

15 February 2024

Item 3

TITLE OF REPORT: Proposed 2-Year-Old Formula and Consultation Results

Purpose of the Report

1. To bring to Schools Forum the results of the Early Years 2-Year-Old funding consultation and proposals for the funding of 2-year-olds from April 2024.

Background

2. This report builds on a report brought to Schools Forum in January 2024. Following the approval of the 2-year-old funding proposals and consultation documents at January 2024 Schools Forum, the 2 year old consultation document was sent to all early years settings on 16 January 2024, with a closing date of 26 January 2024.
3. A total of 26 responses have been received, and not all respondents answered all questions.

There was a mixture of respondents as per the below table.

Setting Type	Number
Childminders	8
Day Nursery	8
Maintained School	3
Pre School	5
Primary Academy	1
Nursery School	1

4. There was an overall positive response to the proposals in the consultation, which ranged from 88.46% to 50%.
5. There were a significant number of don't know responses to some questions and disagreement responses ranged from 3.85% to 30.77%. The results to the individual questions are in appendix 1 and comments made by respondents in appendix 2.

Proposal

6. Following the consultation results it is proposed that:-

- There will be a single formula for both disadvantaged 2-year-olds and 2-year-olds of working parents.
- 2-year-old funding will be top-sliced at 5%, with a proportion of this funding being allocated to the funding of the early years funding team, and the remainder to be held in the Inclusion Fund for allocation to settings (together with proposed allocations from 3- & 4-year-old funding and under 2 early years funding).
- 90% of the funding will be allocated to the base rate, and the base rate will be £6.5664 per hour.
- There will be a supplement of 5% funding for disadvantaged 2-year-olds of £0.86 per hour, with the top sliced £0.05 held in contingency due to the uncertainty of mix of the funded children.
- There will be a universal deprivation supplement based on 5% of funding, based on IDACI ACORN scores of settings. This will be distributed on the funded children attending settings on the January 2024 census. Indicative rates will be provided to settings which will be updated when January census data becomes available.

It is recognised that as this is a new formula, with limited actual data on children that will attend the individual settings and therefore it is also proposed that this formula will be reviewed during 2024/25 financial year.

Recommendations

7. It is recommended that Schools Forum notes the consultation responses and comments, and approves:-
 - A single funding formula for both disadvantaged and 2-year-olds of working parents.
 - 5% top-slice to contribute to the early years funding team and the remainder to be added to the inclusion fund.
 - A base rate of £6.5664 per hour
 - Disadvantaged supplement rate £0.86, with £0.05 to be held in contingency for fluctuations in pupil mix between disadvantaged and 2-year-olds of working parents.
 - Universal supplement rate using 5% of funding based on IDACI ACORN data.

For the following reasons:

8. To enable early years settings to receive funding for disadvantaged 2-year-olds and 2-year-olds of working parents.

Appendix 1

	Questions	Yes	Don't Know	No
Q1	Do you accept the proposed principles and funding aims (as stated above) ?	80.77%	15.38%	3.85%
Q2	Do you accept the proposal to top-slice funding by 5% to fund the early years funding team and the special educational needs and disabilities inclusion fund?	61.54%	15.38%	23.08%
Q3	Do you accept the proposal to have one funding formula to fund both disadvantaged 2-year-olds and 2-year-olds of working parents?	88.46%	3.85%	7.69%
Q4	Do you accept the proposal that the universal base rate for all funded 2-year-olds will be 90% of available funding at £6.5664 per hour?	57.69%	11.54%	30.77%
Q5	Do you accept the proposal that funding for disadvantaged 2-year-olds will be set at 5% of total funding?	56.00%	16.00%	28.00%
Q6	Do you accept the proposal that the hourly rate for disadvantaged 2-year-olds of £0.91 per hour be top sliced by £0.05 to give an hourly rate of £0.86?	50.00%	20.83%	29.17%
Q7	Do you accept the proposal that IDACI funding will be based on individual children at settings based on January census?	79.17%	8.33%	12.50%
Q8	Do you accept the proposal that IDACI funding be allocated to all settings using 5% of the available hourly rate funding?	58.33%	16.67%	25.00%

Appendix 2

Provider Number	Question Number	Comment
1	Overall Comment	Although there may be other options which could be preferable to individuals, I believe the proposals provide an approach which will be supportive of the majority.

