

In October 2021 the Department for Education (DfE) announced additional funding for the early years entitlements to take effect from April 2022. On 16 December 2022 the DfE announced an additional £20m for next year (2023-24) to help support providers at a national level with the additional National Living Wage costs associated with delivering the free entitlements next year. The table below summarises the additional funding levels.

New national funding levels compared with 2021-22 funding levels:

Year	Set by the chancellor in October 2021 *	16 th December 2022 announcement:
2022-23	£160m	
2023-24	£180m	Additional £20m to help support National Living Wage costs associated with the free entitlement
2024-25	£170m	

*Funding variations each year for changes in population

The DfE have confirmed the hourly funding rates for 2023-24. The majority of local authorities will receive a funding increase between 1% and 10% for the two-year-old entitlement, and between 1% and 4.9% for the three-and four-year-old free entitlements compared to their 2022-23 rates. The funding rate for the Early Years Pupil Premium will increase from 60p to 62p per hour per eligible child, and the Disability Access Fund from £800 to £828 per eligible child per year.

The rates paid to Kirklees will increase by 6p an hour from £5.57 to £5.63 (1.1% increase) for the two-year-old entitlement and by 19p an hour from £4.61 to £4.80 (4.1% increase) for the three-and four-year-old entitlements. An additional 7p will be added to the three-and four-year-old rate for the teacher pay and pension grant bringing the rate to £4.87. This funding was previously allocated to maintained schools and academies with nursery provision to support increased costs associated with teachers pay and pension and is now included in the three-and four-year-old entitlement base rates. The supplementary funding hourly rate allocated for the Kirklees maintained nursery school will increase by 11p.

Although this adds further investment to early years, Kirklees along with almost one third of other local authorities will still receive the lowest funding base rates in the country for two, three-and four-year olds from April 2023. Details of previous funding rates can be found in Appendix A.

Consultation on the Funding Formula proposals 2023-24

During previous provider engagement sessions between 2017 and 2022 feedback from providers was to maximise the base rates. Local Authorities are required to engage with providers each year and with further investment in early years this is an opportunity to review the formula and consult with the sector again.

There has been significant change over the last couple of years and we now know that the pandemic has significantly affected low-income families and those with children who have additional needs. We also understand the difficulties providers face with rising costs. It is therefore vital to understand the current views of providers.

It should be noted that **this consultation focuses on principles rather than exact figures**. Example models using indicative rates are provided to demonstrate how changing one element of the formula could impact on other elements. It is also important to explain that the consultation focuses on the elements we can collectively influence locally within the funding levels and regulation already set by the government.

The current funding formula can be found in Appendix B.

Consultation process and timelines

The consultation will open in January 2023 and continue for 4 weeks. Provider feedback will be presented at the Early Years and Childcare Reference Group in February 2023, the groups recommendations will be presented to Schools Forum in February 2023. The Early Years and Childcare Reference Group includes provider representation for childminders, pre-schools, day nurseries, out of school provision and schools and academies with nursery provision.

In addition to the online consultation, virtual briefing sessions will be held during January, further details will follow.

Key areas for consultation that can be influenced locally

As stated above it is important to seek the views of the sector given the current challenges and that views may have changed since last year.

The main focus of the consultation is how the funding that was previously allocated through teachers pay and pension grants will be distributed within the formula, the proposed options are; a) maximise funding through the base rates or b) introduce a Quality Supplement. We are also seeking views on whether providers would support an increase to the funding distributed through the mandatory Deprivation Supplement.

For context, one penny of the two-year-old base rate equates to approximately £8,000 and one penny of the three-and four-year-old base rate equates to approximately £50,400 of the available Kirklees early years budget. The current permanent rates are £ 5.38 for two-year-olds and £4.48 for three- and four-year-olds.

1. Quality Supplement (Discretionary)

A proportion of the government teachers pay and pension grant, previously allocated to maintained schools and academies with nursery provision to support increased costs associated with teachers pay and pension, has been redirected to the Early Years block. Allocations were based on pupil numbers at each school. In the national funding formula for 2023-24, £362,000 (£54,000 less than the grant in 2022-23) has been added to the Kirklees funding rate for three-and four-year-olds, this equates to 7p in the Kirklees local authority base rate for three-and four-year-olds.

