

To: **Schools Forum**
5 December 2024

Initial proposals for the 2025-26 early years budget and funding formula
Executive Director: People
Executive Director: Finance

1. Purpose of Report

- 1.1. The purpose of this report is to seek agreement from Schools Forum to initial proposals for changes to the early years budget and funding formula for 2025-26.

2. Recommendation(s)

That Schools Forum considers the council's initial proposals for the early years funding formula and budget for 2025-26 and AGREES:

- 2.1. **The proposed revisions to the Early Years Funding Formula and the allocation of the 2025-26 Early Years Block budget, as endorsed by early years providers through their consultation feedback, for the following elements:**

- 2.1.1 **Deprivation Supplement, as detailed in point 5.25**

- 2.1.2 **Quality Supplement, as detailed in points 5.26**

- 2.2. **That, in line with the requirements set out in point 5.12, the council will retain the permitted 4% of total funding to support providers.**
That Schools forum notes:

- 2.3. **Final 2025-26 Early Years Block budget, Early Years Funding Formula proposals and provider funding rates will be presented to Schools Forum for agreement in January 2025.**

3. Reasons for Recommendation(s)

- 3.1. The initial proposals set out in this paper are in line with the information currently available to the council regarding the financial settlement for 2025-26, statutory guidance and comments from providers arising from the November consultation.

4. Alternative Options Considered

- 4.1. Alternative options are detailed in the supporting information

5. Supporting Information

- 5.1. In March 2023, the Government announced an expansion of the early years entitlements to include 30 hours of childcare per week, for 38 weeks of the year, for working parents from when their child is 9 months old to when they start school.
- 5.2. The expansion of the entitlements is being implemented in phases, with children eligible for funding from the term after they reach the required age:
- 15 hours entitlement over 38 weeks of the year (equivalent to 570 hours a year) for eligible working parents of 2-year-old children from 1 April 2024
 - 15 hours entitlement over 38 weeks of the year (equivalent to 570 hours a year) for eligible working parents of children from 9 months to 2 years from 1 September 2024
 - 30 hours entitlement over 38 weeks of the year (equivalent to 1,140 hours a year) for working parents of children from 9 months to 3 years from 1 September 2025

- 5.3. On 29 November 2023 the Department for Education published guidance for the expanded entitlements which included new national funding formulae covering the existing 2-year-old entitlement for disadvantaged children (known locally as Targeted 2-year-olds), the new working parent entitlements for 2-year-olds and the new working parent entitlement for children aged 9 months to 2 years.
- 5.4. Publication of the operational guidance for the expansion on 29 November 2023 left insufficient time for meaningful consultation with stakeholders and agreement of proposals by School Forum, while still allowing time for providers to plan and prepare for the 1 April 2024 rollout of the expansion.
- 5.5. Consequently, proposals to extend the 2023-24 funding formula for 3- and 4-year-olds across all early years entitlements for 2024-25 without any changes, were presented to and approved by the Schools Forum on 11 January 2024. A summary of the 2024-25 funding formulae and funding rates are attached as appendix A.
- 5.6. Publication of local authority funding rates and budget allocations for 2025-26 are expected in late November to early December 2024.
- 5.7. Data on the take up of the expanded entitlements is still limited, with the full rollout not complete until September 2025 with the increase in the Working Parent entitlement for under 3s to 30 hours a week.
- 5.8. Despite the absence of key funding information for 2025-26, it is important to commence budget planning now. To this end, the council held a 6-week consultation with all early years providers seeking their feedback on the proposals presented in this paper, with a deadline for responses of 15 November 2024.
- 5.9. A total of 37 consultation responses were received, a low response rate of 20% of all early years providers registered to claim the early years entitlements. The breakdown of responses by sector is:
- 26 Childminders
 - 8 Private, voluntary and independent group providers
 - 2 Maintained primary schools
 - 1 Academy primary school
- 5.10. The early years entitlement consultation October/November 2024 focused on potential changes to the deprivation and quality supplements. Copies of the consultation document are available online at <https://consult.bracknell-forest.gov.uk/kse/event/38127>. Responses indicate strong support for the proposed changes, with agreement to the proposals ranging from 73% to 89% of respondents. A summary of the consultation responses received is attached as appendix C.
- Key Principles
- 5.11. When considering changes to the Early Years Funding Formula, these key principles were followed:
- The formula should be clear, stable, and predictable, meeting the Department for Education's rules, and be easy to manage.
 - Data used for funding, like deprivation measures, should be easy to obtain and based on facts.
 - Extra hourly payments should be made if they encourage good practice, cover extra costs, or support national or local policies.
 - The cost of the formula must fit within the early years funding budget.