5	Q1	In my opinion, if a nursery receives an Ofsted grade 'requires improvement', they should still be entitled to the 2 year old funding for working parents, just like the same rule applies to 3 year old funding for working families. Would that be possible please?
	Q2	In my opinion, the 2 year old funding intake will potentially increase by 3-4 times at least since we have a lot of working parents who will qualify for 2 year old funding from Apr 2024, and most of those working families won't qualify for the SEN/DAF inclusion funding. I don't believe you need to keep it as high as 5%. I believe 2% will more than cover the SEN/DAF inclusion funding. Then you could increase the funding base rate with that extra 3%
	Q4	Same reason as above, if the 5% were reduced to 2% then that base rate could be higher, which I believe would be an essential increase for every nursery.
	Q5	Same reason as above, the number of 2 year old funded children will be much higher from Apr where the proportion of disadvantaged 2 year olds will be much lower. While in the past, nearly the whole 2 year old funding was given for disadvantaged children. From Apr 2024, I believe a large part of 2 year old funding will be given to working parents, therefore you could lower that 5%, and still achieving the same level of support to the disadvantaged children.
	Q7	In my opinion, that January 2024 census won't be any good since it won't include any of the working families who will qualify for the new 2 year old funding from Apr 2024. Those numbers will have to be collected from every nursery directly since there is no data history. I am happy to give you numbers upon request, you could gather that information through the funding portal as a compulsory form with a deadline.
	Overall Comment	I hope you find my comments helpful, thank you

7	Q2	Much as it makes sense, the numbers don't seem to add up to 95% or even a full 90% being passed along?
	Q3	Mostly, but it is hard to weight one child against the next when making any kind of such formula. I would personally want to see certain children weighted as two or three for ratio requirements, and thus having double or triple pay for those children.
	Q4	I've found with 2 year old funding I have two choices: take it or leave it. If I leave it, I risk less available spaces filled. If I take it, I end up with parents expecting "free childcare" and they have a hard time understanding my terms and limitations, plus the remuneration is usually only half of what a 22 month old taking 17-20 hours and the same space pays, with equal work.
	Q6	Though I haven't actually gone into it in detail as a small provider
	Q7	I understood it would be later adjusted for actual uptake, is that correct?

	Overall Comment	I clearly don't follow the vocab, and it seems something is being lost in bureaucracy. How does 90% of £7.68 equal £6.57? Why do the funding officers need a full 5% of the rate if they also have funding from 3 and 4 year old funding? It seems to me that it's only a matter of time before I re-train as a copy-editor or something and move to a job where I can actually make a living- neither figure reflects my training, experience or how much I put into delivering the quality of childcare that I do.
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8	Q1	I trust that my colleagues who have worked on this proposal have everyone's best interests at heart.
	Q2	I would like to have clarification on how exactly the money here is to be spent. Will it be on external support, admin, providing assessments or giving support to individual children?
	Q3	Yes this is fair.
	Q4	I would obviously prefer to have 100% of the money paid to the provider to use, but, if my colleagues on the working party were happy to go along with this proposal then I trust that they have considered the options and balanced their thoughts. If they feel that this is the best way forward, I would be happy to agree with this proposal.
	Q7	Yes this is fair.

11	Q4	I think 10% is too much to take off the universal base rate, this means some settings could be getting 10% more than others and we all have the same overheads.
	Q5	I think this should be reduced
	Q6	Only if the 5% is reduced to increase the base rate for all settings
	Q8	Like the 5% suggested for disadvantaged children I think this is too high, it should be reduced and the base rate for all settings increased.

13	Q2	SEND is seldom identified at the 2 year old stage. Surely the funding team are paid from an alternative source, not from new funding?
	Q3	Yes, it's not fair to have different funding rates and might make settings favour different children. A child is a child, ratios are the same regardless of background/
	Q4	Too much is removed from what settings receive. Settings need to receive as much as possible to remain sustainable. Funding rates are too low already.
	Q5	We don't offer places to 2 year olds currently as we have no space, so this does not apply to me. We may consider working parents' 2 year olds as we have a staff member who needs this funding.
	Q6	N/A to my setting so unfair to comment
	Overall Comment	Term time only workers on 16 hours do not qualify for funding, although the funding covers 38 weeks of the year. This is completely unfair when non-working parents can get 2 year funding.

15	Q2	Why the full 5%. There is already a funding team in place which is funded by 3 and 4 year old funding. Both percentages should be reduced rather than the full 5% off both. SEND children are rarely diagnosed at 2 years so why does the full percentage need to be taken.
	Q4	10% is too much to take off the base rate.
	Q5	There is too much taken off the top slice, it should be reduced to increase the base rate.
	Q6	Once again, too much top slicing and not enough base rate.

