Cheshire West and Chester
Schools Forum
8 October 2024

Agenda Item 3

Early Years Funding Formula Consultation and proposal for 2024-2025

Purpose of the report

1. The report provides an overview of the recent Early Years Funding Consultation in relation to the frequency of early years funding payments to early years providers. The consultation was undertaken in response to the Expansion of the Early Years Entitlements increasing the amount and proportion of funding received by early years providers and the Department for Education's (DfE) recent national consultation to improve the recruitment and retention of childminders which included a proposal for stronger enforcement of the recommendation for local authorities to pay childcare providers monthly.

Recommendations

2. For Schools Forum to:

I. Note the proposals set out in the national Childminder consultation for the stronger enforcement of the recommendation for to local authorities to pay childcare providers monthly, in particular childminders.

II. Provide a view on the recommendation to move to monthly payments for early years providers. Should this be the case we would seek to introduce the new payment terms and conditions from April 2025.

Expansion of the Early Years Entitlements

3. September 2024 saw the roll out of the second phase of the expansion of the Early Years Entitlements whereby most children from age 9 months until they start Reception class now receive 15 hours or more of free early education for 38 weeks of the year. There are now five Early Years Entitlements in total these include the:
   - Universal Entitlement (15 hours) for 3- and 4-year-olds accessed from the term after the child turns 3 until they start school
   - Extended Entitlement (15 hours) for 3- and 4-year-olds from working families accessed from the term after the child turns 3 until they start school
   - Disadvantaged 2-year-old Entitlement, accessed from the term after the child turns 2-year-olds, to support children's development and help prepare them for school.
   - Expanded Entitlement for 2-year-olds from working families (15 hours), accessed from the term after the child turns 2 years old.

- Expanded Entitlement for children aged 9 months to 2-years-old from working families (15 hours), accessed from the term after the child turns 2 years old.

4. From September 2025, the Expanded Entitlements for children under the age of 3 years old will increase to 30 hours as such most children in childcare will be accessing up to 30 hours funded childcare each week.

Funding of the Early Years Entitlements

5. Funding for this offer is distributed to local authorities, via national Early Years Funding Formulae for each age group, who then distribute it to providers offering the entitlement via local Early Years Funding Formulae in accordance with the specific requirements set by the DfE to ensure funding is fairly distributed to providers. Following a provider consultation in September 2023 and recommendations made to Schools Forum and Cabinet, CW&C adopted the same local funding formulae across each entitlement, albeit with different universal base rates to reflect the varying costs particularly the different staffing requirements. In addition, providers also receive SEND Inclusion Funding in relation to all the entitlements for children deemed eligible by CW&C's SEND Inclusion Funding Panel. Since April 2024 the Early Years Pupil Premium and the Disability Access Fund has also been extended to all children accessing entitlements.

6. Currently, CW&C like many other councils pay providers twice each term. The first payment is based on the estimated number of hours providers expect to claim for in the term. The second and final payment is the difference between the estimated amount already paid and the actual amount that was claimed by the provider for the funded hours accessed by each eligible child in their care for that term in accordance with the provider's headcount submission.

7. Providers receive 70% of their estimated amount early in the term, with the final 30% then paid on confirmation of their actual funding amount later in the term following the provider's headcount submission. If the actual amount claimed is different to the estimated amount, an adjustment is made in the final payment to reflect this. Should this amount be negative, where the estimate is higher than the actual claim, any excess would have to be returned to the council prior to the end of that term, or this would be deducted from the provider's next funding payment(s).

Key requirements for 2024-2025

8. The DfE's statutory guidance states that local authorities should pay providers, particularly childminders, monthly unless providers request otherwise, and the local authority agree to continue an existing alternative sustainable method of payment. The requirement for monthly payments has been highlighted again in the recent national childminder consultation to support recruitment and retention.

9. The funding formula requirements that local authorities must follow when allocating funding to providers for each of the entitlements are set out in Table 1 below.

