

Early Years Budget 2024 – 2025

Report to the Schools Forum 18 January 2024

1 Context and Background

- 1.1 As part of the move towards national funding formulas for DSG, in 2017/18 the DfE implemented a national funding formula (NFF) for early years. The NFF is at local authority level, not setting level, so local authorities continue to determine a local funding formula for early years, albeit within DfE rules.
- 1.2 Following the implementation of the NFF for early years, the amount of funding allocated to T&W increased and then was frozen for two years for the period 2018 – 2020. After that it increased modestly until a mid-year increase in funding rates (nationally) in 2023/24 produced a very significant increase for 2 year old funding, as follows:

	Funding per hour								
	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24 (Apr)	23/24 (Sep)*
2 year old	£4.85	£5.20	£5.20	£5.20	£5.28	£5.36	£5.57	£5.63	£7.33
3 & 4 year old	£4.03	£4.36	£4.36	£4.36	£4.44	£4.50	£4.67	£4.90	£5.20

* Increase delivered via early years supplementary grant

- 1.3 The 2 year olds funding increase is particularly startling given that there was originally only a 6p increase in 2023/24 funding. When planning the expansion of provision for 2 year olds, the government appears to have belatedly realised that existing funding was nowhere near enough to fund costs of provision for this cohort of children.
- 1.4 2024/25 marks the beginning of a substantial extension of early years entitlements. From April 2024, 15 hours of funded childcare will be available to working parents of 2 year olds and then from September 2024, 15 hours will also be available to working parents of children from nine months old. A further expansion will take place in September 2025, from which date 30 hours of funded childcare will be available to working parents of children from nine months old to compulsory school age. The definition of 'working parents' is those who work more than 16 hours per week and earn less than £100,000.
- 1.5 The funding rates for 2024/25 therefore include a new category, covering children aged from nine months to two years old. The funding per hour for T&W for the respective age groups is as follows:

	24/25
9 months up to 2 years	£10.61
2 year olds	£7.79
3 & 4 year olds	£5.47

- 1.6 Compared to the September 2023 rates, 2 year old funding has increase by a further 6.3%. This makes a cumulative increase since April 2023 of 38,4%(!). 3 and 4 year old funding has increased by a much more modest 5.3%,

- 1.7 DfE rules continue to mean that at least 95% of total early years funding has to be passed through to providers and a maximum of 12% of the money in the funding formula can be distributed through supplements. At some as yet unspecified date in the future, the DfE intends to increase the 'pass-through' rate.
- 1.8 There is a requirement for each local authority to have an inclusion fund.
- 1.9 In addition, Disability Access Funding (DAF) will be passed to settings educating eligible children for DAF at the rate of £910, an increase from the PY which was £828 per child. The Early Years Pupil Premium Grant (EYPPG) will increase from 62p per hour, £353 per annum, to 68p per hour £388 per annum. EYPPG grant is paid only on the first 15 hours per week, so the annual amounts are calculated by multiplying the hourly rate by 15 hours and 38 weeks (i.e. 570 hours per annum).
- 1.10 For both DAF and EYPPG, eligibility will be extended to eligible 2 year olds and under in 2024/25

2 T&W 2024/25 Proposals

- 2.1 In the context of the above, the following are planned for 2024/25:

- see below for two year old options;
- basic hourly funding rate for 3 and 4 year olds at £4.80 per hour (50p higher than the 2023/24 starting rate);
- flexible provision supplement at £0.30p per hour (3p higher than 2023/24);
- deprivation funding at £1.20 per hour (an increase of 11p from 2023/24);
- as advised by the ESFA we have used the quality factor to distribute the legacy grants to mainstream schools at a rate of 21p per hour, 5p higher than the prior year rate;
- a lump sum to nursery schools at £189,877 which is the actual amount that the ESFA allocates to the local authority;
- a provision for high needs support of £317,000 compared to £200,000 in 2023/24. The principle has been to maintain the percentage retained for this purpose at the same level as 2023/24, i.e. the increase reflects the extension of entitlements. This will be funded as follows: £199,000 from three and four year old funding; £92,000 from two year old funding and £26,000 from 9 months to 2 year old funding. The split between the age groups means that a similar proportion of the budget for each is utilised for high needs;
- a central retention for the early years team of £340,000 compared to retentions in 2023/24 of £190,000. The 2023/24 retention of £190,000 was made up of £10,000 for moderation, £50,000 for support and promotion of the 30 hours offer (portal maintenance £16,000, marketing materials and promotion £3,000, staffing £20,000, preparation and management of 'Capital' and 30 hour support bidding £4,000 and additional costs of the annual sufficiency survey £7,000) and £130,000 for the costs of the early years team. This resulted in a retained amount that was less than half the England average. In 2024/25 the proposed retention has been increased in proportion to the modelled increase in funding and on the assumption that the extension of entitlements for 2 year olds and under 2s will generate significant additional work.

- 2.2 The DfE pass-through requirement of a minimum of 95% has to be separately calculated for each of the four categories of children:
- 3 and 4 year olds;
 - 2 year old disadvantaged,
 - 2 year olds of working parents; and
 - 9 months to 2 year olds.
- 2.3 For 3 and 4 year olds, as in previous years, T&W intends to distribute over 98% to settings. This is also the plan for 9 months to 2 year olds.
- 2.4 However for the two categories of 2 year old funding, there are two possible approaches. These arise from the DfE's requirement that "*the total funding rate (that is the base rate, plus supplements if applicable) ... to providers for the disadvantaged 2-year-old entitlement is at least equivalent to the total funding rate for the 2-year-old working parent entitlement.*" At the same time, the amount of DfE funding provided per hour is exactly the same for both categories.
- 2.5 To meet the above criteria we can either have no deprivation element for 2 year olds of working parents, or we have to redistribute funds to the disadvantaged category in order to avoid a higher funding rate for deprived pupils of working parents (i.e. because only a minority of pupils from working families would be deprived, then the funds needed for deprivation would only apply to a minority of children, enabling a relatively high base rate, which when supplemented with the deprivation supplement would then mean the overall rate for deprived children of working families would exceed the disadvantaged two year olds funding rate).
- 2.6 We discussed these options with early years representatives at the early years finance group in December 2023. There were mixed views but the majority preferred to just have a single funding rate for 2 year olds of working parents, part of the rationale being that this provision is specifically for children of working families, the families were less likely to be deprived.
- 2.7 Forum members are invited to express their views on the funding formulas for 2024/25 and the proposed central retention of early years funds.

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