

SCHOOLS FORUM AGENDA ITEM

For Action

For Information



Brief Description of Item (including the purpose / reason for presenting this for consideration by the Forum)

This report briefs the Schools Forum on the DfE's consultation on the Early Years Block for 2023/24 and on the implications of the DfE's proposals for the funding of providers delivering the early years entitlements, as well as for our Early Years Block management. The Authority will shortly convene the Early Years Working Group, to consider more closely the DfE's proposals, as well as to consider our early years entitlement funding arrangements for 2023/24 in response to these. Interested Forum members are invited to attend this Group.

Date (s) of any Previous Discussion at the Forum

Our consultation on Early Years Block formula funding arrangements for 2022/23 was presented to the Schools Forum on 8 December 2021. The Forum made its recommendations on our current Early Years Single Funding Formula (EYSFF) on 12 January 2022.

Background

It is helpful to quickly remind Forum members of our recent considerations and actions relating to the Early Years Block, and of our existing EYSFF arrangements:

- In 2020/21, we began to reduce the proportion of our 3&4-year-old Early Years Single Funding Formula (EYSFF), that is allocated via the Deprivation & SEND supplement, with the intention to reduce this over 3 years from 9.5% to the average of our statistical neighbours, rounded up to 6%, in support of affordability and of maximising our Universal Base Rates, having also identified that we are currently spending a higher proportion of our EYSFF on this supplement than other authorities are. However, recognising the impact of the COVID-19 pandemic, we did not take the planned second step (to reduce from 8% to 7%) in 2021/22 and we retained 8% in 2022/23. The Regulations place a restriction on the use of supplements in the 3&4-year-old EYSFF; supplements cannot allocate more than 10% of total EYSFF funding.
- As a consequence of this retention, in part, we have continued to allocate reserves (one off monies from brought forward balances) held within the Early Years Block to protect the values of the 2-year-old and 3&4-year-old Universal Base Rates at their current year levels of £5.55 and £4.39 per hour. The 2022/23 planned budget incorporated £0.734m of reserves and we held £4.18m of reserves in total within the Early Years Block at the end of 2021/22. We have identified that we must continue to discuss how our EYSFF arrangements can most effectively, but sustainably, support the early years sector in its delivery of the entitlements going forward, recognising that reserves can only be spent once.
- In 2022/23, Bradford's rate of funding from the DfE for the 3&4-year-old entitlements increased from £4.69 to £4.86 per hour. This represented an increase of + 3.62% (+ £0.17). £0.15 of this increase was passed directly through to providers (£0.14 through the Universal Base Rate and £0.01 through the Deprivation and SEND Supplement). Bradford's rate of funding for the 2-year-old entitlement increased from £5.36 to £5.57 per hour. This represented an increase of + 3.92% (+ £0.21). £0.19 of this increase was passed directly through to providers through the 2-year-old Setting Rate. £0.02 was allocated to supported the cost of continuing 2-year-old access to the Early Years SEND Inclusion Fund (EYIF).
- In 2022/23, we retained £398,000 centrally within the Early Years Block, excluding the contribution to copyright licences. Within this sum, we returned to the Early Years Block the cost of the PVI Area SENCOS budget (£204,000), having transferred this to the High Needs Block on an exceptional basis in 2021/22. We also added a new contribution (£100,000) to support the Authority's capacity to deliver the EYSFF and other early years functions. We passed through to providers 97.5% of 3&4-year-old funding, excluding the use of reserves. The Regulations require a minimum pass-through of 95%. Our benchmarking continues to indicate that we are low central retainer of Early Years Block funds, compared with other authorities. The 97.5% is affected, not just by the values of budgets held centrally within the Early Years Block, but also by the additional cost of the 2-year-old entitlement. We have identified that the cost of funding the 2-year-old entitlement, at our current rates, exceeds its funding, due to the profile of hours that are typically funded across the year by term and 2-year-old access to EYIF. This is a position that we need to continue to monitor closely, to ensure that our 2-year-old funding approach does not place excessive pressure on our 3&4-year-old entitlement funding on an on-going basis.