Table 1

Requirement	Action
The local authority should set a single funding rate (including same base rate and supplements) for each entitlement.	No action required - single formulae set for CW&C.
The local authority must plan to spend at least 95% of their funding from government for each age group/entitlement on the delivery of the government entitlements	No action required as the threshold is already met.
Local authorities may request that the 95% pass through requirement be disapplied in specific, exceptional circumstances.	No Action required. Pass though rate in 2023-2024 above 95%. No exceptional circumstances identified.
Local authorities should use a universal base rate for all types of provider in their local formulae.	No action required - single rate set for CW&C. Base rates 2024/25 reflecting staffing requirements: • 3&4YO - £5.10 • 2YO - £7.10 • 9mth to 2YO - £9.70
Local authorities must use a deprivation supplement in their local formulae, and any other supplements used must fall within one of the allowable categories.	No action required – requirements met with CW&C formula. Deprivation Supplement - Additional payment (£0.50 per funded hour) based on the hours claimed for individual children who reside in the 30% most disadvantaged areas in England on the Income Deprivation Affecting Children Index (IDACI). Quality Supplement - Additional payment (£0.07 per funded hour) for eligible providers for the distribution of the Teachers Pay and Pensions Grant (TPPG) that was previously received directly by schools however is now included within the Early Years Block of the Dedicated Schools Grant (DSG). 3 & 4 YO entitlements only. Rurality Supplement - Additional payment (£2000 lump sum) for settings defined as being in a Pre-dominantly Rural Census Output Area under the Rural / Urban Classification, has few competitors within 2 miles (sparsity) and occupancy below 77%.
Local authorities must not channel more than 12% of their funding through funding	No action required – requirement met with CW&C formula. Supplements below 10%

supplements. This was increased from 10% in 2022-23 following the inclusion of the TPPG to the EYNFF and the encouragement for this to be distributed to providers via a Quality Supplement.	
Local authorities can continue to use 'lump sums' (as well as a differential base rate) to distribute Government funding, including the supplementary MNS funding for Maintained Nursery Schools to enable the protection of their 2016 to 2017 funding rates.	Lump sum paid for rurality supplement. No Maintained Nursery School in CW&C from September 2021.
Local authorities must provide a SEN Inclusion Fund (SENIF) for all entitlements	No action required. Fund established for all entitlements

10. CW&C meets all the above requirements regarding all of the entitlements and no remedial action is required at this time. The DfE's annual update to the statutory guidance is not due to be released until later in the autumn term which may result in national changes in the EYNFF and how it is implemented depending on the outcome of the national childminder consultation.

11. Local authorities are required to consult providers on any changes to Early Years Funding. Schools forums must also be consulted on any such changes, including agreeing central spend by 28 February, although the final decision rests with the local authority. Unless a disapplication is authorised by the Secretary of State, the funding formulae cannot be changed after the financial year has started. Local authorities must calculate and notify initial budgets to providers by 31 March. These should use an estimate of the number of hours for the financial year. Unlike the schools formula, early years budgets should be updated during the course of the year as the estimated hours are replaced by actual counts.

12. No changes are proposed in relation to the local Early Years Funding Formulae at this time. However, we have been made aware that following confirmation of the Teachers Pay award for 2024, the local authority is due to receive an Early Years Budget Grant (EYBG) for the period September 2024 to March 2025 which will be paid to providers through the Quality Supplement. Confirmation of the allocation is to be published by the end of October 2024 and changes to the Quality supplement will be calculated as soon as possible after that and reflected in the autumn and spring funding payments to eligible providers.

Proposal for 2025-26 - Adoption of monthly payments to Early Years provider delivering the entitlements

11. The proposal for 2025-26 is to adopt a monthly payment schedule for early years funding payments for the following reasons:
    - To help support provider cashflow concerns regarding the 30% final payment made towards the end of term given the increase proportion/reliance on income from the local authority as a result of the majority of children in childcare now being eligible for funded childcare. The impact of which will be greater following the roll out of phase 3 in September 2025 when the Expanded Entitlements increases to 30 hours.