The DfE guidance states the following:

The Discretionary Quality Supplement is to support workforce qualifications, or system leadership (supporting high quality providers leading other providers in the local area).

We also encourage local authorities to use the quality supplement to distribute the additional funding they will receive because of the mainstreaming of the teachers' pay and pensions grants. From 2023 to 2024, the separate teachers' pay grant and teachers' pensions employer contribution grant are no longer being paid directly to school-based nurseries, and instead this funding has been rolled into the overall quantum of 3- and 4-year-old entitlement funding.

The amount of funding that has been rolled in may be higher, or lower, than the amount their school-based nurseries previously received through the grants, given the distribution is now through the EYNFF.

As with all other supplements, it is for local authorities to determine the appropriate metric for allocating funding, if their approach is in line with the principles set out above. However, we would encourage local authorities to consider the purpose for which the grants were originally introduced when designing their approach. They could continue to target the funding 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.

Options

Option	Pros	Cons
a) No quality supplement	<ul style="list-style-type: none"> • Maximises the base rates and retains funding equality across all providers. • No additional administrative burden for the local authority. 	<ul style="list-style-type: none"> • Schools with a teacher led nursery will see a reduction in funding compared with 2022-23. • Not in line with current DfE guidance. * Removed on 13/01/2023
b) Quality supplement for all QTS/EYPS/EYTS led provision	<ul style="list-style-type: none"> • Retains funding equality across all providers. • In line with DfE guidance. 	<ul style="list-style-type: none"> • Schools with a teacher led nursery will see a reduction in funding compared with 2022-23 but not as much as option a). (From initial modelling, PVI settings would receive 54% of the funding and schools would receive 46%). • Additional administrative burden for the local authority.

* The Department for Education (DfE) provided additional guidance after the original publication of this document.

If a quality supplement is introduced, an appropriate metric for distribution will need to be considered alongside the process for providing evidence and processing claims.

Kirklees would like to hear provider views on the two options illustrated above.

2. Deprivation Supplement (Mandatory)

Funding is allocated using the metric IDACI (Income deprivation affecting children index).

The current allocation is £312,000 which was agreed following provider consultation when the early years funding formula began in 2017.

We now know that the pandemic has significantly affected deprived families therefore providers views may have changed. The local authority does not propose a reduction in this funding factor but would be interested to understand if providers would support an increase in the contribution to help focus support in areas of deprivation.

3. Central Retention

Current amount is £708,600. This funding is retained to fund quality improvement, administration costs associated with delivery of the free entitlements and SEN support. This amount equates to approximately 2.5% of the total early years budget. Local Authorities are permitted to retain 5%. The retention amount has remained the same since the introduction of the early years formula in 2017 with no adjustments for inflation, a 5% uplift will be applied in 2023-24 for increases to pay and pension costs, increasing the retained amount to £744,100.

The introduction of a Quality Supplement would introduce additional administration costs associated with processing and distributing the funding. Up to £10,000 may be required which would either reduce the base rates or reduce the funding allocated through the quality supplement.

Formula options for 2023-24

Note: Example models using indicative rates are provided to demonstrate how changing one element of the formula could impact on other elements.

	Current formula rates	Model 1	Model 2	Model 3
		Maximise base rates	Introduce a quality supplement	Increase Deprivation Supplement (double)
		23p increase on current rates	7p less than model 1	5p less than model 1
2 year old rate	£5.38	£5.61	£5.54	£5.56
3 & 4 year old rate	£4.48	£4.71	£4.64	£4.66
Quality Supplement	£0	£0	£362,000	£0
Deprivation allocation	£312,000	£312,000	£312,000	£624,000
Contribution to SENIF	£50,000	£50,000	£50,000	£50,000
Central retention	£744,100	£744,100	£754,100	£744,100

Background

The National Early Years Funding Formula came into effect in April 2017. The government wanted to create a formula to provide a strong and sustainable early years funding system that is fair, transparent and maximises funding to providers.

