Meeting date:	28 November 2022
Report to:	Solihull School Forum
Subject/report title:	Early years funding formula - Government consultation
Report from:	Director of Children's Services and Skills
Report author/lead contact officer:	Steve Fenton Head of Commissioning for Learning

Schools affected:

☒ Early Years Settings

Type of Report	For Forum to express view to the Local authority
Forum Voting	Whole of Forum
Public/private report:	Public

1. Purpose of Report

1.1 For Solihull Schools Forum to consider the impact of changes the government are considering for the early years funding formula.

2. Decision(s) recommended

2.1 For officers to develop a proposal for consultation on an additional early years local funding factor to manage the proposed incorporation of teacher pay and pension grants into the Solihull EY hourly rates that fund early years providers.

3. Matters for Consideration

3.1 On 4 July 2022, the government launched a consultation on proposed changes to the early years funding formula. The closing date for responses was 16 September 2022.

3.2 The proposals are of a technical nature, largely about updating the underlying data definitions.

3.3 The impact of the proposals is positive for settings within Solihull and are shown in the table in 3.6.1 below.

3.4 The proposals for treatment of TPPG (teacher pay and pension grants) would require Solihull to introduce an additional factor into our locally early years funding formula. This will involve further scrutiny of the government proposal and developing, and then consulting on, an appropriate funding factor. Note that this would introduce, for the first-time, differential funding between settings, as this grant is only payable to nursery classes at schools. A local approach would mean the higher rate would be payable to settings that used qualified teachers that belonged to the teacher pension scheme to deliver the early years provision.

3.5 Consultation and Scrutiny:

3.5.1 The matters in this report were considered by the Finance Group at their meeting on 13 September 2022. That report was also sent to Early Years representatives on Forum, to specifically ascertain their views for a potential Solihull response by 16 September, and to provide an early opportunity to consider potential changes to the local early years funding formula.

3.6 Financial implications:

3.6.1 If the government proposals proceed unmodified, the consultation includes illustrative figures for each local authority. For Solihull, the financial impact is as shown below:

Illustrative Early Years National Funding Formula (EYNFF) 3- and 4-year-old entitlements 2023/24 hourly funding rates

LA name	2022-23 EYNFF rate (£ / hr)	Illustrative 2022-23 TPPG rate (£ / hr)	2022-23 EYNFF rate + illustrative TPPG rate (£ / hr)	Illustrative 2023-24 EYNFF rate (£ / hr)	Change (£) from 2022-23 rate + illustrative TPPG rate	Change (%) from 2022-23 rate + illustrative TPPG rate
Solihull	£4.67	£0.13	£4.80	£5.01	£0.21	4.4%

Illustrative 2-year-old entitlement 2023/24 hourly funding rates

LA name	2022-23 2YO funding rate (£ / hr)	Illustrative 2023-24 2YO funding rate (£ / hr)	Change (£) from 2022-23 rate	Change (%) from 2022-23 rate
Solihull	£5.61	£5.84	£0.23	4.1%

Solihull does not fall within any of the protection or gains capping arrangements for either formula. These are the rates Solihull will receive in the national EY formula, it is not the hourly rate that providers will receive, as we deduct deprivation, contingency, inclusion fund and central services.

3.7 Under the proposal, to avoid school settings losing the funding from the grant they currently receive, the cash represented by the £0.13p (£value from the government worked example above) supplement would only be paid to maintained schools, to reflect the increases in teacher pay and pension costs the government funded by specific grant. The proposal would be to do this using a supplementary grant factor in the local funding formula.

3.8 The employer pension contribution increased from 16.4% to 23.6% on 1 Sept 2019. The government thought such an order of magnitude warranted a specific grant. The teacher pay element arose from a deal the DfE did with the Treasury, whereby the DfE agreed to fund the pay award, rather than the Treasury, to do this they introduced this specific grant. For 2022-23, pension grant is estimated at £278,000 and pay grant is £95,000.

