

Meeting date: 12th October 2023
Report to: Solihull School Forum



Subject/report title: 2024-25 Early Years Funding – extension of the entitlements
Report in name of: Assistant Director for Education and Learning
Report author/lead contact officer: Steve Fenton Head of Commissioning
sfenton@solihull.gov.uk

Schools/ settings 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. Executive Summary:

- 1.1 This report sets out recently published proposals from the government to fund the new early years childcare/education entitlements. The proposals are draft in nature, subject to consultation that ended on 8 September, with final proposals to be announced in due course.
- 1.2 The funding proposals set out the intended frameworks for both the national funding regime and the funding matters to be determined locally. This report makes a number of recommendations concerning the local funding approach. As there remains a great deal of uncertainty about actual funding, the recommended approach is to largely emulate for the new entitlements the approach taken to current 3-4 year-old funding.
- 1.3 The proposal is to consult with providers on these outline principles as a basis to develop more detailed modelling to be presented to School Forum in December.

2. Decision(s) recommended – forum is asked to approve:

- 2.1 That the local authority constructs a local funding formula based on the same principles and proportions as the 3–4-year-old formula – a basic unit rate and a supplement for deprivation.
- 2.2 That the local authority establishes inclusion funding for 2 year-olds and under 2s (funded from the local authority received rates for 2 and under 2 early years grant funding)

- 2.3 That the local authority to construct plans for additional staffing to deliver the proposals, based on retaining up to 5% of the additional grant to be received, as permitted by the government.

3. Matters for Consideration:

- 3.1 On 21 July 2023 the government published a number of documents relating to early years funding for 2024-25, in particular, concerning the funding of the expansion of early years childcare announced in the Spring Budget.
- 3.2 The government published a consultation document (closes 8th September 2023), together with tables giving illustrative hourly rates for extended 2 year-old and under 2 years old funding rates.
- 3.3 The questions for the consultation were largely technical and appeared sensible so Solihull did not respond to the consultation.
- 3.4 The purpose of the proposals is to set out how the government intend to fund the expansion of childcare announced in the Spring Budget.
- 3.4.1 The proposals are to extend the 30 hours free childcare offer from the point a child is 9 months old continuously through their early years to the start of school, phased as follows:
- a) From April 2024, **working parents** of 2-year-olds will be able to access 15 hours of free childcare per week for 38 weeks of the year from the term after their child's 2nd birthday, benefiting parents of up to 285,000 children.
 - b) From September 2024, this will be extended to **working parents** of 9 month to 3-year-olds, benefiting parents of up to a further 355,000 children.
 - c) From September 2025, all working parents of children aged 9 months up to 3 years will be able to access 30 hours of free childcare per week.
- 3.4.2 Note that the definition of working parents of 2 year-olds and under 2s, is to be the same as eligibility for current extended entitlement of 30 hours.
- 3.4.3 The current offer is:
- a) children aged two are currently eligible for 15 hours per week of funded care and education for 38 weeks of the year if they are low income (in receipt of certain benefits).
 - b) All children aged 3 to 4 are entitled to 15 hours of early education funding per week for 38 weeks.
 - c) Children aged 3 to 4 are entitled to 30 hours – 348,000 nationally, (the extended entitlement) where: all parents (whether two-parent family or lone parent) are working and earning a minimum of the equivalent of 16 hours a week at the National Minimum or Living Wage (includes income received from tax credits or Universal Credit) and one parent's income does not exceed £100,000; where one or both parents are on paid leave (parental, maternal etc.); where one or both parents are on statutory sick pay; where parents on zero hours contracts and

those who are registered as self-employed; where one parent is employed and the other parent has either substantial caring responsibilities and/or a disability.

