Department for Education

Early Years Funding Formulae and Maintained Nursery School Funding Reforms

Outline of proposed update and reforms for consultation

For local authorities

July 2022

Structure of session

Agenda

- EYNFF (3-4-year-old entitlement) proposals and impacts
- 2-year-old-formula proposals and impacts
- MNS Supplementary funding
- Timelines

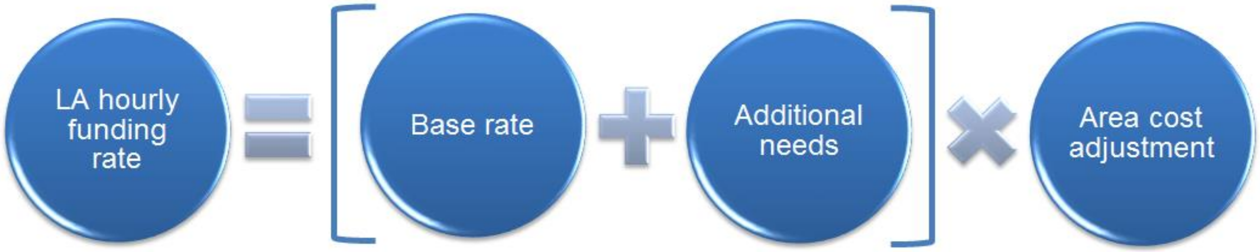
- Questions in chat bar
- Vote on questions to help consolidate
- We will stop to cover questions through the presentation
- Slides will be distributed following the session.

We have launched the first consultation on EY funding distribution since 2017

- We have invested over **£3.5 billion** in each of the past three years on our early education entitlements.
- Given the scale, and importance of this investment, it is vital that we ensure the funding system remains **fair, effective and responsive to changing levels of need** across different areas, targeting the government's investment where it will do most good.
- The Department uses two national funding formulae to determine hourly rates for the 2, and 3- & 4-year-old entitlements. Many of the datasets underpinning the formulae that measure relative local costs are **not using the most recent data available**.
- We are consulting on proposals to **update both formulae with the most recent data** for 2023-24 – and to continue doing that, each year, going forward. Does not include any proposals for changes to LA funding formulae or local funding rules.
- The update will result in some changes to local authorities' funding levels, reflecting changes in relative costs and levels of need between areas, so we are also consulting on applying **year to year protections** to LA's funding rates, to help local markets to better manage changes.
- Last year's SR settlement provides the certainty to make updates and allows us to offer protections which means that in 2023-24 **all LAs will see an increase in the government's hourly rate and the average uplift to the hourly rate that local authorities will see is likely to be above 3%**
- We are also investing an **additional £10 million** into MNS supplementary funding from 2023-24, and our proposed reforms ensure a **fairer distribution** of this funding.

The Early Years National Funding Formula

- The EYNFF sets a single Government funding rate for each LA for both the **3 and 4yo entitlements** (universal and 30 hours).



- The EYNFF was designed to allocate funding to reflect the costs of providing childcare that meets the needs of children in a local area, and features:
  - a universal base rate (UBR) of funding for each child (89.5% of funding);
  - an uplift for children with additional needs (10.5% of funding). This comprises of the following proxy measures: Free School Meals (FSM) - 8%, English as an Additional Language (EAL) – 1.5%, and Disability Living Allowance (DLA) - 1%; and
  - an area cost adjustment to reflect variations in costs across the country. This acts as a multiplier to each authority's hourly rate as calculated through the Base Rate and Additional Needs Factor, and is made up of a staff factor (80%), a premises factor (10%) and the remaining 10% of costs are assumed fixed.

Updating the base rate and additional needs factors

Summary

- Base rate has remained the same since introduction in 2017.
- Between 2017-18 and 2019-20: rates remained the same for LAs not protected by protections (which unwound over this period).
- Since 2020-21: LAs have received fixed pence uplifts to their hourly rates.
- In 2023-24 we are proposing to return to using the formula which means that the base rate will be updated.

