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| <b>Date: 5 October 2023</b>             | <b>Item 9</b><br><b>Type of report: Decision</b>          |
| <b>Report title</b>                     | <b>Early Years Funding 2023/24 and 2024/25</b>            |
| <b>Author name and contact details:</b> | <b>Hayden Judd</b><br><b>Hayden.Judd@southwark.gov.uk</b> |
| <b>Officer to present the report:</b>   | <b>Hayden Judd</b>  |

## **Executive Summary**

This report sets out details of the additional Early Years funding provided for the 2023/24 financial year onwards and the changes to the formula funding of Early Years provision proposed by the DfE for the 2024/25 financial year onwards. Agreement to consult with Early Years providers on the Southwark Early Years Single Funding Formula for 2024/25 onwards is sought.

### **1. Schools Forum Actions**

The Schools Forum is asked to:

- i. Note the additional funding provided by the DfE through the Early Years Supplementary Grant and the LA's distribution methodology,
- ii. Note the DfE's proposed changes to both the DSG Early Years formula and the framework for LA's distribution formulae and
- iii. Agree that the LA proceed with consultation on its proposed 2024/25 Early Years formula once the DfE Consultation Response has been concluded.

### **2. Background**

The Dedicated Schools Grant (DSG) Early Years Block provides funding for early years provision and administration. The funding is for 15 hours of 2 year-old provision for deprived families, 15 hours of universal 3&4 year-old provision and a further 15 hours of 3&4 year old provision for working families.

Allocations are based on the number of hours of each provision recorded on census returns, the number of Early Years Pupil Premium (EYPP) eligible hours recorded on the census and the number of 3&4 year old DLA recipients in the borough.

The initial 2023/24 allocation published in December 2022, was based on the January 2022 census. The allocation was updated to being based on the January 2023 census in July 2023. The final allocation will be published in July 2024 and will be based on the January 2023 census for the spring 2023 census and on the January 2024 census for the Autumn 2023 term and Spring 2024 term.

When distributing funding, local authorities (LA's) must pass at least 95% of funding to providers and cannot allocate more than 12% of planned funding through supplements. A deprivation supplement is mandatory.

The 2023 Spring Budget announced additional funding for the existing early years entitlements for disadvantaged 2-year-old children and 3 and 4-year-old children for the 2023/24 (£204m) and 2024/25 (£288) financial years. These amounts are on top of the previous settlements for those years.

The 2023 Spring Budget also announced the extension of early years provision as follows-

- 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).

### **3. Early Years Supplementary Grant (EYSG) 2023/24 Financial Year**

3.1 The DfE will provide £204m of supplementary grant funding to local authorities in the 2023/24 financial year. This will provide supplementary funding for all existing early years funding streams:

- 15 hours entitlement for disadvantaged 2-year-olds
- 15 hours universal entitlement for 3 and 4-year-olds
- 15 hours additional entitlement for 3 and 4-year-old children of working parents
- maintained nursery schools supplementary funding
- early years pupil premium
- disability access fund

3.2 Although the supplementary funding provided by the EYSG covers the same funding streams as the Dedicated Schools Grant (DSG) Early Years Block and has been calculated using the DSG Early Years Block funding formula, the funding is separate to the DSG and takes the form of a separate grant.

3.3 The EYSG will run from September 2023 to March 2024. For the 2024/25 financial year, the additional funding will be rolled into the DSG Early Years Block.

3.4 The initial EYSG allocation for Southwark will be based on the January 2023 census and will be paid in September 2023. In line with the DSG Early Years Block process, this will be updated with January 2024 census data leading to a revised allocation being published and paid in July 2024.

- 3.5 The funding rates used to calculate Southwark's EYSG allocation are as follows-
- £2.53 addition per 2 year-old hour on January 2024 census
  - £0.23 addition per 3&4 year-old hour on January 2024 census
  - £0.36 addition per Maintained Nursery School 3&4 year-old hour on Jan 2024 census
  - £0.04 addition per Early Year Pupil Premium eligible hour on January 2024 census
  - £30.92 per DLA eligible 3&4 year old
- 3.6 The Conditions of Grant for the EYSG require-
- LA's must pass on the grant in full
  - In a clear and transparent way
  - The funding rate increase from the EYSG for childcare providers must remain the same for the 7-month period from September 2023 to March 2024. Local authorities must not reduce the funding rate during this period.
- 3.7 Given that the amount of grant that Southwark will receive cannot be known ahead of the January 2024 census, it is impossible to commit to funding rates for providers that will ensure 100% distribution of the grant and which could be guaranteed not to require a reduction come the spring term.
- 3.8 It is also worth noting that any overspend on the grant will be offset against the DSG Early Years Block for 2024/25, limiting the hourly rate we could offer in that year and possibly necessitating a reduction in the hourly rate.
- 3.9 There are a number of ways in which the early years funding operates that complicates the setting of affordable hourly rates. In this instance, of primary concern is the volatility of 2 year-old take up. In January 2023 the 2 year-old numbers were only 83% of the October 2022 numbers. As we would be funding on October and January numbers but only being funded on January numbers, this reduction could lead to an overspend. Using the £2.53 EYSG 2 year-old rate and the old year numbers, an overspend of £56k or 10% of the 2 year-old funding would occur.
- 3.10 Consequently, and with the aim of ensuring 100% distribution of the grant within the current year, Southwark will be paying out interim allocations in the autumn and spring terms and distributing the remainder of the grant in March 2024. This will also ensure that the funding rate does not fall between terms.
- 3.11 The interim payments will be based on the autumn 2023 and spring 2024 census date and will use hourly rates of £2.25 for 2 year-old hours and £0.20