Background (continued)

- Since April 2019, we have operated an amended Early Years Inclusion Fund (EYIF), supporting emerging SEND. The DfE has indicated within the current national SEND Review that how SEND is supported in early years will change, and that this is likely to have knock-on implications for early years entitlement funding, including for EYIF and for the Disability Access Fund (DAF).
- We have identified the critical significance of national DfE decisions concerning the continuation of the Maintained Nursery School Supplement. This Supplement has been confirmed as continuing for the current 3 year spending period (which covers up to March 2025). Following the DfE's uplift of funding rates, in 2022/23, we uplifted the sustainability lump sum protection that we allocate to our nursery schools, for the first time since 2017/18.
- We are currently introducing a new Bradford Provider Headcount Portal for providers to use to submit their entitlement delivery information to the Authority. We have signalled that, as the use of this Portal is extended, including to schools and academies, we will have an opportunity to consider whether our early years entitlement counting arrangements should adjust to be more responsive to changes in numbers within each term. There are pros for, and cons against, such a change in approach.

Details of the Item for Consideration

The DfE published a consultation on 2023/24 Early Years Block arrangements on 4 July 2022. This consultation can be found here:

<https://www.gov.uk/government/consultations/early-years-funding-formulae>

The deadline for responses is 16 September. We have already submitted a response, which is presented at Appendix 1.

This is a rather technical consultation, which does not present proposals at the level of operational guidance for local authorities to follow in 2023/24. This guidance is still to be published in the autumn term. The DfE has indicated however, that no significant changes in 'local rules' are currently planned for 2023/24. The consultation focuses instead on a) the national distribution of Early Years Block funding (including the distribution of the Maintained Nursery School Supplement) between local authorities, and b) on the merger of the school-led Teacher Pay and Pensions Grants into the Early Years Single Funding Formula. As such, this is a consultation perhaps more for local authority officers than for early years providers. However, what the DfE proposes will have direct implications for provider-level funding in Bradford in 2023/24.

The consultation's main focus is that the underlying data that forms the basis of the current national distribution of Early Years Block funding between local authorities – the proxy measures of additional need: Free School Meals, English as an Additional Language and Disability Living Allowance - has not been updated for some time and therefore, the national distribution of funding does not now accurately reflect the relative distribution of additional needs between authority areas. The DfE proposes to correct this in (and from) 2023/24; to use the latest datasets that are available now and then to update these annually thereafter. However, updating the data will produce significant swings in funding levels, with some local authorities gaining and some losing substantial amounts of early years funding compared with 2022/23. The DfE proposes to manage this by using 'floors and ceilings' in 2023/24: a floor of 1% (meaning that no local authority's funding rates, both for the 2-year-old entitlement as well as for the 3&4-year-old entitlement, will increase by lower than 1% in 2023/24; ceilings of 4.5% (3&4 year olds) and 8.6% (2 year olds), meaning that no local authority's funding rates will increase by more than 4.5% (3&4 year olds) and by 8.6% (2 year olds) in 2023/24. Thereafter, the DfE proposes to introduce an annual protection mechanism, which will prevent large unmanageable reductions in funding rates in any single year.

Illustratively, Bradford's position is as follows:

- 3&4-year-old funding: our current 2022/23 rate is £4.86 per hour. With the merger of the school-led Teacher Pay Pensions Grants (we summarise what this means below), our current 2022/23 rate is £5.00 per hour. This is our baseline on which to compare the impact of the DfE's proposals. Following the DfE's update of the underlying data, our equivalent illustrative 2022/23 rate is £4.99 i.e. our 2022/23 rate reduces by £0.01. With the DfE's proposed 1% floor, our illustrative minimum rate of funding in 2023/24 will be £5.05, which is £5.00 + 1%.
- 2-year-old funding: our current 2022/23 rate is £5.57 per hour. This is our baseline on which to compare the impact of the DfE's proposals. Following the DfE's update of the underlying data, our equivalent illustrative 2022/23 rate is £5.58 i.e. our 2022/23 rate increases by £0.01. With the DfE's proposed 1% floor, our illustrative minimum rate of funding in 2023/24 will be £5.63, which is £5.63 + 1.1% (there is rounding of these figures by the DfE).