Additional needs factor updates and amends

- We are proposing to update all three proxy measures with the most current data available (summarised below).
- We will also be making changes to the cuts of the data for FSM and EAL to better align with other entitlements and ensure the latest data available is used.

Data	Currently used	Modelling	Final rates
FSM	Jan 2016	Jan 2021	Jan 2022
EAL	Jan 2016	Jan 2021	Jan 2022
DLA	Aug 2015	Feb 2020	Feb 2021

Consultation question(s)

Question 1: Do you agree with our proposal to update the underlying data in the additional needs factor in the EYNFF?

Question 2: Do you agree with our proposal to move to using the free school meals headline measure?

Question 3: Do you agree with our proposal to update the way in which the Disability Living Allowance data is used?

Updates and amendments to the area cost adjustment

Staffing factor – uses general labour market (GLM) data to reflect staff costs (weighted 80%).

- Currently use data from 2013-14, which is still the most recent available.
- Going forward we propose to update this underlying data when it becomes available.
- Proposing to make a technical amendment to improve the way the GLM data is calculated in London fringe LAs.

Premises factor – uses Nursery Rates Cost Adjustment to reflect premises costs (weighted 10%).

- Update the underlying data which is currently from 2013-14, to data from 2022, (2021 data in the modelling).
- Propose some improvements to the proxy measure:
  - *Smoothing the data* – average the previous 3 years data to reduce volatility.
  - *A metre-squared approach* – rather than only taking account of absolute rateable values, we propose to use the floor area of each setting in an LA, which should better take into account the size of a setting and hence better reflect costs.
  - *Nursery Infant Primary Rates Cost Adjustment* – rather than only using private nursery sector rateable values data, we propose to include schools rateable values to better recognise the cost of childcare across an authority.

Consultation question(s)

Question 4: Do you agree with our proposal to update the underlying data used in the area cost adjustment in the EYNFF, in particular the rateable values data and the GLM data, when available?

Question 5: Do you agree with our proposed amendments to the proxy measure for premises related costs in the EYNFF, including introducing schools rateable values data?

Mainstreaming the teachers pay and pensions grants

Context

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) to support schools and LAs with the 2018 and 2019 teachers' pay awards and the cost of the 2019 increase in employer contributions to the teachers' pension scheme.

Proposals

- From the 2023-24 financial year we are proposing to mainstream the early years elements of this funding, bringing early years in line with schools and high needs. This will streamline the system to make it easier for institutions to manage their finances.
- To limit the extent of the changes in distribution of the grant, we propose to include each local authorities' indicative 2022-23 teachers' pay and pensions grants funding within the baseline against which we apply protections for 2023-24.
- For maintained nursery schools we propose to separate their share of the grants and allocate it through supplementary funding.

Consultation question(s)

Question 6: Do you agree with our proposed approach to mainstreaming the early years element of the teachers' pay and pensions grants?

Question 7: Do you agree with our proposal to update the operational guide to encourage local authorities to take account of additional pressures that some providers might face using the existing quality supplement?

EYNFF illustrative impacts and protections for 2023-24

Our proposals will see funding levels shift between areas as funding is better matched to current levels of need.

Updating the valuations data in the area cost adjustment causes the biggest change in funding rates, with further shifts in funding levels being driven by the move from the NRCA to the NIPRCA.

We are consulting on **three key aspects** of protections policy to help smooth the return to using the formula:

Minimum funding floor

- Tops up LAs whose formula driven rates are below the minimum we determine.
- For 2023-24 we are proposing to increase the minimum funding floor in the EYNFF in line with the national average rate increase.
- 31 LAs would be uplifted to the minimum funding floor.

Year-to-year protections

- New year-to-year protection to ensure local authorities can manage the changes at a local level
- For 2023-24, we propose to set this at +1% meaning all LAs see at least a 1% increase in their rates compared to 2022-23.
- 49 LAs would be protected by the +1 year-to-year protection.

Gains cap

- To pay for the proposed year-to-year protections, we propose to introduce a cap on the gains that any local authority can see.
- Our illustrative modelling suggests a cap of 4.5% in 2023-24
- 43 LAs would be affected by the gains cap.