3.5 The key proposals are:

- 3.5.1 A new national funding formula (based on the 3-4 YO formula) for children aged 9 months up to, and including 2-year-olds, regardless of which entitlement they are accessing. This will determine the funding receivable by each local authority. The local authority will create a local funding formula to pass funding to providers.
- 3.5.2 The funding rates in the NFF will vary by age, with higher rates for the younger age group reflecting the difference in costs, particularly due to differences in staffing ratio requirements. However, the government propose that the structure of the formula that they will use to calculate these rates should be the same.
- 3.5.3 The government will not be making any changes to the existing 3-and-4-year-old formula, aside from the regular updates to the underlying data.
- 3.5.4 The government will be providing each local authority with separate hourly funding rates as follows:
 - a) An hourly funding rate for 3-and-4-year-olds for the universal and additional hours entitlements – no change from existing approach
 - b) An hourly funding rate for 2-year-olds which will be the same for both the disadvantaged and the working parent entitlements.
 - c) An hourly funding rate for 9-month-olds up to, but not including 2-year-olds for the new working parent entitlement for that age group, referred to as under 2s.
- 3.6 From 2024-25, the government recognise that local authorities will require additional central spend to carry out tasks for the new entitlements. The government propose to set a pass-through rate of 95% on each individual early years dedicated schools grant (DSG) funding stream, that is:
 - a) the 3-and-4-year-old universal and 30 hours offer;
 - b) the 2-year-old disadvantaged and working parent offers; and
 - c) the 9 months to 2-year-old offer.
- 3.7 The government will plan to increase the pass through rate to 97% once the roll-out of the new entitlements is sufficiently progressed to allow this.
- 3.8 Extending Early Years Pupil Premium (EYPP) and Disability Access Fund (DAF) to cover children aged 9 months up to (and including) 2-year-olds, regardless of which entitlement they are accessing. 2 year-olds do not currently receive EYPP or DAF.
- 3.9 To extend the existing local funding rules relating to the 3- and 4-year-old entitlements to both the existing offer for disadvantaged 2-year-olds and to the new offers for working parents of children aged 2-years-old and under. This means the local authority will have to develop a new local funding formula.

3.10 **Supplements in the local funding formula** - Providers offering the new entitlements are expected to face similar issues and costs as those delivering the current entitlements. The government propose that LAs should be allowed to use their discretion to apply the same supplements to the hourly rates for the new entitlements and existing entitlement for disadvantaged 2-year-olds. The government therefore propose that the deprivation supplement remains mandatory for all funding streams. As now, LAs will determine the size and eligibility for supplements, in line with locally determined criteria, and supplements will be capped at 12% in 2024-25 of planned funding for providers for each entitlement.

3.11 **Special Educational Needs Inclusion Fund (SENIF):**

3.11.1 Local authorities currently have a special educational needs inclusion fund (SENIF) for all 3-and-4-year-olds with special educational needs (SEN) who are taking up the free entitlements. These funds are intended to support local authorities to work with providers to address the needs of children with SEN and should be targeted at children with lower level or emerging SEN. Local authorities are not currently required to establish a special education needs inclusion fund for 2-year-olds but may do so as part of their provision for children with SEN.

3.11.2 The government believe it is vitally important that all eligible children, including those with special educational needs, can access and benefit from the childcare entitlements. The government therefore propose that local authorities should also have a special education needs inclusion fund for children aged 9 months to 2-years-old who are taking up the free entitlements.

3.12 **Local consultation on early years budgets** - LAs will be required to consult with bodies on their formulae for the new entitlements in 2024-25. The normal annual timetable for consultation and publication of planned budgets will apply.

4. **What options have been considered and what is the evidence telling us about them? – the recommended approach for Solihull:**

4.1 Development of local funding formula for the under 2s and working parent 2 year-olds is proposed to be based on the same principles as for 3-4 year-olds, involving:

4.1.1 A deprivation supplement (which is mandatory) based on the same proportion of grant as for 3-4 year-olds. I have not yet been able to model what this might look like, this work will be undertaken during October/November.

4.1.2 Maximise funding to providers in the basic hourly rate, so no further supplements. A teacher pay/pension grant supplement is not required for the new entitlements, as the historic grant does not apply to the new entitlements.

4.2 **LA EY services** will require additional staff to ensure sufficiency of places, provider support, eligibility checking and payment of grants. At the moment, the two teams are deliberating what this might look like. This additional capacity must be funded from the 5% maximum permitted retention. However, at this stage we do not know how much cash this would mean. Given the timescales and the uncertainty of funding, it is recommended Forum approve retention up to the maximum, to enable scenario modelling and local formula development work to commence. When we are clearer about how the numbers work out, we will return to Forum for ratification of detailed proposals.