Requirements of the Early Years Funding Formula

- 5.12. The Department for Education has set rules for local Early Years Funding Formulae:
- Local authorities must pay a minimum of 96% of early years funding to providers

for each of the entitlements, which include:

- Children aged 9 months to 2-years-old of working parents
- Children aged 2-years-old of working parents
- Targeted 2-year-olds
- Children aged 3- and 4-years-old (universal and working parent entitlements combined)
- For 3- and 4-year-olds, the same base rate and supplements apply to both entitlements.
- For children aged 2 and under, the rules apply to each entitlement separately.
- Councils may choose between one formula combining the entitlements for 2-year-olds of working parents and Targeted 2-year-olds or a separate formula for each entitlement.
- For each entitlement, base rates must be the same for all providers.
- A maximum of 10% of the early years funding paid to providers can be used for supplements, with a minimum of 90% going to the base rate.
- A deprivation supplement must be used
- A Special Educational Needs Inclusion Fund must be created to support children with lower level and emerging SEN needs.
- Councils may retain a maximum of 4% of the early years funding for central services. (This retention reduces from 5% from April 2025)

- 5.13. In reviewing the Early Years Funding Formulae the Council identified the administration of the Deprivation and Quality Supplements as areas where improvements to arrangements are required. Details of the current arrangements for the Quality and Deprivation Supplements are attached as appendix B

The Deprivation Supplement: IDACI element (2024-25 amount £0.208m)

- 5.14. Prior to considering alternative arrangements for the Deprivation Supplement the Council sent a survey to all early years providers to gather their views on the IDACI¹ element of the Deprivation Supplement.
- 5.15. Respondents to the survey expressed concerns about the fairness and accuracy of using historical data for current funding, arguing that it failed to reflect the needs of children and vulnerable families in the present setting, especially given changes in deprivation levels and child cohorts. Whilst some acknowledged the use of past data as a practical compromise due to challenges in gathering up-to-date information, they found it inadequate for addressing current needs effectively.
- 5.16. Arrangements for the IDACI element of the Deprivation Supplement have undergone regular revision, including the calculation of providers' IDACI scores and the rules for allocating providers to funding bands. Feedback from providers indicates these changes fail to meet the important goals of being clear and predictable.

The Deprivation Supplement: EYPP element (2024-25 amount £0.277m)

- 5.17. The Department for Education requires that funding rates for Targeted 2-year-olds must be at least equal to those for 2-year-olds from working families, at an individual

¹ Income Deprivation Affecting Children Index (IDACI) - score - A sub-set of the Income Deprivation domain. Further detail on the Index of multiple deprivation (IMD) can be found at the following link: <https://www.gov.uk/government/collections/english-indices-of-deprivation>

provider level. With the current eligibility criteria for the Early Years Pupil Premium (EYPP) element of the Deprivation Supplement, it was possible at an individual provider level, for a 2-year-old of a working parent to be eligible for the EYPP element of the Deprivation Supplement while a Targeted 2-year-old is not eligible.

- 5.18. To ensure compliance with the Department for Education requirement, in 2024-25, all Targeted 2-year-olds who don't qualify for EYPP receive an extra £2.00 per hour to ensure parity. While this measure is affordable within the 2024-25 budget, it is unsustainable long-term.
- 5.19. The current administration arrangements for the EYPP element of the Deprivation Supplement rely on using the councils funding software in ways that it was not designed for. When coupled with the increased complexity of funding arrangements for the expanded entitlements, the current system for administering the EYPP element of the Deprivation Supplement has become unsustainable, necessitating a new approach.
- 5.20. Research indicates that most local authorities base deprivation funding on either IDACI or EYPP criteria, with few using both.