3.9 I would need to model exactly what an appropriate hourly rate supplement would be.

4. List of appendices referred to

4.1 Appendix A: Government proposals.

5. Background papers used to compile this report

5.1 None

6. List of other relevant documents

6.1 Early years funding formulae Government consultation

https://consult.education.gov.uk/funding-policy-unit/early-years-funding-formulae-2022/

Appendix A

Synopsis of proposals and suggested response

The Ministerial forward to the consultation (Will Quince MP) states:

“Children’s early education is crucial to their future success, as well as being a vital component of spreading opportunity and Levelling Up. This Government has committed to supporting as many families as possible by providing access to high quality, affordable childcare − both to help children to learn in their earliest years and to support parents to continue working, whilst looking after their children in the way that works best for them.

The proposed reforms described in this document not only reflect this commitment, but also provide the foundation for taking a renewed look into the childcare system. As part of this wider consideration, the government is separately consulting on specific proposals for changing the current statutory minimum staff: child ratios in England for two-year-olds; allowing childminders to care for a fourth child under the age of 5; and looking at changes around adequate supervision whilst children are eating.

Many of the datasets which underpin these formulae and which we use to reflect geographical cost variation are not up to date. The longer we wait to do something about this, the further the formulae will drift away from recognising current need. It is important that they remain current, to ensure the funding system can be fair, effective, and responsive to changing levels of need across different areas, with targeted investment towards those areas where it will do the most good. We are therefore planning to update the formulae for the 2023-24 financial year and will continue to do so annually thereafter.

This update will result in some changes to LA funding levels, given costs and levels of need in certain areas will have changed relative to others. As such, we are also consulting on applying new year-to-year protections to local authority funding rates, to help local markets to better manage changes. The 2021 Spending Review settlement allows us to offer protections which means all local authorities will see an increase in the hourly rate that the government provides in 2023-24.”

The proposals in the consultation relate to the distribution of the entitlements funding. The government are not proposing changes to the overall quantum of funding going through the two funding formulae, which remains at the level agreed at the Spending Review 2021.

Proposed changes:

Free school meals data - For FSM (Free School Meals), propose to move to the headline measure for FSM which is calculated using all pupils in state-funded nursery and primary schools, rather than the current measure which filters by age e.g., excluding part-time pupils aged under 5. This is the measure that is more commonly used – for example, this change will align the FSM measure used in the EYNFF with that used in the High Needs NFF.

Disability Living Allowance data - propose to update the underlying DLA data within the additional needs factor and to make some amendments to the way in which we are using it to better align with the eligibility for the entitlements and ensure we are using the most recent data available. Currently this measure is based on the number of claimants aged under five years old. We propose to instead use the number of 3- and 4-year-olds who are entitled to the DLA, in line with the age group being funded, and to move to using data from February rather than August. We also propose to calculate the proportion of children who are eligible using 3- and 4-year-olds mid-year ONS population estimates as this will be more representative than the current approach of using census data.

Area cost adjustment

The ‘area cost adjustment’ (ACA) takes account of the relative difference in costs in different areas of the country. It accounts for variations in both staff and premises costs. It acts as a multiplier to each authority’s hourly rate as calculated through their base rate and additional needs factor, and is made up of the following components:

• General labour market (GLM) measure to reflect staff costs: weighted 80%

• Nursery rates cost adjustment (NRCA) to reflect premises costs: weighted 10%

We are proposing to update the underlying data with the most current data available. In some cases, this data is already available and has been used in the accompanying modelling, but in other cases it will be updated again before we publish final rates in the autumn.

General labour market (GLM) measure - Currently the formula uses data from 2013-14, which is still the most recent data available in the format required for use in our formula. However, going forward we propose to update this underlying data when it becomes available. For example, we anticipate new data being available in time for the 2024-25 financial year.