- To provide a regular income source for childminders to encourage the recruitment and retention of childminders providing funded childcare places to support the boroughs childcare sufficiency duty. Including minimising any negative impact on Universal Credit payments where applicable.
- To reduce the risk to the local authority given the quantum of funding now being paid to providers in relation to the early years entitlements.
- The twice-termly estimate and actual submissions would be unaffected regardless of any change to the payment schedule therefore keeping additional administration for providers and CW&C to a minimum.

Consultation and feedback

21. CW&C last consulted with providers on this matter ahead of the 2019-20 financial year. At which time providers indicated their preference was for the termly payment schedule to continue. However, in response to the national consultation on childminder recruitment and retention proposing for stronger enforcement of the recommendation for local authorities to pay providers monthly, in particular childminders, and becuase providers will now be receiving the majority of their income from early years entitlement funding impacting their cash flow and business sustainability, it was felt a consultation was required. A consultation exercise with all funded providers was held from 5th September until 30th September 2024. The consultation asked funded providers to state to what extent each of the 3 possible payment options would have on their businesses and then to rank them in order of most beneficial. These options were:
    - Continue with monthly payments with an estimate payment of 70% made in the first week of the first month of the term followed by an actual's payment inclusive of any necessary adjustments for the remaining 30% made in the first week of the final month of the term.

    - 11 monthly payments (excluding August) based on equal monthly estimate payments paid the first week of each month and one final actual payment including adjustments in the first week of the final month of term excluding summer term where the final payment would be made in July.

    - 12 monthly payments (including August) based on equal monthly estimate payments paid the first week of each month and one final actual payment including adjustments in the first week of the final month of term.

    A meeting was also held with the Early Years Reference Group ('EYRG') during the consultation period to gain the views of the group collectively.

22. A total of **100** providers (36%) registered for early years funding responded fully to the consultation survey. This increases to 38% if you exclude maintained nurseries registered for early years funding who may not be impacted by this consultation and therefore may not have responded. The summary analysis can be found in **Appendix A**. Key findings from the consultation were as follows:

- There was a low response rate, with only 38% of those funded providers impacted by this consultation responding, this limits the data available to CW&C when determining the impact of any changes on providers currently registered for early years funding.

- Providers largely responded that continuing with ‘Option 1 – Termly Payments’ would be either positive (42%) or neutral for their business (29%), suggesting **71%** of providers would be content for this option to continue. However, some **26%** of providers said this option would have a negative impact on their business. A third (33%) of childminders said this would have a positive impact on their business, with 42% suggesting this option would negatively impact their business, including 26% who said this would be very negative. Some 50% of PVI settings responded that keeping this option would be positive, compared with 17% who said this would have a negative impact.

- Providers were less positive regarding ‘Option 2 – Monthly payments excluding August’ with 28% suggesting this would be positive for their business with an additional 29% suggesting this option would have a neutral impact on their business. However, **39%** of respondents suggested that this option would have a negative impact on their business.

- Providers were more positive regarding ‘Option 3 – Monthly payments including August’ with 68% of providers responding this option would have a positive (**45%**) or neutral (23%) impact on their business. Some **28%** of respondents said this option would have a negative impact on their business. Around half of childminders (53%) said this would have a positive impact on their business, compared with 23% suggesting this option would negatively impact their business. Some 45% of PVI settings suggested this option would be positive for their business, compared with 29% who said the impact would be negative.

- Providers were asked to rank the three options using a 1-3 scale with ‘1’ being their most preferred option and ‘3’ being their least preferred option. ‘Option 1 – Termly payments’ was ranked the highest 42% of the time for childminders, compared with 62% for PVI settings. ‘Option 3 – Monthly payments including August’ was the ranked the highest by childminders who ranked this highest 51% of the time. Rankings from PVI settings for ‘Option 3’ were mixed with 31% suggesting this was their highest ranked option, whilst 33% said that this was their least preferred option.

