Report to: Schools Forum /Early Years Forum

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Title: Early Years Rate Review 2023/24

Status: For Information/Agreement

1. Purpose of the Report

This report details the findings of the Early Years Rates Review Group and recommends the amendments to be made to the Early Years DSG Funding for the 2nd year of the 3-year financial period 2022-2023; 23-24; and 24-25. The review and recommendations are to cover the 2023/24 period.

2. Background Context

Within the framework for the Early Years block of the DSG there are several requirements for LAs which are intended to ensure that funding is fairly distributed to providers. These are: - A minimum amount of funding that must be passed through to providers (95%).

- A universal base rate for all types of provider.
- Supplementary funding for Maintained Nursery Schools (ringfenced to MNS only).
- A maximum cap of 12% on the amount of funding that can be used for the mandatory and discretionary supplements. (This has been increased from 23/24 from the previous limit of 10%.)
- A Disability Access Fund linked to children that access Disability Living Allowance. A requirement for a SEND inclusion fund (in Birmingham this is known as ISEY).

Birmingham City Council has a commitment to undertake an annual EY rates review of the current formula, with the intention of linking any large-scale changes to national changes usually agreed for a three-year period in line with the governments Comprehensive Spending Review (CSR) timetable.

2023-24 is the second year within the three-year settlement HM Treasury announced in the CSR of November 2021 for the period 2022 – 2025. Within this there is a commitment to additional Early Years funding over each of the three years through the national formula. In December 2022 the Department for Education announced a further £20m funding for Early Years, on top of the additional £180m for 2023-24 already announced at the Spending Review. Taken together, this will help support providers at a national level with the additional National Living Wage costs associated with delivering the free childcare entitlements next year. The DfE have also undertaken consultation on a new national funding formula that will ensure the funding is distributed fairly and in line with need, and a new formula will now be implemented from 202324 which will help to ensure that the Early Years funding system is responsive and targets investment towards those areas where it will do the most good. The main changes to the national formula introduced are:-

- To update the underlying data within both the main EYNFF and the separate 2-year-old formula to ensure the latest available data is used where possible.
- To mainstream the currently separate teachers' pay and pensions grants into the main EYNFF and into maintained nursery school supplementary funding.
- To reform the distribution of maintained nursery school supplementary funding, alongside an additional £10 million investment, to ensure that it is being shared more evenly across all LAs with MNSs.

This paper outlines the annual review undertaken and recommendations for the allocation of the Early Years funding block within the context of the report approved last year for the 3-years associated to the CSR (2022/25).

3. <u>Annual Review Process 2023/2024</u>

The annual review has again considered the 3 different aspects that make up the Early Years Block:-

1. Centrally Retained Element (Maximum of 5%)
2. Deprivation / FSM Supplements
3. Rates to providers for 2, 3- and 4-year olds.

The indicative allocated budget for the EY Block of the DSG for 2023/24 was confirmed at the end of December. All work on the review has been undertaken using the indicative budget prior to the changes in the National Formula being announced for 2023/24. It is therefore important to note that the starting point for the rates review was the underlying principles and using these to forecast forward. The modelling has then been used to inform the basis of the recommendations. Now that the indicative allocation has been announced alongside the new national formula, the actual amounts for 2023/24 are now identified within this report.

An annual review will be required to confirm the allocations and subsequent rates for the third year 2024/25.

The following requirements from the focus group have been modelled, calculated or identified and used in the preparation of this report:

- The increase in the National Minimum/Living Wage will have a significant financial impact on all early year's providers. There has also been an increase in SEND needs for 2-year-olds since COVID. Priority for the 2-year-old funding is to maintain the 100% pass-through.
- Maximise the increase in the base rate of Early Years funding for 3- and 4-year olds.
- As the deprivation rates is linked to child's home postcode it is not always targeted to those most in need. The rate should be maintained at current level and prioritise an increase on the base rate instead.

- FSM rates do not reflect the cost of the provision of food and an increase in line with inflation should be considered.
- SEND is still a top priority.
- Increase central retained up to 5% by 2024/25. Model this increase over the 3 years to identify the impact on base rate.

There will continue to be a separate element of Protection Funding for Maintained Nursery Schools. The DFE have now confirmed a commitment to this and increased nationally the amount of funding being allocated by £10m. This also now includes the additional element of funding for the maintained nursery school portion of the teachers' pay and pensions grant, which has been rolled in to MNS supplementary funding.

There is currently an external review being undertaken of how the budget allocations were made in 2021/22 which may impact on the amount of funding currently held in reserves from the Early Years block which has previously been reported to Schools Forum. Once this position is known, there may be a need to further consider how the Early Years block reserves can be utilised to support improving children's outcomes in the Foundation Stage. A further task and finish/codesign workgroup will be established for this purpose and will be subject to a further report to Schools Forum.

