
- 4.21 These funds are intended to support local authorities to work with providers to address the needs of individual children with SEN who are taking up the entitlements. This fund will also support local authorities to undertake their responsibilities to strategically commission SEN services as required under the Children and Families Act 2014.
- 4.22 SENIF is to be used to target children with lower or emerging SEN. Children with more complex needs and those in receipt of an education, health and care plan will continue to be funded via the high needs block of the DSG.

Central Expenditure on Early Years Entitlement

- 4.23 A set out in 3.5, the maximum amount of funding that can be retained centrally by the Local Authority is 5% of the early years block. In addition, the funding passed through to providers for each funding rate must not be less than 95% of the rates given to the LA from the DfE.
- 4.24 The proposed Local EYFF retains £778k (2.3%) of the Early Years Funding Block meaning an average pass through rate of 97.7%. This has been applied to all of the universal and entitlement funding for children from 9 months to 4 years old.
- 4.25 The centrally retained funding is also included in the Central Expenditure Budget report approved by Schools Forum at their meeting on 5th March 2024 and reflects the cost of providing support to the early years services.
- 4.26 In comparison, Dudley Council are proposing to retain 3% of funding for 2, 3 and 4 year olds but pass on 100% of the under 2's rate and Sandwell Council are proposing to retain the full allowable 5%.

Detailed Funding Factor Values

- 4.27 Appendix A below confirms the proposed funding factors and their values for the 2024/25 Local Early Years Funding Formula.
- 4.28 It should be noted that the early years guidance also permits a number of additional discretionary supplements including rurality; quality; flexibility and English as a second language, however it is not proposed to use any of these

permitted discretionary supplements in the 2024/25 Local Early Years Funding Formula.

5. Financial implications

- 5.1 The exact financial impact on individual providers cannot be predicted at this time as this will be dependent on actual hours of funded childcare that are delivered during 2024/25.
- 5.2 Current financial modelling indicates that the proposed financial arrangements set out in table 1 would be affordable within the Early Years Block funding provided within the Dedicated Schools Grant for 2024/25. It should be noted that, as the January 2024 census data is not yet available, prior year data has been used in the funding model to estimate affordability, however updated modelling will be undertaken once the January 2024 census data is available – but it should be noted that any risk associated with this is minimal as if the January 2024 census shows a significant increase in the number of hours provided then this would attract additional funding to the authority to then pass on to providers.
- 5.3 Payments are made to private, voluntary or independent (PVI) nurseries and Child Minders on a termly basis with 3 payments made per term. The first payment is 75% of their indicative allocation for the coming term, the second payment is the remaining 25% of their allocation updated for the latest portal data and the final payment then accounts for any further adjustments in pupil numbers by the end of the term.
- 5.4 Payments are made to schools and nursery schools on a termly basis with 2 payments made per term. The first payment is 100% of their indicative allocation for the coming term. The second payment is a final adjustment to the indicative allocation based on the latest census data available. The payment may be a payment for further funding or recovery of over payment.
- 5.6 A universal base hourly rate of £5.40 per hour for 3 & 4 year olds would equate to an increase of 23 pence per hour compared to 2023/24 rates (passing on in full the hourly rate increase allocated to the authority within the national EYFF), and the flat base rate for disadvantaged 2 year olds of £7.95 per hour is an increase of 78 pence per hour compared to 2023/24 (again passing on in full the hourly rate increase allocated to the authority within the national EYFF).
- 5.7 Indicative budget shares are proposed to be issued to all providers in March 2024. The local authority will utilise the January 2024 census data to calculate the initial indicative budget. These will just be indicative summaries at this point, and any actual payments made to providers throughout the 2024/25 financial year will be made based upon actual hours delivered at settings.
- 5.8 As part of the latest government reforms to expand the entitlements for funded childcare to children aged 9 months to school age, Central Government have agreed to provide additional revenue and capital grant funding to local authorities to support the expansion of Early Years provision to ensure

adequate provision is available to meet expected growth in demand. Walsall is expected to receive £430,887 capital grant and £60,534.27 revenue grant.

- 5.9 In the March 2023 Spring Budget, the government announced an investment of £289m for a national wraparound childcare programme, to support all families who need to access wraparound childcare from 8am to 6pm. Parents should expect to see an expansion in the availability of wraparound care from September 2024, with every parent who needs it able to access term-time wraparound childcare by September 2026. The maximum funding allocations for Walsall are included in the table below and will be received via a section 31 revenue grant.