Details of the Item for Consideration (continued)

- Maintained Nursery School Supplement: our current 2022/23 rate, including the merger of the school-led Teacher Pay and Pensions Grants, in £3.59 per hour. Using additional investment (an additional £10m nationally), the DfE proposes to set a new minimum funding floor for this Supplement. This illustratively is proposed at £3.80 per hour in 2023/24. On this basis, the Supplement funding that we receive in the Early Years Block will increase by £0.21 per hour (+5.8%). Please be aware though that this is not expected to affect the level of funding protection that individual maintained schools receive through the Authority's arrangements. This adjustment to the Supplement will simply better reflect the actual cost of the current protection to our Early Years Block, as the cost does currently exceed the funding we receive.

Please note that all funding rates presented here are illustrative, and will be adjusted by the DfE, both for the latest available datasets as well as for the outcomes of the consultation. The DfE has stated that confirmed rates will be published later in the autumn term.

In terms of how Bradford sits against other local authorities, following the update of the main 2-year-old and 3&4-year-old funding rates:

- 3&4 year olds funding: our current rate of £5.00 per hour is 62nd highest (out of 150 local authorities – range between £4.61 and £8.63). Following the update of the underlying data, our rate of £5.05 is 71st highest (range of £4.86 to £8.72). 51 authorities will receive the basic floor 1% increase in 2023/24 (about a 1/3rd of local authorities). 43 local authorities (again about a 1/3rd) are capped on 4.5%.
- 2 Year olds funding: 51 (about a 1/3rd of) local authorities, including Bradford, are currently funded at the lowest rate of £5.57 per hour (range between £5.57 and £6.87). Following the update of the underlying data, 39 authorities in total (about a 1/4), including Bradford, are funded on the lowest rate of £5.63 (range of £5.63 to £7.46). 65 authorities (about 2/5ths) will see 1% increases in 2023/24. 38 local authorities (about a 1/4) are capped on 8.6%.

In simple terms, Bradford is part of a group of local authorities that will only see 1% increases in funding rates in 2023/24, under the DfE's current proposals.

In terms of our responses to these proposals, it is difficult to argue against the DfE moving to use the latest available data to distribute Early Years Block funding, and it is also difficult to argue against the DfE now ensuring that the underlying data is annually updated and that a year-on-year protection mechanism is established to guard against unmanageable levels of turbulence. We support these proposals and the principles behind them.

The crux of the issue here is the very low levels of floor increases that the DfE's currently proposes, especially in the context of the current scale of inflation on prices and increases in salaries costs (including further expected increases in 2023). Where our Early Years Block funding rates only increase by 1%, 1% is likely to be the maximum increase that we can pass through to providers delivering the early years entitlements in 2023/24. However, as we've previously signalled, we have still to continue to deal with our structural overspending, which comes from two main factors, a) allocating 8% (rather than the average 6%) of our 3&4-year-old EYSFF monies on our Deprivation and SEND Supplement, whilst also maintaining a high value Universal Base Rate, and b) that the cost of our funding of the 2-year-old entitlement, including access to the SEND Early Years Inclusion Fund, exceeds the value of 2-year-old entitlement funding that we receive.

As we've presented elsewhere, for other elements of the Dedicated Schools Grant (DSG) settlement, a low 1% floor increase aligns with our assessment of the Autumn 2021 Spending Review, reinforced by the DfE's recent messaging, that the current 3-year national school and early years funding settlement has been heavily weighted towards 2022/23, with reduced increases to be allocated in 2023/24 and in 2024/25.

In current context, we would suggest that the DfE takes a longer multi-year approach to the update of the underlying data, meaning that the ceilings on gains should be reduced in 2023/24 in order to afford a higher value floor for all local authorities. This is a main point in our response.

Merger of school-led Teacher Pay and Pensions Grants

The DfE proposes that the Teacher Pay and Pensions Grants (TPG / TPENG), that are currently allocated to maintained nursery schools and to primary maintained schools and academies that delivery the entitlements, be merged into the Early Years Block from April 2023. This merger would increase our 3&4-year-old rate of funding within the Early Years Block illustratively by £0.14 per hour.

