

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 2024/25 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 report provides the Local Authority's response to this consultation, which has been submitted.

Date (s) of any Previous Discussion at the Forum

The Schools Forum made its recommendations on the 2023/24 Early Years Block and Early Years Single Funding Formula on 11 January 2023. An update was presented on 8 March (Document PT). A report on the March Budget announcements was presented on 17 May (Document PW) and again on 12 July (Document QC). An updated report on the Early Years Supplementary Grant is presented to this meeting.

Background

On 15 March 2023, the Chancellor announced that new early entitlements will be introduced in phases:

- From April 2024, all eligible working parents of 2-year-olds can access 15 hours per week.
- From September 2024, all eligible working parents of children aged 9 months up to 3 years old can access 15 hours per week. The DfE indicated that the "average rate" of funding for local authorities for the under 2-year-old entitlement will be £11 per hour in 2024/25.
- From September 2025, all eligible working parents of children aged 9 months up to 3 years old can access 30 hours per week.

In previous reports to the Schools Forum, we have advised that the entitlement funding and extension announcements broadly will mean:

- We will need to closely plan the implementation of the extensions, in line with the DfE conditions and guidance. There is much to consider here, beginning for the 2024/25 financial year. A main aspect of this clearly will be concerned with ensuring the sufficiency of places.
- We will need to closely consider how our Early Years Single Funding Formula may need to change to absorb the new entitlements, beginning from April 2024.
- We will need to closely consider the knock-on financial implications for the DSG where it is appropriate and necessary to increase the size of the Authority's central capacity, as well as the knock-on implications for centrally managed SEND funding streams, including Early Years Inclusion Fund (EYIF) and services that are funded by the High Needs Block.
- We will need to closely consider how new / increased funding and new / increased costs affect the overall affordability position of our Early Years Block. This is in the context of us already using carry forward balances to support our existing level of expenditure. Within this, we need to be careful to understand the financial inefficiencies that may be present during the set-up phases. For example, we have previously identified that, when a new or extended entitlement begins in September, this costs our Early Years Block between September to March more than the funding that we receive from the DfE for the same period.

Details of the Item for Consideration

The DfE published on 21 July a consultation, which sets out proposals for the approach to the funding of the new and extended entitlements and which gave sight of indicative rates of funding for these entitlements. The consultation can be found here: [Early years funding – extension of the entitlements - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/early-years-funding-extension-of-the-entitlements). The deadline for responses to the consultation was 8 September and we have submitted our response. A copy of this response is attached at Appendix 1.

This consultation has direct implications for our Early Years Block and local Early Years Single Funding Formula arrangements, from April 2024.

Details of the Item for Consideration

To summarise the main points of the consultation:

- The DfE essentially proposes to extend the local framework that currently exists for the funding of the 3&4-year-old entitlement to the new and extended under 2s and 2-year-old entitlements. This means the establishment of 3 discrete streams of funding / 3 discrete Early Years Funding Formulae within the Early Years Block, that will operate the 3 entitlements separately, but in broadly the same manner using a consistent set of rules (the contain some flexibility), and that will carry different values of per hour funding for providers that will be set according to the values that each authority receives from the DfE's national formula for each of the entitlements i.e.
 - For each of the 3 entitlements (the under 2s, the 2-year-old and the 3&4-year-old), providers will be funded using a Universal Base Rate (UBRs) of funding per hour. The values of the UBRs will be different for each of the 3 entitlements, calculated with reference to the value of funding the Authority receives from the DfE for that entitlement. The UBR will be the main source of funding for providers for all 3 entitlements.
 - On-top of this, each of the 3 discrete approaches must include a Deprivation Supplement, which will provide additional per hour funding to providers based on a locally determined measure of deprivation. This represents a change for the 2-year-old entitlement, where a deprivation supplement is not currently used. The DfE's proposal is that a single approach to the funding of the 2-year-old entitlement is established, albeit that the 2-year-old entitlement will continue to cover children that are currently eligible (due to their deprivation status) as well as children of eligible working parents that will become eligible as the entitlement is extended from April 2024.
 - The range of additional supplements that are currently permitted for the funding of the 3&4-year-old entitlement (Quality, EAL etc), will be permitted to be used for the funding of the under 2s and 2-year-old entitlements. These supplements will be entirely optional, but, for each of the 3 entitlement streams, spending on supplements cannot exceed 12% of the funding that is allocated within that discrete stream. The % does not have to be the same for each stream and where a supplement is used in one stream it does not have to be used in another.
 - Eligibility for Early Years Inclusion Funding (EYIF), Early Years Pupil Premium (EYPP) and Disability Access Funding (DAF) will be extended to children accessing the under 2s and 2-year-old entitlements.
 - Local authorities will continue to be permitted to retain funds centrally within the Early Years Block, to fund centrally managed support services. However, the DfE proposes that the current restriction (of retention of not more than 5%) is reduced to 3% after the roll out of the new and extended entitlements is complete. The 3% restriction will apply individually to each of the 3 entitlement streams.
 - The basis of eligibility for the new and extended entitlements is still the 'term after' the respective 'birthday'. This means that it is quite possible to continue to use termly based counting arrangements for the funding of providers.
- The DfE has published indicative rates of funding that are to be allocated to local authorities within the Early Years Block for the new and extended entitlements in 2024/25. Please note that the consultation document does not discuss 3&4-year-old entitlement funding rates, which for 2024/25 will be announced later in the autumn term. For reference, our 3&4-year-old entitlement rate in 2023/24, inclusive of the Early Years Supplementary Grant, is £5.32 per hour and our 2-year-old entitlement rate is £7.42 per hour.
 - Our indicative 2024/25 DfE rate of funding for the combined 2-year-old entitlement is £7.93 per hour.
 - Our indicative 2024/25 DfE rate of funding for the new under 2s entitlement is £10.82 per hour.
 - *Please note that these rates will be the rates that are received by the Local Authority from the DfE. These are not the same as the rates of funding that will be paid to providers by the Local Authority, which will typically be lower (due, for example, to the retention of funds centrally and the cost of the Early Years Inclusion Fund) and which will be determined following our review work after consultation with providers. We have begun to use these figures to model early options for our formula funding for 2024/25, which we will discuss with the Early Years Working Group.*
- The DfE has indicated that, for the introduction of the under 2s entitlement at September 2024, local authorities will be funded for 22 weeks of delivery for the period September 2024 to March 2025. This will also be the case for the further extension of the entitlements to 30 hours at September 2025 (for the period September 2025 to March 2026). We have expressed to the DfE our concern about this approach.