2023/24	2024/25	2025/26 (Provisional)	Total
£17,662.98	£1,146,837.32	£534,815.70	£1,699,316.00

- 5.10 In January 2024, the DfE also launched an Early Years Financial Incentives pilot scheme to provide financial incentives to new and returning eligible early years workers to support the planned childcare expansion. The DfE selected a number of authorities to take part in the pilot and then split these into 2 groups – a control group who would not offer the incentive and a trial group who will offer the incentive.
- 5.11 Walsall were selected to be in the trial group and have confirmed participation in the pilot with the DfE. The total amount of funding available for Walsall is estimated to be £260k which would support around 160 new starters. The funding is to be made available to the LA as a Section 31 grant however, the guidance states that the LA can only retain up to 5% of the grant to support internal administration costs and all funding must be spent by 31st March 2025. Any remaining unspent funds must be returned to the DfE.
- 5.12 An Early Years Assurance Group has been set up comprising of Officers from across Children's services, Finance, Business Intelligence Hub and the Communications team to ensure that all of the Early Years programmes detailed in sections 7.7 through to 7.10 are on track, relevant governance procedures are in place and adhered to, timelines are agreed and deadlines are met. Updates from the group are then shared with the Director on a regular basis.

6. Legal Implications

- 6.1 The DfE has prescribed the way in which early years providers should be financed for the 2024/25 financial year. These guidelines are set out in the Early Years Entitlements: local authority funding operational guidance 2024 to 2025 and can be found at the following link:

[Early years funding: 2024 to 2025 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/early-years-entitlements-local-authority-funding-operational-guidance-2024-to-2025)

- 6.2 The purpose of these arrangements is to help secure greater consistency in the way in which funding is distributed to early years providers. The Council must follow the rules issued by DfE within The School and Early Years Finance (England) Regulations, and the proposed Walsall local early years funding formula sets out how funding will be allocated to early years providers in Walsall within the prescribed arrangements.
- 6.3 Following the meeting of Schools Forum the proposed financial arrangements will be reported to Cabinet for decision on 20th March 2024.

7. School Improvement

- 7.1 As part of making any decisions regarding possible changes to the funding formula, the potential impact on the desired outcomes of the Walsall school improvement programme should be considered.

8. Members eligible to vote

- 8.1 All elected members with voting rights are eligible to vote on this matter.

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Appendix A - Proposed Early Years Funding Formula 2024/25

Funding Factor	Unit / Description	2024/25 Rate / Value
Universal Entitlement 3 & 4 year olds	15 hours funded child care for all 3 & 4 year old children – rate per hour	£5.40
Additional Entitlement for 3 & 4 year olds	Additional 15 hours funded childcare for eligible working parents – rate per hour	£5.40
2 year old disadvantaged entitlement	Rate per hour	£7.95
2 year old working parent entitlement	Rate per hour	£7.95
Under 2's working parent entitlement	Rate per hour	£10.85
Deprivation Supplement – mandatory	Fixed annual sum per notional disadvantaged child derived from numbers recorded on January census & mapped by postcode to IDACI band A	£1140 pa p/p
Maintained Nursery Schools Supplement for 3 & 4 YO provision	Per Hour	£4.64hr

Other Early Years Funding

Funding	Description	2024/25 Prescribed Rate
Early Years Pupil Premium (EYPP)	Additional funding to support disadvantaged children who meet the prescribed criteria	£0.68 per hour of universal free entitlement
Disability Access Fund (DAF)	For children in receipt of disability living allowance – support access to free entitlement for all eligible children	£910 p/a lump sum

Special Education Needs Inclusion Fund (SENIF)

Funding	Description	2023/24 Rate
Special Education Needs Inclusion Fund (SENIF) for all children with SEN eligible for entitlements	SENIF is targeted funding for children with lower or emerging SEN needs who are eligible for or taking up the entitlements regardless of the number of hours taken.	£640 per term

Appendix B – Hourly Rate Increases passed to Providers

Funding Factor	DSG Rate Increase from Prior Year	Rate Increase Passed to Providers	% of Funding rate passed to providers
Universal 3&4 year old element	£0.23	£0.23	97%
3&4 year old 15 hours entitlement	£0.23	£0.23	97%
2 year old disadvantaged entitlement	£0.78	£0.78	98%
2 year old working parent entitlement	-	-	98%
Under 2's entitlement	-	-	98%
Early Years Pupil Premium 3&4 year olds	£0.02	£0.02	100%*
Early Years Pupil Premium 2 year olds	£0.02	£0.02	100%*
Early Years Pupil Premium under 2's	£0.02	£0.02	100%*
Disability Access Fund 3&4 year olds	£29.00	£29.00	100%*
Disability Access Fund 2 year olds	£29.00	£29.00	100%*
Disability Access Fund Under 2s	£29.00	£29.00	100%*
Maintained Nursery Schools Supplement	£0.63	£0.63	100%*

*100% of the funding available must be passed to providers.