There is not a prediction of an underspend on the budget for 2022/23.

4. Centrally Retained Funding

The LA can retain a maximum of 5% of the EY block to support central functions.

This funding covers the costs of the EYCC central team; Early Years Inclusion and Early Years Quality Improvement and Networks. ISEY funding that is paid out to settings is included in the pass-through 95% and NOT included in the 5% centrally retained as it is actually paid out to providers.

The amount of funding retained centrally in 2022/23 remained at the same level in £'s as 2021/22 but was an increase to 4.52% of the EY DSG which is an increase from 4.2% in 21/22 due to the forecast reduction in the child population.

It was agreed in the report to Schools Forum last year in the three year plan that the proportion (and amount in £'s) will be incrementally increased over the time to the maximum of 5% in 2024/25. This enables an increase of the current centrally retained element and maximises the base rate to the maximum allowed. (See Table 1.)

Table 1: Maximum amount of Centrally Retained

	22/23 £m	23/24 £m	24/25 £m	Diff. £m
Allocation	65.20	71.65	73.9	8.70
Central Team	2.70	3.15	3.44	0.74
ISEY - Central	0.25	0.25	0.25	-
Total	2.95	3.40	3.69	0.74
CR %	4.5%	4.75%	5.0%	0.5%

5. Rates to Providers

5.1. Supplements – Deprivation and Free School Meals.

Two supplements are offered within the formula and these relate to deprivation and free school meals (FSM). The recommendation is to maintain deprivation and increase FSM rates by the rate of Inflation (using Consumer Price Index of 10.1%).

The current rate of FSM is £198 per child (Max 2/5 of £495). This will be uplifted to is £218 per child (Max 2/5 of £545) in 2023/24. This is an increase of £0.27 per meal.

The deprivation supplement is added to the base rate when a child lives within an identified postcode according to the Index of Multiple Deprivation as follows: -

- 0-5% SOA - £0.61 □ 5-10% SOA - £0.29
- 10-20% SOA - £0.08

It is proposed that these are maintained at the same levels as set out above. As the deprivation supplement is linked to child's home postcode it is not always targeted to those most in need, therefore the priority is to maximise the increase on the base rate.

5.2. Supplements – Use of the Teachers Pay and Pensions Grant contribution.

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.

Since the 2021-22 financial year, the 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).

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 DfE are mainstreaming 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.

The DfE will include the majority of the money which was previously distributed through the teachers' pay and pensions grants into the overall quantum of the 3- and 4-year-old entitlements funding.

However, the DfE have confirmed that for Maintained Nursery Schools, the early years element of the teachers' pay and pensions grants will be retained separately and their share of the money will be allocated through the MNS supplementary funding.

Within the new operational guidance for local authorities, the DfE "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".

This could therefore include cost pressures faced by PVIs in relation to Qualified teaching staff, as well as within maintained nurseries in Schools.

At the time of the annual review, the detail had not been confirmed by the DfE and could not be fully considered by the review group. It is recommended that the funding is identified separately as a supplement and held centrally in the interim, and a further task and finish group is convened in order to identify how this supplement will be allocated and distributed with a possible link to staff qualifications and/or workforce development. Again, this will be undertaken with sector representatives and will be a co-designed solution. It is expected that £1.2m of funding will be included within this supplement and it will not be used to support Maintained Nursery Schools as their share has been included within the MNS supplementary funding.

5.3. Inclusion Funding – ISEY

The review this year has again confirmed that this area has a very high and increasing demand. The Schools Forum report last year set out a 3 year plan to increase the ISEY funding from the EY DSG block to £1.75m in 24/25 with the increase loaded into year 2 and 3. The review this year concluded that this should continue to be the commitment.

Currently there is £1.0m of the EY DSG block allocated to ISEY. The allocation to ISEY from the EY block has been matched by the High Needs Block (HNB) since 2017. The contribution from the HNB was increased last year in anticipation of the increase from the EY block in 23/24 to "smooth out" the increases overall. The HNB currently contributes £1.5m which is £0.5m more than the EY block. This increase enabled a tiered approach to be introduced enabling a higher rate to be paid to providers where children have more complex needs. The total ISEY funding in Birmingham during the current year (2022/23) is £2.5m and £2.25m of this is paid to providers to support children with SEND to access their education entitlement.

ISEY will therefore be increased over the next two years (as agreed last year). In 2023/24 by £0.5m and £0.25m in 2024/25 from the EY block as follows: -

Financial Year	EY Block ISEY (centrally retained) £	EY Block ISEY Allocation £	Increase £	HNB Contribution £	Total ISEY £
2022 - 2023	0.25m	0.75m	0	1.5m	2.5m
2023 - 2024	0.25m	1.25m	0.5m	1.5m	3.0m
2024 - 2025	0.25m	1.5m	0.25m	1.75m*	3.5m*

This will increase the ISEY funding from the EY block by £0.75m over the next 2 years.