Details of the Item for Consideration

This concern has been expressed both within our consultation response as well as in a separate email to the DfE's entitlements team. Our issue is that we fund our entitlements on a termly basis, using a 12 (summer) / 14 (autumn) / 12 (spring) weeks profile. We generally understand that, other than for slight variation in the number of weeks, many local authorities do the same. This means that we fund 12 weeks in summer, compared with the DfE's Early Years Block DSG-level funding profile of 5/12ths (16 weeks), but we fund 26 weeks in autumn and spring, compared with the DfE's Early Years Block DSG-level funding profile of 7/12ths (22 weeks). Our profile quite closely matches the timing of school holidays. When the new under 2s old entitlement for working parents begins at September 2024, for the period September 2024 to March 2025, we will fund providers for 26 weeks, but will only receive Early Years Block funding for 22 weeks. We model that this will cost us in the region of £1.1m. When the under 2s entitlement is extended to 30 hours at September 2025, and the 2-year-old entitlement is also extended to 30 hours for working parents at September 2025, we also will fund 26 weeks but receive funding for 22 weeks for these for the period September 2025 to March 2026. We model that this will cost us in the region of a further £2.1m. So, in total, across 2024/25 and 2025/26, we estimate that we will have an additional £3.2m of unfunded cost. This is significant and goes beyond 'normal business' in terms of managing fluctuations in numbers, albeit that it is a 'one off cost', which will not be present when the entitlements are fully extended for a full financial year. In terms of mitigation, it does not feel to sense for us to re-profile our way of funding providers in order to manage this short-term situation to remove the cost. For example, this would require us to fund 16 weeks in summer, which is not realistically practical to deliver due to the summer holidays (especially in providers that more generally deliver on a term time only basis) and would require providers to adjust their delivery models. The DfE has responded to thank us for highlighting this issue and indicates that this will be considered further.

In terms of immediate next steps, the Early Years Working Group will continue to meet to consider more closely the DfE's proposals, as well as to consider our early years entitlement funding arrangements for 2024/25 in response to these. Interested Forum members are invited to attend this Group.

We will seek to put forward proposals for 2024/25 early years formula funding as soon as we can after the DfE has confirmed rates of funding and operational details, following the closure of the consultation. This is expected to be later in the autumn term. As such, Forum Members are asked to note that our consultation with providers on our early years entitlement funding arrangements for 2024/25 will not begin immediately following the Forum's October meeting, as is planned for our Schools Block and High Needs Block consultations (please see agenda item 8) and further depends on the timing of the DfE's announcements.

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

In January 2023, we agreed with the Schools Forum a planned budget, which set aside £0.957m of brought forward balance to support the full potential cost of our 2023/24 Early Years Block arrangements.

Regarding the on-going financial DSG implications, we will need to further consider not only the allocation of Early Years Block funding to entitlement providers, but also the implications for the financing of additional central capacity that is likely to be needed to support the extension of the entitlements, as well as wider DSG implications that extension may have, especially from supporting early years children with SEND, through Early Years Inclusion Funding (EYIF) as well as via allocations and support services that are funded from the High Needs Block.

We expect to continue to retain the principle of the ring-fencing of the Early Years Block. Then within the Early Years Block, we expect to follow the principle that each of the 3 discrete entitlement funding streams must individually balance, without the need for cross-subsidisation, and that the total cost of the delivery of the early years entitlements must be met by the Early Years Block. As such, rates of funding for providers and other budgets within the Early Years Block will be set and adjusted in 2024/25 to achieve this.

The most significant concern for the Early Years Block is the possible estimated £3.2m of unfunded cost across 2024/25 and 2025/26 should the DfE not adjust the approach to funding local authorities for the introduction and extension of the entitlements at September 2024 and September 2025. We will be required to consider options for the management of this, should the DfE not adjust its approach.

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 – Consultation Response (copy)

Contact Officer (name, telephone number and email address)

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