- 4.3 **Special educational needs** – for 2s and under with lower level or emerging SEN. One option would be to emulate the 3-4 Inclusion Fund 1 (funded from EY grant) and an Inclusion Fund 2 (funded from high needs block), in the same proportion to the basic rate as for 3-4 YO. Alternatively, for 2s and under, it may be more appropriate to have an Inclusion Fund 1 level only, but perhaps at a higher proportion of the basic rate. The local authority will need to estimate numbers likely to qualify.
- 4.4 **Consultation** – LAs and providers are in a difficult position – the LA needs to consult with providers on local arrangements before we have clear, finalised proposals from the government. We have only indicative unit rates for the new entitlements, we do not yet have an estimate of total take-up or total funding. However, there is a tradition of positive working between providers and the LA and I would propose we consult with all providers on these proposals, and refer back to Forum later in the year (December/January) with firmer proposals.
- 4.4.1 The LA is setting up a provider / officer working group to consider detailed delivery of the new entitlements, and feedback from this group would also be used to shape the local funding arrangements.
5. **Reasons for recommending preferred option:**
- 5.1 The government are seeking to align 2 and under 2 funding arrangements and the national EY funding formula with the 3-4 funding arrangements. Therefore it seems sensible to apply local 3-4 funding principles to the development of a 2/U2 funding formula.
- 5.2 However without estimates of total grant and take-up, it is difficult at this stage to provide worked examples. Hence, at this stage, Forum is asked to agree the general approach and we will build the model when we have further information.
6. **Implications and Considerations:**
- 6.1 Impact on settings:
- 6.1.1 This is still being determined. However, the LA must begin work on constructing the key elements – design of local funding formula for the new elements, level and operation of Inclusion funding, capacity of LA teams to deliver the changes, and capacity of providers to provide the required new places.
- 6.2 Consultation and scrutiny:
- 6.2.1 As outlined in paragraph 4.4.
- 6.2.2 A draft of this report has been shared with our School Forum PVI representatives, inviting feedback.
- 6.2.3 Finance Group considered these proposals at their meeting of 12 September and endorsed the recommended approaches.
- 6.3 Financial implications:
- 6.3.1 The government has issued indicative rates of funding for the new entitlements, but we do not currently have estimates of take-up, which means we cannot estimate total

grant levels. It is a priority for the LA to announce provisional local funding arrangements, so providers can make their own calculations on what / how they deliver of the new entitlements.

6.4 Legal implications:

6.4.1 The local authority has a legal duty to secure the sufficiency of places for the new entitlements for Solihull residents. The local funding arrangements must comply with government guidance – funding for SEN, a deprivation component, limits on central spending.

6.5 Risk implications, including risk appetite:

6.5.1 No risk assessment has been undertaken. It is proposed to identify and manage risk through a provider/officer working group.

6.6 Equality implications:

6.6.1 The SEN Inclusion fund and deprivation components are intended to meet equality duties.

6.7 Linkages to work with other partners:

6.7.1 None identified.

7. List of appendices referred to:

7.1 Appendix 1 – precis of 21 July 2023 announcements.

8. List of relevant documents:

8.1 DfE: Early years funding – extension of the entitlements - Government consultation 21 July 2023.

8.2 DfE: 2024 to 2025 Early years funding formula for 2-year-olds and under: technical note July 2023.

8.3 DfE: Tables showing Local authority funding under the 2-year-olds and under 2 funding formula.

Appendix 1

Briefing note on 21 July 2023 early years announcements

<https://consult.education.gov.uk/funding-policy-unit/early-years-funding-extension-of-the-entitlements/>

Provisional Funding Rates

Provisional 2 YO rate £7.87 (paid to LA, but also needs to pay for a deprivation supplement and 2 YO Inclusion fund, so basic rate to providers will be less than this)
Provisional U2 Rate £10.70 (again this will reduce as a base per hour rate as have to have a deprivation supplement and an inclusion fund element)

The DfE do not think that the current formula for the existing 2-year entitlement for disadvantaged families is suitable for the new working parent entitlements. They are therefore introducing a new national funding formula for children aged 9 months up to, and including 2-year-olds, regardless of which entitlement they are accessing.