Consultation question(s)

Question 10*: Do you agree with our proposed approach to protections in the EYNFF for 2023-24?

The 2 year old entitlement funding formula

- Funding for the 2 year old entitlement is distributed via its own funding formula. The 2 year old rates for each LA are calculated as:

2yo hourly rate = Base rate × Area Cost Adjustment

- The ACA is currently only made up of a staffing factor using GLM data (83%), with the remainder of costs assumed to be fixed (17%).

- The 2-year old formula is already directed at the most disadvantaged group, therefore it wasn't necessary to include a proxy for an 'additional needs' factor in the formula.

The 2 year old entitlement funding formula: Proposed reforms for 2023-24

Updating base rate

- The base rate has not been updated since 2015-16.
- We plan to return to using the formula (rather than fixed pence uplifts used in previous years) which will mean we need to recalculate the base rate.

Area cost adjustment

- We are proposing to update the underlying data behind the staffing factor, and introduce a premises factor for the first time. The weightings will mirror those in the EYNFF.

Staffing factor

- The staff factor uses general labour market data (GLM).
- The formula uses data from 2011-12, so we propose to update the data to use the 2013-14 data, in line with the EYNFF. Going forward we propose to update this underlying data when it becomes available

Premises factor

- We are proposing to amend the area cost adjustment for the 2-year-old formula to include a **premises related proxy** for the first time.
- This would bring the formula in line with the EYNFF, as settings offering the 2-year-old entitlement face the same premises costs as those catering for older children, and this will better reflect their costs.
- We propose to take the same approach to this measure as we take for the EYNFF. We are also proposing to adjust the weighting of the ACA to bring it in line with the EYNFF.

2-year-old funding formula illustrative impacts and protections for 2023-24

Our proposals will see funding levels shift between areas as funding is better matched to current levels of need.

The addition of a proxy for premises related costs (using valuations data) causes the biggest change in funding rates.

We are consulting on **two key aspects** of protections policy to help smooth the return to using the formula:

Year-to-year protections

Ensures that all LAs see at least a 1% increase in their rates compared to 22-23.

64 LAs would be protected by the +1 year-to-year protection

Gains cap

Caps increases in rate to 8.6% compared to 22-23 to fund year to year protections.

38 LAs would be affected by the gains cap.

We are not proposing to introduce one a minimum funding floor for the 2-year-old formula as there is less variation seen funding rates across the country, compared with the variation in the EYNFF.

Consultation question(s)

Question 8: Do you agree with our proposal to update the underlying data in the area cost adjustment in the 2-year-old formula?

