

## **School Forum 7<sup>th</sup> March 2023**

### **Proposed Early Years Funding Formula for two, three & four years olds - 2023/24**

#### **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.

#### **2. Recommendations**

- 2.1 That Schools Forum notes the work undertaken by officers and recommends the Early Years Funding Formula that is proposed for 2023/24 to Cabinet.
- 2.2 Schools Forum are asked to note that this recommendation will then be reported to Cabinet on 22nd March 2023 to seek their approval.

#### **3. Background**

- 3.1 The Early Years National Funding Formula (EYNFF) was introduced in April 2017 to deliver affordable, flexible and high quality childcare for all parents and eligible children via a funding system which is fair for providers and local authorities.
- 3.2 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 & 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). Additionally the 2017 funding reforms expanded provision for 3 and 4 year old to include a 30 hour entitlement for working parents.
- 3.4 A further element of the EYNFF is funding of free entitlement for disadvantaged 2 years olds. Unlike funding for 3 & 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.
- 3.5 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 £22.774m of Early Years Block Funding of the DSG that will be received in 2023/24, with a narrative describing each area set out below the table.
- 4.3 It should be noted that Early Years allocations are revised throughout the year as they are in the main based on an estimate of hours that will be provided and final funding is then updated based on actual hours delivered in year.

<b>Table 1 – Proposed Early Years Expenditure</b>	
<b>Provision</b>	<b>Estimated Cost against Early Years Block of DSG for 2023/24 (£m)</b>
Universal and additional hours for 3 and 4 year olds	16.236
Deprivation Supplement	0.147
Entitlement hours for 2 year olds	3.734
Maintained Nursery Schools Supplement (MNSS)	1.632
Early Years Pupil Premium (EYPP)	0.295
Disability Access Fund (DAF)	0.140
SEN Inclusion Fund (SENIF) 3&4 years olds	0.070
SEN Inclusion Fund (SENIF) 2 years olds	0.020
Central expenditure on early years entitlement	0.500
<b>Total</b>	<b>22.774</b>

##### 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 & 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 It should be noted that during 2022/23 a separate grant was paid to the local authority and passed on maintained nursery schools and nursery classes in primary schools for additional costs relating to teachers pay and pension changes (known as TPPG – Teachers Pay and Pension Grant). However from 2023/24 that funding has been rolled in to the general 3 and 4 year old funding within the Early Years block of DSG, and given the requirement to utilise a

universal hourly rate which is payable to all providers it is no longer possible to direct this element of former TPPG funding just to certain settings (i.e. maintained nursery schools and nursery classes in primary schools), and there are no other allowable factors through which such funding could be distributed.

- 4.6 As such this required change will have a direct financial impact on those settings who previously received the separate TPPG funding in 2022/23, as the costs that the former grant were meant to fund will continue but the stand alone funding to support those costs has been removed and incorporated into the universal 3 and 4 year old hourly rate.
- 4.7 To therefore seek to reduce this impact as much as possible it is proposed 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 2023/24.

#### Deprivation Supplement

- 4.8 Deprivation is a mandatory supplement local authorities must use in their Early Years Funding Formula to recognise deprivation in their area. Operational guidance does not set out how funding for deprivation is to be allocated and this is determined locally.
- 4.9 The proposed Walsall local EYFF 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 olds

- 4.10 As with 3 & 4 year old funding, the funding for disadvantaged 2 year olds is paid on the basis of a flat hourly base rate.
- 4.11 Unlike the funding requirements for 3 & 4 year olds, there is no regulatory pass through rate in respect of early years block funding for 2 year olds and similarly there are no requirements in respect of mandatory or discretionary supplements.

#### Maintained Nursery Schools Supplement

- 4.12 This represents an element of additional funding for maintained nursery schools, known as the Maintained Nursery Schools Supplement (MNSS).
- 4.13 In previous years formulas a set funding value (which did not then move throughout the year) was paid to the local authority and was allocated to maintained nursery schools as a lump sum allocation, which increased in value based on the capacity of each maintained nursery school.
- 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 2023/24, the minimum hourly rate is £3.80 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 2023/24 the full allocation that the authority receives for MNSS funding, of £3.80 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.
- 4.17 Financial modelling of this change indicates that there may be one maintained nursery school that will see a significant adverse impact from this change (of circa £35k per year), and that will not be offset by the increase in 3 and 4 year old universal funding proposed above (where that same school will potentially see a reduction compared to 2022/23 due to the fall out of TPPG funding of circa £20k i.e. a potential total adverse impact on that school for 2023/24 of circa £55k – however the final impact cannot be determined at this stage as this will be dependent on actual hours of funded childcare that are delivered during 2023/24).
- 4.18 Unfortunately given the funding requirements there are no further changes that can be incorporated in to the local EYFF to help to offset this impact further, however ongoing discussions have been taking place with maintained nursery schools in Walsall over last 5 years to prepare for the risk of the MNSS falling out or reducing and those schools have worked to identify potential actions that can be taken to ensure ongoing financial viability. The authority will therefore work with the nursery concerned to update that plan and identify relevant actions that may now need to be implemented.