Quality Supplement (2024-25 amount £0.208m)

- 5.21. Eligibility for the Quality Supplement is based on the staff member leading the Early Years Foundation Stage holding a relevant qualification. A qualification is deemed relevant if it is included in a Department for Education list of relevant qualifications. However, experience in recent years indicates that this list is not up to date, excluding some qualifications held by Bracknell Forest professionals.
- 5.22. If there are changes to staffing or relevant qualifications between annual audits, it is the providers' responsibility to inform the council about these changes. If the council is not notified in time, it can lead to either overpayment or underpayment of the quality supplement.
- 5.23. Annual audits of eligibility for the supplement are based on proof of a relevant qualification but cannot confirm if the staff member leads the foundation stage curriculum or works primarily in early years.
- 5.24. Due to these challenges, the council cannot guarantee all providers meet Quality Supplement criteria and considers the current system unsuitable, with no alternative yet identified.

Proposed changes arising from responses to the consultation

- 5.25. In respect of the Deprivation supplement the initial proposals are:
 - Remove the IDACI element of the Deprivation Supplement
 - Retain the EYPP element as the only eligibility criteria for the Deprivation Supplement
 - Reduce the impact of fluctuations in the number of children eligible for EYPP by reducing the hourly funding rate for the Deprivation Supplement
 - Meet the Targeted 2's funding rates requirements (see 5.13) by adding a new 'Targeted 2's Deprivation Supplement'.
 - funded at a rate equivalent to the EYPP element of the Deprivation Supplement.
 - Targeted 2's eligible for EYPP will receive both the Deprivation supplement and the Targeted 2's Deprivation Supplement.

- Reallocated budget no longer required for the Deprivation Supplement to the base rates.
- 5.26. In respect of the Quality Supplement the initial proposals are:
- Remove the Quality Supplement
 - Reallocate budget no longer required for the Quality Supplement to the base rates.
- 5.27. Final 2025-26 Early Years Block Budget, Early Years Funding Formula proposals and provider funding rates will be presented to Schools Forum for agreement in January 2025.

6. Consultation and Other Considerations

Legal Advice

- 6.1. The relevant legal implications are addressed within the main body of the report

Financial Advice

- 6.2. Considering these recommendations now aids the 2025-26 budget setting process for Early Years providers with the Executive Director: Resources satisfied that no significant financial implications arise at this stage

Other Consultation Responses

- 6.3. Survey of early years providers in the summer term 2024

Equalities Impact Assessment

- 6.4. No equalities impact assessment is required as the proposed changes implement statutory guidance which includes eligibility criteria.

Strategic Risk Management Issues

- 6.5. There is no perceived financial risk to the council, all proposals are within budget limits and are informed by feedback from early years providers. However, there is a potential sufficiency risk if funding rates do not support providers' financial sustainability.

Climate Change and Ecological Impacts

- 6.6. The recommendations in Section 2 above are expected to:

Have no impact on emissions of CO₂.

Health & Wellbeing Considerations

- 6.7. Simplifying the Early Years Funding Formula will have a positive impact on the early years funding team as the current system is not sustainable and will make administration of the funding more manageable for early years providers.

Background Papers

<https://www.gov.uk/government/publications/early-education-and-childcare--2/early-education-and-childcare-applies-from-1-april-2024>

Statutory Guidance: Early education and childcare – January 2024

<https://www.gov.uk/government/publications/early-years-funding-2024-to-2025/early-years-entitlements-local-authority-funding-operational-guide-2024-to-2025>

Early Years entitlements: local authority funding operational guide 2024 to 2025

Contact for further information

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Appendix A

Table 1: Summary of the 2024-25 early years funding formula funding for 3- and 4-year-olds

Early years funding formula element	Percentage of total early years funding	Eligibility	Hourly funding rate
Base rate	87.6%	All funded hours	£5.85
Deprivation supplement – IDACI measure	1.4%	Band 2 Band 1	£0.32 £0.16
Deprivation supplement – EYPP measure	1.8%	Universal hours Working parent hours	£1.32 £2.00
Quality supplement	1.4%	Staff leading EYFS with relevant level 5 or 6 qualification	£0.14
SEN Inclusion Fund	1.2%	Funding based on evidence of need	Termly lump sum
Teachers Pay & Pension	0.6%	School specific funding for 2024/25	Termly lump sum
Provider Contingency	1.2%	Contingency funding for variations in participation	
Council's central retention	4.7%		
Total	100%		