The DfE are also extending Early Years Pupil Premium (EYPP) and Disability Access Fund (DAF) to cover children aged 9 months up to (and including) 2-year-olds, regardless of which entitlement they are accessing.

Provisional DAF and EYPP

2024 to 2025 illustrative national funding rates	National
Entitlement / funding stream	funding rate
Early years pupil premium – hourly funding rate	£0.68
Disability access fund – yearly funding rate	£902

The government propose to expand the free childcare offer so that eligible working parents in England will be able to access 30 hours of free childcare per week for 38 weeks per year from the term after their child turns 9 months to when they start school.

- From April 2024, working parents of 2-year-olds will be able to access 15 hours of free childcare per week (38 weeks a year).
- From September 2024 this will be extended to parents of 9 month to 3-year-olds, and
- From September 2025 working parents of 9 month to 3-year-olds will be able to access 30 free hours per week (38 weeks a year).

The process for parents claiming the entitlements will be the same as under the current system, with eligibility checks processed through HMRC. Parents will remain able to check what childcare support they are entitled to via the Childcare Choices website.

The existing local funding rules relate mainly to the 3- and 4-year-old entitlements. With the expansion of the entitlements, we are proposing to extend all current rules to the existing offer for disadvantaged 2-year-olds and to the new offers for working parents of children aged 2-years-old and under.

As there are no changes to the entitlements for 3-and-4-year-olds, the government will not be making any changes to the existing 3-and-4-year-old formula, aside from the regular updates to the underlying data.

The government expect the funding allocation methodology and the timetable to remain the same, on the basis of using the 2024 and 2025 spring term censuses. However, they recognise the new entitlement for 2-year-olds does not start until April 2024, and consequently this cohort of children will not be captured in the 2024 spring term census. They intend to review this and provide further information in the Autumn.

A new formula to calculate funding rates for children aged 9 months up to (and including) 2 years, regardless of which entitlement they are accessing (the existing 2-year-old disadvantaged entitlement, or the new entitlements). The rates themselves will vary by age, with higher rates for the younger age group reflecting the difference in costs, particularly due to differences in staffing ratio

requirements. However, the government propose that the structure of the formula that they will use to calculate these rates should be the same.

In all the government will be providing each local authority with separate hourly funding rates as follows:

- An hourly funding rate for 3-and-4-year-olds for the universal and additional hours entitlements – no change from existing approach
- An hourly funding rate for 2-year-olds which will be for both the disadvantaged and the working parent entitlements
- An hourly funding rate for 9-month-olds up to, but not including 2-year-olds for the new working parent entitlement for that age group, which from here onwards will be referred to as under 2s.

The new national formula will follow the shape of the existing 3-and-4-year-old formula, which was introduced in 2017 and designed to allocate funding to reflect the relative costs of providing childcare that meets the needs of children in a local area.

The government propose to use a combination of IDACI and FSM to reflect deprivation (just FSM in 3-4 YO formula, this to be reviewed in future years).

The pass through rate

Local authorities are currently required to pass through at least 95% of their 3-and-4-year-old entitlement funding to providers. The remaining 5% can be retained centrally to be spent on activities such as central SEND support, administrative tasks such as eligibility checking and on transfers between entitlements. In practice, LAs pass on, on average, 97% of their funding.

From 2024-25, local authorities will require additional central spend in order to carry out these tasks for the new entitlements. The government propose to set a pass through rate on each individual early years dedicated schools grant (DSG) funding stream, that is:

- the 3-and-4-year-old universal and 30 hours offer;
- the 2-year-old disadvantaged and working parent offers; and
- the 9 months to 2-year-old offer.

In order to provide some certainty and to ensure that vital central services such as SEND services and eligibility checking continue, we propose to maintain the pass through rate for each funding stream at 95% from 2024-25.