- Respondents were given the option to add additional comments to each question. Comments received were often relating to their response on why that option would be positive or negative for their business. For example, some providers suggested cash flow and budgeting was an issue for ‘Option 1 – Termly payments’ whereas others thought this option worked well as it was, with some benefiting from the bulk payment and money upfront early in the term. Comments for those monthly payment options often suggested monthly payments would help budgeting and managing monthly costs, such a payroll. Whereas ‘Option 3’ may have been more popular than ‘Option 2’ there were some comments suggesting monthly payments in August may negatively impact cashflow for providers that are not open in the summer holidays. Providers were also given the opportunity to give additional comments or feedback at the end of the consultation survey, the same themes were present here. There were some additional comments suggesting the importance of early years funding payments being made at the start of the term or month.

23. The Schools Forum Finance Sub-group were relatively neutral regarding the proposal and the EYRG were split between group based providers showing a concern for the additional administration of monthly payments and a preference for continuation of the current payment arrangements following the Councils commitment for payments to be made the first week of the month rather than the first week of term, whilst childminder representatives showed a preference for monthly payments.

24. Having considered all of the feedback received through the consultation and from both the EYRG and Finance Sub-group we would like to propose for the frequency of early years funding payments to early years providers to change to 12 monthly payments with effect from April 2025:

25. We acknowledge that the above recommendation will be subject to the outcome of the national childminder consultation in due course.

Risk considerations

26. There are limitations to the payment options available to the CW&C due to the software system and capacity. As such CW&C is currently unable to offer a choice of termly or monthly payments in accordance with individual provider preference. The recommended payment frequency following the outcome of the consultation will therefore be applicable to all providers in receipt of funding. This does not include internal termly transfers to maintained schools.

Next Steps

27. To take the Schools Forum recommendation through to Cabinet in November 2024 and implement the agreed outcome to any change in payment frequency for 2025/26 notifying providers in accordance with the statutory timeframe.

Appendix A: Consultation Survey Response Summary – Autumn 2024

Q1. What type of provider are you? Please select 1 provider type from the list below.

Answer Choices	Responses	
Childminder	43.00%	43
PVI Setting	42.00%	42
Academy	5.00%	5
Maintained Nursery Unit	10.00%	10
Answered: 100 Skipped: 0	Response Total:	100

Q2. 'Option 1' is a continuation of a twice-termly payment schedule, this is how the Council currently pays providers for their funded hours each term. What effect would 'Option 1' have on your business?

Answer Choices	Responses	
Very positive	18.00%	18
Positive	24.00%	24
Neither positive or negative	29.00%	29
Negative	14.00%	14
Very negative	12.00%	12
Don't know	3.00%	3

Q3. 'Option 2' is a monthly payment schedule with 11 monthly payments, excluding a payment in August. What effect would 'Option 2' have on your business?

Answer Choices	Responses	
Very positive	8.00%	8
Positive	20.00%	20
Neither positive or negative	29.00%	29
Negative	31.00%	31
Very negative	8.00%	8
Don't know	4.00%	4

Q4. 'Option 3' is a monthly payment schedule with 12 monthly payments, including a payment in August. What effect would 'Option 3' have on your business?

Answer Choices	Responses	
Very positive	28.00%	28
Positive	17.00%	17
Neither positive or negative	23.00%	23
Negative	20.00%	20
Very negative	8.00%	8
Don't know	4.00%	4

Q5. Please rank the three options below with '1' being your most preferred option and '3' being your least preferred option.

Average 'Option 1' rank	Average 'Option 2' rank	Average 'Option 3' rank
1.8	2.3	1.9

Q6. Please use this section to include any further comments or suggestions relating to any of the questions above or anything else relating to early years funding payments.

There were 29 additional comments received.