The formula consists of a universal base rate, plus proxy indicators; Free School Meals, English as an Additional Language, Disability Living Allowance and an area cost adjustment multiplier to reflect variations in local costs.

The funding rates remained the same for the first 3 years however the DfE allocated an extra £66 million nationally in 2020-21 and an extra £44 million in 2021-22 and an extra £160 million in 2022-23. In Kirklees this additional funding was passed onto providers by a permanent increase to both base rates.

Kirklees Early Years Funding Formula rates history

Year	2 year olds		3&4 year olds	
	Rate from DfE	Rate paid to providers	Rate from DfE	Rate paid to providers
2016-17	£4.85	£4.85	£4.47	£4.19
2017-18	£5.20	£5.00	£4.30	£4.14 £4.19 ¹
2018-19	£5.20	£5.00	£4.30	£4.14
2019-20	£5.20	£5.00 £5.06 ²	£4.30	£4.14 £4.20 ²
2020-21	£5.28	£5.09 £5.15 ³ £5.38 ³	£4.38	£4.21 £4.27 ³ £4.40 ³
2021-22	£5.36	£5.17 £5.33 ⁴	£4.44	£4.27 £4.43 ⁴
2022-23	£5.57	£5.38 £5.45/£5.50/£5.43 ⁵	£4.61	£4.48 £4.55/£4.60/£4.53 ⁵
2023-24	£5.63	TBC	£4.80 (£4.87 ⁶)	TBC

¹ In the first year of the national funding formula transitional protection for the 3 and 4-year-old funding rate was given.

² Temporary increase of 6p from Autumn 2019 to Summer 2020, using the balance carried forward from 2018-19.

³ Temporary increase of 19p from Autumn 2020 to Spring 2021, using the balance carried forward from 2019-20.

⁴ Temporary increase of 16p from Summer 2021 to Spring 2022, using the balance carried forward from 2020-21.

⁵ Varying temporary increases from Summer 2022 to Spring 2023, using the balance carried forward from 2021-22.

⁶ Includes 7p for the Teachers Pay and Pension Grants which have been added the base rates.

Current Early Years Funding Formula (2022-23)

Base rates

- £5.38 (permanent) Summer £5.45 / Autumn £5.50 / Spring £5.43* (temporary) for two-year olds
- £4.48 (permanent) Summer £4.55 / Autumn £4.60 / Spring £4.53* (temporary) for three- and four-year olds (universal and extended hours)

* A varying temporary uplift added termly to the permanent base rates using the balance carried forward from 2022-23.

Deprivation

The allocation is £312,000, funding is allocated using the current metric IDACI (Income deprivation affecting children index) the rates are:

- Band A: £0.27
- Band B: £0.21
- Band C: £0.20
- Band D: £0.18
- Band E: £0.11
- Band F: £0.09

SEN Inclusion Fund for three- and four-year olds

£50,000 contribution for low level and emerging needs SEN to support providers from all sectors delivering the free entitlement.

Central retention

£708,600 is retained to fund quality improvement, administration costs associated with delivery of the free entitlements and SEN support. Kirklees retains only 2.5%, see table below. Local Authorities are permitted to retain 5% of the Early Years budget. The retention amount has remained the same since the introduction of the early years formula in 2017 with no adjustments for inflation.

Budget area	Budget	Description
Early Learning and Childcare	£585,000	Free Early Education, Childcare Sufficiency and Early Years Outcomes Teams – funding to providers, free entitlement place sufficiency, supporting standards of delivery
Back office / management costs	£71,200	Finance, payroll, HR, Legal, IT etc
Inclusion Support	£40,400	Contribution to the Inclusion Officer team
Miscellaneous	£12,000	Contribution to admissions, maternity, union duties etc
TOTAL	£708,600	

Additional funding for eligible three- and four-year olds

100% of additional funding is passed directly onto providers.

- Early Years Pupil Premium, applicable to universal entitlement hours only, the hourly rate is £0.60.
- Disability Access Funding (DAF), a lump sum payment of £800 available each year to funded children in receipt of Disability Living Allowance (DLA).