

Report Title	Early Years Entitlements Funding Formula Consultation 2025
Meeting	Schools Forum
Meeting Date	14 January 2025
Chair	Jenny Sims
Report Author(s)	Laura Devereux, Early Intervention Service Manager
Open/Exempt	Open

1. Summary

- 1.1. From April 2024, the Early Years Entitlement has been expanded. Funding is now available for working families from the age of 9 months to 4 years. The existing entitlements for 2 year olds with additional support needs continues as does the universal 3 and 4 year olds.
- 1.2. This report proposes consulting on changing the current funding formula to early years providers, now that the entitlements are rolling out and being expanded to 30 hours from September 2025.
- 1.3. On 9th December, the DfE announced the local authority level hourly funding rates. Sutton has seen an uplift of 1.9% for 3 and 4 year old rates and 0.5 % for under 3s funding rates. The DfE has also announced that the LA should move towards a 97% pass through with it being mandated that it is 96% in 25/26.
- 1.4. Subject to agreement, the LA will consult with providers between now and prior to the February 2025 Schools Forum on these proposals. The outcome of this consultation will be returned to the Forum in February for consideration.

2. Recommendations

- 2.1. To agree to consult with providers on making changes to the formula based on the rationale set out in this paper.

3. Background

- 3.1. The Government announced its commitment to expanding the entitlement for all children in working households to 30 hours by September 2025. The roll out was staggered starting in April 2024 with 2 year olds for 15 hours a week for 38 weeks of the year. In September 2024, 9 month olds became eligible for 15 hours a week for 38 weeks of the year. In September 2025 all children from 9 months will receive 30 hours per week for 38 weeks of the year.
- 3.2. The funding rates allocated to Local Authorities, before any local funding formula is applied are as follows:

	24/25 hourly rate	25/26 hourly rate	Change
Under 2's	£13.87	£13.94	£0.07 (+0.5%)
2 yo	£10.20	£10.25	£0.05 (+0.5%)
3&4 yo	£6.93	£7.06	£0.13 (+1.9 %)
EYPP	£0.68	£1.00	£0.32 (+47%)
MNS rate	£5.39	£5.39	0
Disability Access fund (DAF)	£910 (annually)	£938 (Annually)	£28 (+3%)

- 3.3. The % increase in the allocation this year is low, and is likely to put pressure on providers who will see an increase in costs due to changes in national insurance payments and increased running costs. The new entitlements mean the majority of childcare places in settings will now be funded by the government rather than through privately charged hours. Currently the average hourly rate that settings charge is £9.50 per hour for group settings and £6.69 per hour for childminders.
- 3.4. The Government has stated that Local Authorities must move towards a 97% pass through once all the entitlements have been established, although the date for this has not been set. In 25/26 we must pass through 96%. On this basis we are proposing to pass through 97% of the 3 and 4 Year old entitlement as this is an existing entitlement, which is already established. This will also help to raise the base rate for this age group. We are proposing that the under 3 entitlements remain at 96% for the forthcoming year increasing to 97% once all entitlements are established in the coming years.
- 3.5. By applying the pass through rates to the funding formula as above, the Council intends to put three proposals to EY providers for the local area early years rates:
- Proposal 1 - to keep the funding formula the same as 2024-25 with no increase or decrease to funding supplements. This would provide funding rates as follows:
 - 3 & 4 year old base rate - £6.26 per hour per child
 - 2 year old base rate - £9.32 per hour per child
 - 9 month to 2 year old base rate - £12.77 per hour per child
 - Flexibility supplement - 25p per hour per eligible setting
 - Quality supplement - 27p per hour per eligible setting - for 3 and 4 year olds only
 - Deprivation funding - 53p per hour per eligible child
 - Proposal 2 - to reduce the deprivation rate to 21p per eligible child from 53p. A child is eligible for the deprivation supplement if they meet the EYPP criteria. Due to the increase of the EYPP rate for 2025-26, reducing the deprivation rate would mean that providers still receive a total of £1.21 per hour per eligible child. As 82% of this would

be from EYPP funding, which is a separate funding allocation, it would allow for a slightly higher base rate for all children. The funding rates would be as follows:

- 3 & 4 year old base rate - £6.30 per hour per child
 - 2 year old base rate - £9.36 per hour per child
 - 9 month to 2 year old base rate - £12.81 per hour per child
 - Flexibility supplement - 25p per hour, per child, per eligible setting
 - Quality supplement - 27p per hour per eligible setting - for 3 and 4 year olds only
 - Deprivation funding - 21p per hour per eligible child
- **Proposal 3** - to remove the flexibility supplement for all providers and reduce the deprivation rate to 21p as per proposal 2. Parental demand would still encourage providers to offer the entitlements as flexibly as possible but removing the supplement would mean an increase to the base rate for all providers. The funding rates for this would be as follows:
 - 3 & 4 year old base rate - £6.55 per hour per child
 - 2 year old base rate - £9.61 per hour per child
 - 9 month to 2 year old base rate - £13.06. per hour per child
 - Quality supplement - 27p per hour per eligible setting - for 3 and 4 year olds only
 - Deprivation funding - 21p per hour per eligible child

	Proposal 1	Proposal 2	Proposal 3
3 & 4 base rate	£6.26	£6.30	£6.55
2 year old base rate	£9.32	£9.36	£9.61
Under 2's base rate	£12.77	£12.81	£13.06
Flexibility Supplement	£0.25	£0.25	Supplement removed
Quality Supplement (3&4 only)	£0.27	£0.27	£0.27
Deprivation supplement	£0.53	£0.21	£0.21

- 3.6. The council will continue to monitor the uptake of funded places and increase support to the sector to increase funded places, ensuring we can meet the statutory duty to provide adequate numbers of childcare places.

- 3.7. Option 1 keeps funding rates the same as in previous years, whereas Option 2 keeps all supplements but reduces the amount paid for deprivation. Option 3 proposes changes to the number of supplements paid to providers which reduces the administration for providers and the Local Authority and also increases the base rate especially for 3 and 4 year olds. The development of these options are based on informal feedback from providers that the rate for 3 & 4 years olds is significantly lower and makes it more difficult to make provision sustainable.
- 3.8. 30 hours is being rolled out across all age groups, market demand is having a greater impact on the flexibility of a provider rather than the supplement paid by the Local Authority. The council budgets for 100% of the Flexibility supplement to be passed through to providers, so including it in the base rate will have minimal impact on the budget.
- 3.9. We will share a questionnaire with providers to express their preferred proposal and collate the findings and share financial modelling for each proposal to be considered at the next schools forum in February before final rates are published to providers.

4. Influence on the Council's Corporate Core Values and Objective

- 4.1. One of the core values is partnership working. Setting the budget for the Dedicated Schools Grant, and considering related issues, is an important part of the budget process that fully involves schools as partners and particularly recognises the important role of the Schools' Forum.