Nursery rates cost adjustment - We propose to update the underlying valuation data that is used. Currently the data is based on the 2010 full property revaluation, following which there have been smaller annual updates. The formula uses a snapshot of this data that was taken at September 2015. There was a 2017 full property revaluation, and subsequent smaller annual updates and so we propose to take snapshots as at March 2019, 2020, and 2021, which is the most recent three years of data available, which will then be averaged.

Smoothing the data - Currently the data used is a single snapshot taken at September 2015, taking account of just one year’s data. We propose to move to an approach where we calculate the rates cost adjustment measure for each of the last three years and then take an average of these to smooth volatility, i.e., for 2023-24, to calculate the rates cost adjustment measures using March 2019, 2020, and 2021 data and then take an average of these measures. We are proposing this approach primarily to help reduce the volatility that could be caused by future property revaluations.

A metre-squared approach - We propose an amendment to the rateable value measure used. The current methodology takes account of the rateable values by setting, i.e., calculates a simple, mean average rateable value for all settings in each LA (Local Authority). This tends to disadvantage authorities with many, smaller settings, whose absolute rateable values will correspondingly be relatively smaller. We propose to replace this with a measure that also takes account of the floor area of each setting, i.e., calculates an average rateable value per metre squared for all settings in each LA. This means that the formula should better take account of the size of setting, and therefore better reflect relative costs.

Nursery, infant and primary rates cost adjustment (NIPRCA) **-** The current nursery rates cost adjustment (NRCA) is calculated using private nursery sector data only. We are also proposing to amend this approach to include an infant and primary (schools’) rates cost adjustment (IPRCA) calculated using school rateable value data, with these two factors then combined by weighting by the proportion of 3- and 4-year-old universal and additional hours taken up in each setting type. This will allow the formula to better recognise the overall cost of childcare across an authority, taking account of the different provider types in which entitlements are being taken up within each authority, and it also increases the sample size, which will result in less volatility at future updates. Taking account of these changes, we are therefore proposing to rename the nursery rates cost adjustment (NRCA) as the new nursery, infant and primary rates cost adjustment (NIPRCA).

Teachers' pay and pensions grants

Since 2018, school-based nurseries and maintained nursery schools have received the Teachers' Pay Grant (TPG) and since 2019 they have also received the Teachers' Pension Employer Contribution Grant (TPECG), in addition to their free entitlements funding. These grants were introduced to provide support to schools with respect to the 2018 and 2019 teachers' pay awards, and to support schools and local authorities with the cost of the 2019 increase in employer contributions to the teachers' pension scheme.

From the 2021-22 financial year, the (much larger) elements of these grants which are intended for 5-16 mainstream schools and special schools, have been paid through the schools and high needs national funding formulae (NFF). However, as maintained nursery schools and school nurseries are not funded through the NFF, these institutions have continued to receive their share of this funding as grants.

From the 2023-24 financial year we are proposing to mainstream the early years elements of this funding, bringing early years in line with schools and high needs, to streamline the system to make it easier for institutions to manage their finances.

We propose to roll most of the money which is currently distributed through the teachers' pay and pensions grants into the overall quantum of the 3- and 4-year-old entitlements funding, and then we will use this new quantum in the updated formula to calculate local authority hourly rates.

To limit the extent of the changes in distribution of the grant, we propose to include each local authorities' indicative 2022-23 teachers' pay and pensions grants funding within the baseline against which we apply protections for 2023-24, which we set out in Section 4. Further details are set out in the accompany modelling and technical note.

We encourage local authorities to continue to use this funding to support some of the costs for which the grants were originally introduced. We propose to change local (non-statutory) funding guidance to LAs (Local Authority) by updating the language in the operational guide regarding the quality supplement, which is one of the existing discretionary supplements that local authorities can choose to include in their local funding formula. We would encourage LAs to consider using this supplement to take account of additional pressures that some providers might face, from, for example, the need to pay employer contributions to the teachers' pension scheme.

Although we intend to roll most of the funding into the EYNFF, for maintained nursery schools we propose to retain their share of the money and allocate it through supplementary funding – see Section 5 on MNS for further details.