*This is done on the basis that the 2022/23 level from the HNB will be maintained and is hoped that the increase will be matched in 2024/25.

The final year increase will be subject to the annual rates review process to ensure that it is affordable within the allocation once this is confirmed by the DfE.

5.4. Disability Access Fund (DAF)

The DAF was introduced to support disabled children's access to the entitlements for 3 and 4year-olds. The distribution of this funding is straight in/out and is defined by the DfE.

Providers receive at least £828 per eligible child per year. The DAF is payable as a lump sum and is not pro-rated according to hours taken up. This will continue to be the case for 23/24.

5.5. Early Years Pupil Premium (EYPP)

The EYPP gives providers additional funding to support disadvantaged 3 and 4-year-old pupils. Local authorities must fund all eligible early years providers in their area at the national rate of 62 pence per hour per eligible pupil up to a maximum of 570 hours (£353 per year). Where a child is also eligible for the additional 15 hours entitlement for working parents, EYPP is paid on the universal 15 hours only, up to a total of 570 hours in the year. The distribution of this funding is straight in/out and (as with the DAF) is defined by the DfE. This will continue to be the case for 23/24.

5.6. Base Rates for 3 and 4 Year Olds for Providers.

The 95% pass through amount also must take account of the funding allocated to ISEY, deprivation and Free School Meals.

There will be a national increase to the rate that is allocated to the Council by the DfE as part of the additional funding of £180m in 2023/24. In addition, the DfE have announced a further increase of £20m in 23/24 in order to support rising costs (national minimum wage and cost of living) for providers. The increase will be split to increase the proportion of funding retained centrally (see 4.0 for detail) with the remainder used to increase the base rate, and to increase ISEY. The additional £20m has resulted in a higher than anticipated rate. The report last year set out a rate of £4.63 when in fact the rate will be £4.70 (and increase of 18p per hour on 22/23).

	Maintained Nursery Schools	Schools with Nursery Classes	PVIs
2016/17	6.20 +lump sum	4.84	4.03
2017/18	4.24 + protection	4.26	4.23
2018/19	4.29 + protection	4.29	4.29
2019/20	4.29 + protection	4.29	4.29
2020/21	4.37 + protection	4.37	4.37
2021/22	4.41 + protection	4.41	4.41
2022/23	4.52 + protection	4.52	4.52
2023/24	4.70 + protection	4.70	4.70
2024/25*	4.76 + protection	4.76	4.76

*IMPORTANT: The amounts for 2024/25 will be subject to confirmation following an annual rate review and is indicative only based on the known increase to the national allocation.

5.7. Rates for 2-year old's – Straight in/out for all providers.

This is based on a straight in/out basis to all providers. The decision to not "top-slice" the 2 year old rate to contribute to the centrally retained amount has been taken in recognition that it is financially more challenging to provide places for 2 year olds, and as a result of COVID more 2 year olds are presenting to settings with higher levels of needs due to social isolation. In addition, the take-up rate for 2-year olds continues to be lower than the national average in the City so it is important not to jeopardise the availability of places whilst many providers are financially challenged in the current pandemic. The review concluded all of this remains to be the case and is carried forward into 2023/24.

The DfE have confirmed the rate for 2 year olds in 2023/24 will be £5.81.

	All Settings	Increase
2016/17	5.24	-
2017/18	5.24	-
2018/19	5.24	-
2019/20	5.24	-
2020/21	5.32	0.08
2021/22	5.40	0.08
2022/23	5.61	0.21
2023/24*	5.81	0.20
2024/25*	6.01	0.20

*The rate for two-year olds will increase with the allocation of the national formula. This is estimated only at the current time and will be confirmed following an annual rate review and once the DfE announce the national formula.

6. <u>Recommendations</u>

That Early Years/Schools Forum supports the recommendations to:-

a) Note the increase in funding that will be retained centrally to support the Councils delivery of the Statutory Duties for early years, incrementally increasing over 2 years to the 5% the LA is able to retain (as set out in section 4).

b) Maintain the current level of Deprivation supplements and increase the FSM supplement as set out in section 5.1.

c) Further report to be considered on the use of the former Teachers Pay & Pensions Grant funding following a task and finish co-design workgroup as set out in 5.2.

d) Increase the amount allocated to ISEY over the next 2 years by increasing to £1.5m in 23/24 and 1.75m in 24/25 as set out in section 5.3. To also note the request for the increase to be maintained from the High Needs Block and matched in 24/25.

e) Agree the funding rates to be applied to providers as set out for the next year in sections 5.6 and 5.7.

f) Note the requirement for all rates for 24/25 to be confirmed as part of an annual review in line with the Early Years block allocation from the DfE.