Table 2: Summary of the 2024-25 early years funding formula for 2-year-olds

Early years funding formula element	Percentage of total early years funding	Eligibility	Hourly funding rate
Base rate	88.2%	All funded hours	£8.49
Deprivation supplement – IDACI measure	1.4%	Band 2 Band 1	£0.32 £0.16
Deprivation supplement – EYPP measure	1.9%	Universal hours Working parent hours	£1.32 £2.00
Quality supplement	1.4%	Staff leading EYFS with relevant level 5 or 6 qualification	£0.14
SEN Inclusion Fund	1.2%	Funding based on evidence of need	Termly lump sum
Provider Contingency	1.2%	Contingency funding for variations in participation	
Council's central retention	4.7%		
Total	100%		

The deprivation supplement

The deprivation supplement has two measures:

1. Income Deprivation Affecting Children Index² (IDACI) measure
2. Early Years Pupil Premium (EYPP) measure

The IDACI measure

- IDACI looks at different areas to see how many children aged 0 to 15 live in families with low incomes. The higher the score, the more deprived the area is. The purpose of the IDACI measure is to give extra money to help the 40% of children living in the most deprived areas, especially those in the worst 20%
- Eligibility is calculated for each setting, with the IDACI measure paid for all hours claimed by a setting that qualifies for it.
- The IDACI measure has three funding bands:
 1. Band 2 @ £0.32 per hour
 2. Band 1 @ £0.16 per hour
 3. Band 0 @ £0.00 per hour
- Eligibility for the IDACI measure is based on the average IDACI score of all children who attended a setting over the past three years. Each child's score is adjusted to reflect how long they attended the setting during the year.
- Providers are allocated to IDACI funding bands as follows:
 1. All **group providers** are ranked by their average IDACI score
 2. The 20% highest average scores are funded at band 2.
 3. The next highest 20% are funded at band 1
 4. The remaining providers are funded at band 0
- The average IDACI score of group providers in bands 1 and 2 is used to set the required scores for childminders in each funding band. For example, if the lowest average score for group providers in band 2 was 0.15, all childminders with a score of 0.15 or higher would be placed in band 2.

The EYPP measure

- The EYPP measure of the deprivation supplement is based on eligibility for the EYPP, which is additional funding for early years settings to support disadvantaged children accessing an entitlement place. Eligibility criteria are available in the government website <https://www.gov.uk/get-extra-early-years-funding>
- Children eligible for EYPP receive:
 - EYPP funding of £0.68 per hour
 - Deprivation supplement funding (EYPP element) of £1.32 per hourA total of £2.00 per hour of additional funding for all EYPP eligible children.
- For 3- and 4-year-olds, the £0.68 per hour EYPP funding only applies to their universal hours. The additional hours for working parents (formerly known as extended hours) who are eligible for EYPP should only receive the Deprivation Supplement of £1.32 per hour. However, the software used to manage these entitlements cannot handle the difference in funding rates. As a result, a proposal was made to, and approved by, the Schools Forum to set the funding rate for the EYPP element at £2.00 per hour for the extended hours of 3- and 4-year-olds from working families

² Income Deprivation Affecting Children Index (IDACI) - score - A sub-set of the Income Deprivation domain. Further detail on the Index of multiple deprivation (IMD) can be found at the following link: <https://www.gov.uk/government/collections/english-indices-of-deprivation>

The quality supplement

- The current early years funding formula includes a quality supplement which is applied to all free entitlement hours claimed by eligible providers. A setting is eligible for the quality supplement if:
 - The person leading the early years foundation stage curriculum in the early years setting has a relevant early years qualification of level 5 or above.
 - This person is based in the relevant early years setting for most of their time, leading the EYFS and undertaking teaching and learning with the children.
- The Council completes an annual audit to ensure the staff member leading the foundation stage curriculum has a relevant early years qualification.