These grants are currently only allocated to schools and academies, to reflect the additional costs that these have in relation to their employment of teachers. Following the merger of these grants into the Early Years Block, in order to retain the distribution of this funding to schools and academies, there will need to be a revision to the Early Years Single Funding Formula (EYSFF). The DfE proposes that authorities be permitted, and be strongly encouraged, to establish a Quality Supplement within their EYSFFs, so that this funding can be targeted to providers that employ teachers and that incur additional costs as a result.

Details of the Item for Consideration (continued)

We await further instruction from the DfE, via the Early Years Block operational guidance, on exactly how authorities should respond here, and what the expectations of, and restrictions on, a new Quality Supplement will be. For example, must providers evidence that they employ a (full time) teacher in their delivery of the 3&4-year-old entitlement, that is also a member of the Teacher Pension Scheme, and how would they evidence this?

Accepting that further guidance is required, if the TPG and TPENG grants are merged into the Early Years Block, we do envisage introducing a Quality Supplement at April 2023. To not have such will dilute this funding, which will result in winners and losers being created simply as a result of technical change. We would wish to avoid this as best as possible. We will discuss this further with the Early Years Working Group and we will consult with providers on any new Quality Supplement as part of our 2023/24 consultation.

It is important at this stage to highlight that the merger of the TPG and TPENG is likely to have a knock on implication for our Deprivation and SEND Supplement. The Regulations restrict overall spending on supplements to 10% of 3&4-year-old EYSFF funding. We currently estimate that the full replication of TPG and TPENG funding via a new Quality Supplement will take 3%. On this basis, we could not continue to spend 8% through our Deprivation and SEND Supplement in 2023/24, as well as fully replicate the TPG and TPENG funding. We would need to reduce Deprivation and SEND Supplement spending to at least 7%. The DfE is aware of this issue, and may provide some flexibility for local authorities. However, the merger of these grants may provide a further reason, or impetus, for us to continue to reduce our Deprivation and SEND Supplement spending, as we set out in our original plan in 2019. We will discuss this further with the Early Years Working Group. In our response to the DfE's consultation, we have suggested that it would be more straightforward for local authorities for the grants to remain separate, notwithstanding that their merger into the Early Years Block will simplify administration for the DfE.

2023/24 EYSFF Development

It is expected that local authorities will continue to exercise local control over their funding of the early years entitlements, on an on-going basis, via the Early Years Block. The DfE's movement to hard National Funding Formula does not currently extend to the Early Years Block. There are significant restrictions in place already, which control how local authorities fund providers for their delivery of the early years entitlements.

Apart from our response to directed changes, such as the merger of the Teacher Pay and Pensions Grants and the subsequent development of a Quality Supplement, we do not envisage making substantial technical amendments to how our Early Years Single Funding Formula (EYSFF) operates in 2023/24. We have previously identified however, some significant matters that we will need to consider within our proposals. These are more focused on values of rates of funding that our EYSFF allocates to providers, rather than technical changes in how our EYSFF operates.

In summary, the main issues that we will need to consider in the development of our Early Years Single Funding Formula (EYSFF) for 2023/24 are:

- What levels of increases in provider entitlement delivery funding rates are affordable, within an expected (currently proposed) overall 1% settlement from the DfE.
- Our responses to any (as yet unannounced) material changes in the DfE's Early Years Block operational guidance, when this is published later in the autumn term.
- Our response to the anticipated (currently proposed) merger of the Teacher Pay and Pensions Grants into the EYSFF: how we replicate this funding stream through a new Quality Supplement.
- The continued review of our % of spending on the Deprivation and SEND Supplement, which is now, perhaps, one of the more pressing matters for review. We have continued to allocate reserves (one off monies from brought forward balances) held within the Early Years Block to protect the value of the 3&4-year-old Universal Base Rate at its current year level of £4.39 per hour. Our modelling indicates that we cannot continue to afford (and to continue to uplift) a Universal Base Rate at this level when we also spend 8% on the Deprivation and SEND Supplement. The critical matters for us to resolve are how our EYSFF arrangements are sustainable by the time one-off monies are no longer available, and what the balance should be between Universal Base Rate funding and additional funding that is targeted towards deprivation. The inclusion of a new Quality Supplement provides new context for these discussions.
- That our spending on the 2-year-old offer currently exceeds the funding we receive in the Early Years Block specifically for the 2-year-old offer. This places financial pressure on the Early Years Block, as well reduces the funding that is available to support the 3&4-year-old entitlement. Recognising this, we began in 2022/23 to take small steps, by not fully passing through to providers the increase in the 2-year-old funding rate that we received from the DfE. We must assess how this action continues in 2023/24, in order to contribute to securing the financial sustainability of the Early Years Block.