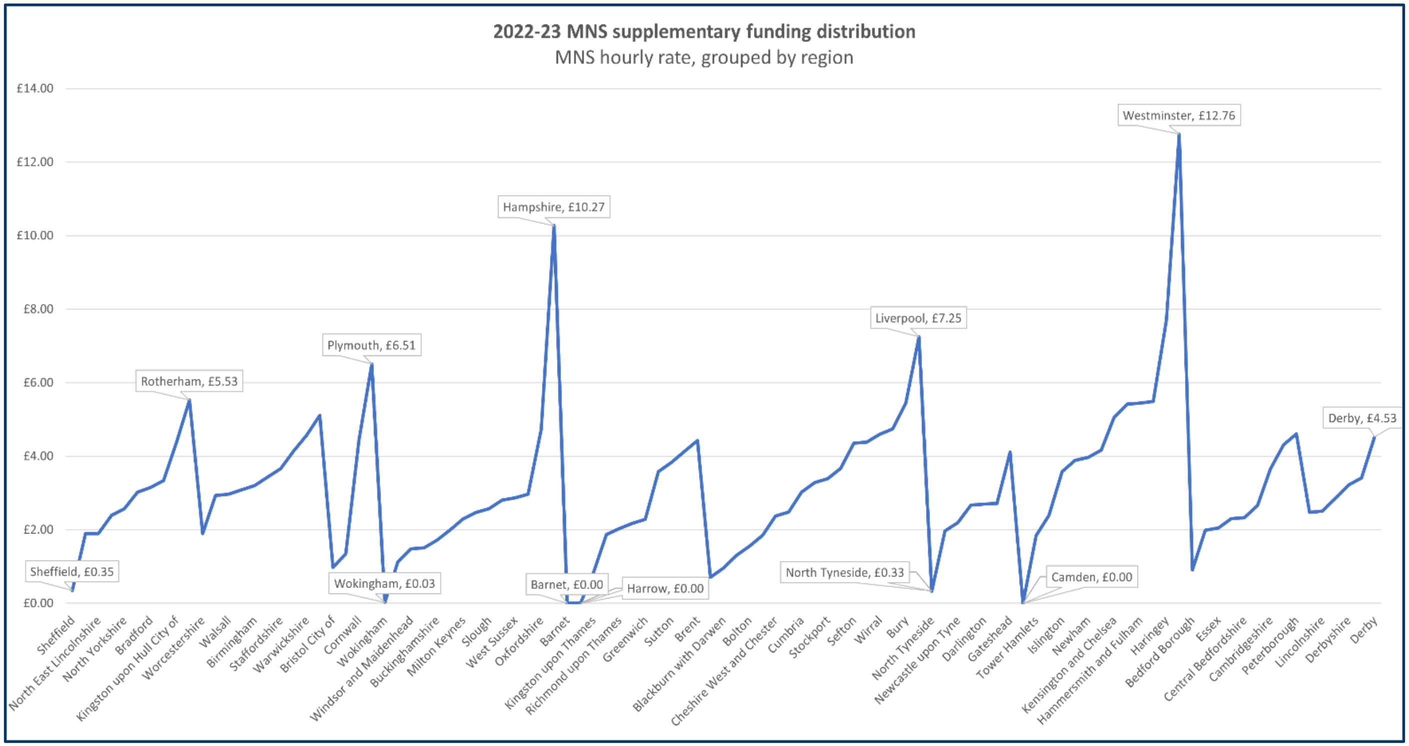
Question 9: Do you agree with our proposal to introduce a proxy for premises related costs into the 2-year-old formula?

Question 11: Do you agree with our proposed approach to protections in the 2- year-old formula for 2023-24?

MNS Supplementary Funding

- Maintained nursery school supplementary funding was introduced in 2017-18 (alongside the introduction of the EYNFF) to protect LAs' historic levels of spend on MNS and recognises the additional costs they face with being a school.
- This supplementary funding is based purely on the amount each LA was spending on its MNSs in 2016-2017, which means that funding is very unevenly distributed with significant outliers at either end of the funding spectrum.

2022-23 MNS Supplementary Funding Hourly Rates



Reform to MNS Supplementary Funding

We are proposing to **reform the way in which supplementary funding is distributed** to local authorities to correct the most extreme outliers, including those LAs which currently do not attract any supplementary funding for their MNSs.

To facilitate this, we are investing **an additional £10m into MNS supplementary funding from 2023-24**.

We are proposing to:

- Introduce a **minimum of ~£3.80** per MNS hour to uplift the lowest funded LAs.
- Introduce **a cap of £10** per MNS hour to start to bring down the current highest funded LAs.

We are also proposing to roll the MNS element of the teachers' pay and pensions grants into supplementary funding.

- Of the 101 local authorities which have MNSs, over half will benefit from the minimum funding floor, including the 3 which currently receive no supplementary funding for their MNSs (Barnet, Camden, Harrow)
- Only 2 local authorities, Westminster and Hampshire, will have their funding capped

Consultation question(s)

Question 12: Do you agree with our proposal to introduce a minimum hourly funding rate and a cap on the hourly funding rate for MNS supplementary funding?

Question 13: Do you agree with our proposed approach to rolling the teachers' pay and pensions grants into MNS supplementary funding?

Timeline

4 July 2022
EY funding formulae consultation launch

16 September 2022
Consultation closes

Autumn 2022
Government response and announcement of 2023-24 rates

Link to consultation (including consultation documents):

https://www.gov.uk/government/consultations/early-years-funding-formulae

If you have further questions, please email:

EYNFF.consultation@education.gov.uk