for 3&4 year old hours. Stating these rates gives providers a clear and transparent way to plan for their cash flow.

#### **4. Early Years Funding Formula 2024/25**

- 4.1 The (phased) extension of provision to 9 month-old pupils from eligible households has led the DfE to review the DSG funding formula for the early years block. There are no proposed changes to the 3&4 year-old funding formula, but there are proposed changes to the 2 year-old formula and a proposed new formula to provide funding for under-twos.
- 4.2 The largest element of the current 3&4 year-old DSG formula results in an hourly rate which is calculated using a base rate, adding an amount for additional needs and then multiplying this total by an area cost adjustment and then by the hours of provision recorded on the census. The other elements (EYPP, MNS Supplementary Funding and Disability Access Funding) are then added to provide the total 3&4 year old funding amount.
- 4.3 The proposed changes would result in separate DSG funding streams for under twos, 2 year-olds and 3&4 year-olds. In short, the DfE are proposing to replicate the 3&4 year-old formula for two year-olds and under-twos (with the exception of Maintained Nursery School (MNS) Supplementary Funding, which will be limited to the 3&4 year old funding stream). This extension includes EYPP and DAF.
- 4.4 The differences between the 3&4 year-old DSG formula and the formulas for 2 year-olds and below would be
  - MNS Supplementary Funding would not be replicated for 2 year-olds and under
  - Deprivation will be assessed using both FSM numbers (as in the 3&4 year-old formula) and IDACI, as evidence suggests a basket of measures is a better proxy for deprivation levels
  - As is currently the case, the area cost adjustment NNDR element for each age group will be weighted based on the provider mix for that age group (schools will make up a smaller proportion of provision in the younger age groups)
- 4.5 The DfE are also proposing changes to the framework determining how LA's distribute funding to providers. The key elements of the 3&4 year-old framework are
  - Universal Base Rate -  
An hourly base rate that applies to all providers.
  - Minimum Passporting Percentage -  
LA's must pass at least 95% of their funding to providers

- Supplements -  
LA's may choose from a limited list of supplements (e.g. deprivation) to allocate additional funding to providers. The total allocated through supplements cannot be more than 12% of the budgeted funding total.
  - SENDIF -  
LA's are required to have an SEND Inclusion Fund to target funds at pupils with lower-level or emerging SEN.
  - Contingency -  
LA's can set aside a contingency to help manage fluctuations in take-up
- 4.6 The DfE are proposing to extend this framework to cover LA's 2 year-old and under-2's funding formulas. The only proposed variation is that, at some point after 2024/25, the minimum passporting percentage will rise from 95% to 97%.
- 4.7 The DfE consultation on these proposals ran between July 21st 2023 and September 8th 2023. At the time of writing, no consultation response has been published.
- 4.8 Rather than waiting until the December Schools Forum meeting, Southwark is asking for Forum's agreement to consult with providers over the autumn term. Consultation after the December meeting would limit the time available for the consultation and would mean the consultation taking place over the holiday period.
- 4.9 The only areas of the framework where LA's have options are
- Supplements  
The DfE proposes that the deprivation supplement be made mandatory for all age groups. The only other supplement in use in Southwark is the Teacher Pay & Pension Grant Supplement. We do not propose this is extended beyond 3&4 year-olds as this supplement was intended to distribute a set amount of funding that had previously been distributed by a grant. The existing supplement can achieve this aim without the need for change.
  - Passporting Percentage  
Central spend proposals are brought to Forum as part of the budget setting proposals. There is no change to consult on in this area.
  - Contingency  
Southwark sets a minimal contingency to mitigate pupil number fluctuation risk. There is no change to consult on in this area.
- 4.10 Paragraph 5.9 shows that the proposals for consultation are very limited, but even so they will be subject to the DfE's response to its own consultation.