Details of the Item for Consideration (continued)

- How the cost of the early years centrally managed SEND and high needs activities is apportioned between the Early Years and the High Needs Blocks. Whilst we anticipate that the vast majority of the Early Years Block will continue to be spent on funding that is passed out to providers through entitlement funding rates, we need to ensure that early years SEND support costs are appropriately charged. The cost of the Early Years SEND Service and Portage (following the 'exceptional' transfer in 2021/22) remained charged to the High Needs Block in 2022/23. We are minded to return this cost to the Early Years Block in 2023/24.

We anticipate that we will continue to protect the funding of maintained nursery schools as we do currently.

Regarding our Early Years SEND Inclusion Fund (EYIF), we anticipate that we will continue to apply in 2023/24 our current EYIF approach, with 2 year olds also continuing to be eligible. We anticipate also proposing to retain our Disability Access Funding (DAF) at the increased rate of £1,000. The DfE's national SEND Review does propose that the early years sector is brought into the national SEND system. This will potentially alter early years SEND and EHCP systems and support mechanisms, including financial support mechanisms. The DfE has indicated that these changes will likely require a review of the Early Years Block, especially in relation to the EYIF and the DAF. At this time, we do not have any details, and we are not clear about timescales for changes, but it is possible that the DfE could alter its guidance for local authorities on how the EYSFF, EYIF and DAF mechanisms are to operate 2023/24. If changes are made, we will review our responses with the Early Years Working Group and then consult with providers.

We continue to roll out the new Bradford Provider Headcount Portal for the collection of entitlement delivery information from providers. This Headcount Portal replaces the previous Bradford Provider Gateway that PVI providers, and also that schools and academies that deliver the 2-year-old entitlement, used to submit their entitlement delivery information to the Local Authority. The Authority's medium-term aim is that the Bradford Provider Headcount Portal will also be used to collect 3&4-year-old entitlement delivery information from schools and academies, meaning that the submission of this entitlement delivery information via the Headcount Portal will replace the current approach, whereby this information is extracted from the school's / academy's termly census return that is submitted to the DfE. There are significant advantages to using a discrete mechanism for the collection of entitlement delivery information from all providers. We anticipate taking further steps in the roll out of the new Portal to schools and academies in 2023. At this time, whilst we move towards the new Portal, and in advance of us having the opportunity to review again with all providers the pros and cons of a different (starters and leavers style) approach that could be based on the new Portal, we do not envisage changing how provider entitlement delivery is counted. This means that, at this time, we envisage continuing to use in 2023/24 the existing termly headcount methodology, with a 2nd termly headcount for the 2-year-old entitlement.

In the last 2 years, due to the timing of announcements, our consultation on our Early Years Block formula funding arrangements has been published towards the end of the autumn term, later than the consultations on Schools Block and High Needs Block arrangements, which have been published mid-October. We anticipate that this will be the case for our consultations this autumn. We will provide an update to the Schools Forum on the development of our EYSFF proposals at the next meeting in October.

Implications for the Dedicated Schools Grant (DSG) (if any)

The proposals put forward in the DfE's consultation have direct implications for our Early Years Block funding, in 2023/24. These proposals also have direct implications for the rates of funding for providers delivering the early years entitlements in 2023/24. As presented in this report.

Recommendations

Recommended –

- (1) The Schools Forum is asked to consider and to note the information presented.**
- (2) Members are invited to attend the Early Years Working Group.**

List of Supporting Appendices / Papers (where applicable)

Appendix 1 – Response to the DfE's Early Years Block consultation (copy)

Contact Officer (name, telephone number and email address)

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