Note, in Solihull, – For 2021-22 TP&P grant supplements totalled £378,000, with a range of £2,000 to £13,000 per school with a nursery class. The grant was determined by the government, not the local authority. Estimate for 2022-23, £370,000.

The 2-year-old funding formula

Base rate – this has not been updated since the 2015-16 financial year. In the last two years, we have provided local authorities with fixed pence uplifts to their hourly rates, rather than using the formula to calculate an updated rate, as we have done for the EYNFF. In 2023-24 we are proposing to return to using the formula which means that the base rate will be updated.

Area cost adjustment – this takes account of the relative difference in costs in different areas of the country. In the 2-year-old formula it accounts for variations in staff costs but does not currently factor in premises costs.

General labour market (GLM) measure - we propose to update the data to use the 2013-14 data, in line with the EYNFF. Going forward we propose to update this underlying data when it becomes available.

Nursery, infant and primary rates cost adjustment (NIPRCA) - We are also proposing to amend the area cost adjustment for the 2-year-old formula to include a premises related proxy for the first time. Premises costs were not originally included in the 2-year-old formula, and it was not updated when the EYNFF was introduced. We are now proposing to add a premises factor to the 2-year-old formula ACA (Area Cost Adjustment), bringing the formula in line with the EYNFF, as settings offering the 2-year-old entitlement face the same premises costs as those catering for older children, and this will better reflect their costs. This would be the same approach as we take for the EYNFF, meaning we will add a nursery, infant and primary rates cost adjustment (NIPRCA) element as set out in Section 1, but will weight together the nursery rates cost adjustments and the infant and primary schools rate cost adjustments using the proportion of 2-year-old entitlement hours in each setting type in each LA.

Protections - In the minority of cases where making these changes without introducing protections would mean local authorities would not see their funding increase, we want the transition to be manageable. This will give early years providers and local authorities time to plan how to make the best use of their new levels of funding.

Minimum funding floor - For 2023-24 we are proposing to increase the minimum funding floor in the EYNFF in line with the national average rate increase (including the impact of rolling in TPPG funding). There is not currently a minimum funding floor for the 2-year-old formula, and we are not proposing to introduce one. We do not believe that a minimum funding floor is necessary given the smaller variation seen in 2-year-old funding rates across the country, compared with the variation in the EYNFF.

Year-to-year protections - For both formulae, we propose to introduce year-to-year protections to mitigate the impact of the reforms and ensure local authorities can manage the changes at a local level. For 2023-24, we propose to set this at +1% meaning every local authority sees an increase in their hourly funding rate in 2023-24.

Gains cap - To pay for the proposed year-to-year protections, we propose to introduce a cap on the gains that any local authority can see. To be able to ensure that all LAs see an increase in their hourly rate in 2023-24, our illustrative modelling suggests we will limit local authorities' gains in 2023-24 to 4.5% for the EYNFF and 8.6% for the 2-year-old formula.

Impact on EYNFF rates - Under our proposals all local authorities in England would see their EYNFF hourly funding rate increase in 2023-24. Our illustrative modelling suggests that 31 LAs would be on the minimum funding floor. Beyond this, 49 LAs would benefit from our proposed protections against cash losses and would see their hourly funding rate increased by 1%. 43 LAs would be affected by the gains cap of 4.5%.

Note: Solihull sees an increase of 4.4% and does not fall within any of the protection or gains capping arrangements.

Impact on 2-year-old rates - Under our proposals, all local authorities in England would see their 2-year-old hourly funding rate increase in 2023-24. Our illustrative modelling suggests that 64 local authorities would benefit from our proposed protection against losses, seeing their hourly rate increased by 1%. 38 LAs would be impacted by the gains cap of 8.6%.

Note: Solihull sees an increase of 4.1% and does not fall within any of the protection or gains capping arrangements.

Reform of maintained nursery school (MNS) supplementary funding – Solihull is not affected by this.