However, as the quantum of funding in the early years block increases with the roll out of the new entitlements, the proportion of overall funding LAs will require to hold back for central spend will fall (whilst still allowing for a higher cash value to be retained, reflecting the increased central activity). The government will therefore increase the pass through rate to 97% once the roll-out of the new entitlements is sufficiently progressed to allow this. They will keep the timing of this under review and provide further details ahead of making any changes.

Supplements

Providers offering the new entitlements are expected to face similar issues and costs as those delivering the current entitlements. The government propose that LAs should be allowed to use their discretion to apply the same supplements to the hourly rates for the new entitlements and existing entitlement for disadvantaged 2-year-olds. The deprivation supplement is intended to support providers with the additional costs of delivering the entitlements in areas of disadvantage and is therefore an important means of ensuring all eligible children are able to access the offers wherever they live. The government therefore propose that this supplement remains mandatory for all funding streams. As now, LAs will determine the size and eligibility for supplements, in line with locally

determined criteria, and supplements will be capped at 12% in 2024-25 of planned funding for providers for each entitlement.

Special Educational Needs Inclusion Fund (SENIF)

Local authorities currently should have a special educational needs inclusion fund (SENIF) for all 3- and-4-year-olds with special educational needs (SEN) who are taking up the free entitlements. These funds are intended to support local authorities to work with providers to address the needs of children with SEN and should be targeted at children with lower level or emerging SEN. Local authorities are not currently required to establish a special education needs inclusion fund for 2-year-olds but may do so as part of their provision for children with SEN.

It is vitally important that all eligible children, including those with special educational needs, can access and benefit from the childcare entitlements. The government therefore propose that local authorities should also have a special education needs inclusion fund for children aged 9 months to 2-years-old who are taking up the free entitlements.

Local consultation on early years budgets

LAs will be required to consult with these bodies on their formulae for the new entitlements in 2024-25. The normal annual timetable for consultation and publication of planned budgets will apply. Local authorities should ensure their early years providers are sufficiently represented at Schools Forums meetings where decisions on early years budgets are being taken. The government are aware that some LAs have also put in place sub-boards made up of representatives from their local early years sector, to consider the issues in detail and feed into the main Schools Forum. This can be a helpful way to ensure the inclusion of sector views.

Change to Solihull funding rates from Summer to Autumn term 2023-24

Current SMBC shown on next page.

To clarify, the full 2 year-old funding increase from the Department for Education has been passported to the base rate for 2 year old funding.

For the 3 & 4 year-old rate Solihull Council will receive an increase of 31 pence per funded hour. 29 pence has been allocated to the 3&4 year-old funding base rate and 1 pence per funded hour has been allocated to the Deprivation rate and 1 pence per funded hour has been allocated to the Inclusion Fund level 1 so the full funding increase will be passed to providers.

	2023-24 funding rate (up to Summer 2023 term)	2023-24 funding rate (from Autumn 2023 term)	% Change
National Unit Rates Awarded to Solihull			
2 YO Hourly Rate	£5.85	£7.75	32.4%
3/4 YO Hourly Rate	£5.01	£5.32	6.1%
Pupil Premium Hourly Rate	£0.62	£0.66	6.4%

Disability Access Fund - per eligible child	£828.00	£881.00	6.4%
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SMBC Unit Rates to pay to providers

2 YO Hourly Rate	£5.85	£7.75	32.4%
3/4 YO Hourly Rate	£4.45	£4.74	6.5%
Supplement - Teacher Pension Cost (option 2)	£0.23	£0.23	0%
Deprivation Factor - per eligible child	£1.37	£1.46	6.5%
Deprivation Factor - local formula	£0.75	£0.80	6.6%
Pupil Premium Rate - per eligible child	£0.62	£0.66	6.4%
Disability Access Fund - per eligible child	£828.00	£881.00	6.4%
Inclusion Fund 1 (for 3–4-year-olds)	£1.27	£1.35	6.2%
Inclusion Fund 2 (for 2-year-olds)	£5.85	£7.75	32.4%
Inclusion Fund 2 (for 3–4-year-olds)	£4.45	£4.74	6.5%