#### Early Years Pupil Premium (EYPP)

- 4.19 The Early Years Pupil Premium (EYPP) gives early year providers additional funding to support disadvantaged 3 & 4 year old pupils who are in receipt of the universal 15 hours entitlement and are in receipt of any one of the benefits criteria detailed in Early Years Operational Guidance.

#### Disability Access Fund (DAF)

- 4.20 The Disability Access Funds (DAF) was introduced to support disabled 3 & 4 year old children accessing their early years free entitlement. DAF funds can

be used, for example, to support providers in making reasonable adjustments to their settings.

#### Central Expenditure on Early Years Entitlement

- 4.21 A set out in 3.5, the maximum amount of funding that can be retained centrally is 5% of the early years block. The £500k retained budget, equating to 2.2% (a reduction from 2.4% in 2022/23) was approved by Schools Forum at their meeting on 17th January 2023 and reflects the cost of providing central services in support of the early years entitlement for 2, 3 and 4 year olds.

#### Special Education Needs Inclusion Fund

- 4.22 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 3 & 4 year olds with SEN who are taking up free entitlement.
- 4.23 SENIF for 2 year olds is not a funding requirement, however local authorities can choose to establish a fund as part of their provision should they wish to do so and an agreement to fund SENIF for eligible 2 year olds as part of Walsall's early years provision is in place.
- 4.24 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.

#### Detailed Funding Factor Values

- 4.25 Appendix A below confirms the proposed funding factors and their values for the 2023/24 Early Years Funding Formula.
- 4.26 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 none of these permitted discretionary supplements feature in the proposed Early Years Funding Formula (and none have been utilised in previous years).

### **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 2023/24. Financial modelling does indicate that there may be one maintained nursery school that will see a significant adverse impact from the changes proposed to the funding formula (mainly as a result of the required changes to the allocation of MNSS funding). Discussions have been taking place with maintained nursery schools in Walsall over last 5 years to prepare for the risk of the MNSS falling out or reducing and those schools have worked to identify potential actions that can be taken to ensure ongoing financial viability. The authority will therefore work with the nursery concerned to update that plan and identify relevant actions that may now need to be implemented.

- 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 2023/24. It should be noted that, as the January 2023 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 2023 census data is available – but it should be noted that any risk associated with this is minimal as if the January 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 A universal base hourly rate of £4.86 per hour for 3 & 4 year olds would equate to an increase of 22 pence per hour to 2022/23 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 £5.51 per hour is an increase of 6 pence per hour from 2022/23 (again passing on in full the hourly rate increase allocated to the authority within the national EYFF).
- 5.4 Indicative budget shares are proposed to be issued to all providers in March 2023, the local authority will utilise the January 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 financial year of 2023/24 will however be made based upon actual hours delivered at settings.

## **6. Legal Implications**

- 6.1 The DfE has prescribed the way in which early years providers should be financed for the 2023/24 financial year. These guidelines are set out in the Early Years Entitlement 2023 to 2024 operational guide, and can be found at the following link:

[Early years entitlements: local authority funding operational guide 2023 to 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/early-years-entitlement-2023-to-2024-operational-guide)

- 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 22nd March 2023, with the outcome communicated with all early years providers in Walsall.

## **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.

## Appendix A

### Proposed Early Years Funding Formula 2023/24

<b>Funding Factor</b>	<b>Unit / Description</b>	<b>2023/24 Rate / Value</b>
Early Years Entitlement for Disadvantaged 2 year olds	Per Hour	£5.51
3 & 4 year olds - Universal Hourly Base rate	Per Hour	£4.86
Deprivation Supplement – mandatory	Fixed annual sum per notional disadvantaged child – derived from numbers recorded on January 2022 census & mapped by postcode to IDACI band A.	£1140 pa p/p
Maintained Nursery Schools Supplement for 3 & 4 YO provision	Per Hour	£3.80hr

### Other Early Years Funding

<b>Funding</b>	<b>Description</b>	<b>2023/24 Prescribed Rate</b>
Early Years Pupil Premium (EYPP)	Additional funding to support disadvantaged 3 & 4 year-old children who meet the prescribed criteria	£0.62 per hour of universal free entitlement
Disability Access Fund (DAF)	For children in receipt of disability living allowance – support access to free entitlement for 3 & 4 year-olds.	£828 pa lump sum

### Special Education Needs Inclusion Fund (SENIF)

<b>Funding</b>	<b>Description</b>	<b>2023/24 Rate</b>
Special Education Needs Inclusion Fund (SENIF) for 3 & 4 year olds - mandatory	SENIF is targeted funding for children with lower or emerging SEN needs who are attracting 3 & 4 year old free entitlement	£640 per term
Special Education Needs Inclusion Fund (SENIF) for 2 year olds – optional local factor	SENIF is targeted funding for children with lower or emerging SEN needs who are attracting 2 year old free entitlement	£640 per term