	Overall Comment	The government suggest a minimum of 95% of funding is given to the provider for each of the early years entitlements. Why does Gateshead always take the maximum allowed, not all local authorities do this. The local authority has a duty to provide sufficient childcare, with this continued reduction in funding given to providers some provisions will not be sustainable and may close. Local authorities have flexibilities in how they set local funding formula, why is it always to the detriment of the provider and the maximum to the local authority. The funding should be fair and transparent to allow us to deliver 'free' (should say funded in our opinion) places on a sustainable basis and encourage existing providers to expand. This will not happen with the continued maximum top slicing and more! Quality supplements have been removed for 2 year old funding! Is this because schools do not usually take 2 year olds so they will not benefit from it? How about removing it from the 3 and 4 year old funding too.
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20	Q2	I understand that this goes to funding officers.
	Q4	That seems low, considering they need twice as many staff as 3 and 4 year olds
	Q6	The rate has already been top sliced by 5%
	Q7	Our Pre-school is in an area where the postcodes are not in low income areas. Meaning we will have a lower rate, is this not what EYPP is for? Just because they have a better postcode doesn't mean that they might not be struggling.
	Overall Comment	It is good that 2 year olds are now getting funded for working parents, but we need a good rate for each child. Minimum wage is increasing and staff are barely paid over minimum wage as it is, meaning all staff will need an increase. As a setting where the majority of children are funded this proves hard as we can't charge on top of the funding. But at the same time parents shouldn't be paying when it is advertised as free, but that means the rates need to be sustainable.

21	Q2	Send children not diagnosed at 2 year old, so why the full 5% need deducted. Need to know how the 5% would be spent
	Q4	Why a full 10% be taken. Can you please explain the IDACI BAND CATEGORIES
	Q5	Top slice too much
	Q6	Top slice too much
	Q8	5% too much top slice
	Overall Comment	The LA has a duty to provide sufficient childcare! With the reduction in funding given some providers will be unable to survive/ sustainable. Settings will then have to close! Funding is always at the detriment of the provider and not the LA! Funding should be fair and transparent to allow us to deliver the funding. It is NOT FREE! Government need to stop saying FREE! Without support of increased funding and the LA's sliced top off then the expansion of settings will not progress.

22	Q1	I agree with the principles of a transparent funding formula. However the formula used has so many variables it becomes complex for most nursery managers and owners to understand.
	Q2	The early years team is already funded by 5% of the 3 and 4 year old funding. Is 5% required to fund the 2 year old team, then 5% to fund the under 2 team in due course. SEND children are rarely diagnosed at 2 and this is becoming an even greater wait due to long wait lists to see the

		correct teams.
	Q3	<p>Whilst one funding formula is proposed due to the formula to be adopted in effect two or more rates have been allocated. In some areas there is one rate for all two year olds. The formula will also mean more work for the LA team and nurseries in identifying children who should be given the disadvantaged funding. By having the lower rate of say £6.63 per child for some children attending and £7.98 for others will cause confusion. It could also mean that at the lower rate children will need to be charged for meals where at a higher rate the children would not have to be charged. The cost of caring for these children is pretty similar. If a higher rate was given to all nurseries, nurseries would not differentiate between children and could offer the hours actually free for all children.</p>
	Q4	<p>I'm not sure why we have to have two disadvantaged pots at 5% each. A base rate of 95% of funding would give all nurseries a higher rate regardless of demographic attracted. Once the 5% has been top sliced £6.56 85% of the full 100% £7.68 is passed over as a base rate, once the top slice we have a new 100% of £7.29. £7.98 appears to be a top rate awarded which is nearly 4% over the 100% without the top slice but 9.5% more than the £7.29. How can it be fair that some settings get 85% of the rate whilst others get 109.5%. Surely the maximum awarded to any setting should be 100% of the amount after the top slice. Two year olds are not been treat fairly and some nurseries will have to charge families if a higher rate was available for all nurseries this would not be the case. Working families are going to be penalised again. Not sure why we need two measures of disadvantage in the 3 and 4 year old funding there is only one measure.</p>
	Q5	<p>I think the base rate should be higher for all settings, I do agree with the 5% for disadvantaged families but not 5% of total funding, these are the families that have historically been supported and that support should remain.</p>
	Q6	<p>I'm not sure where this figure came from. Surely the 5% of total funding should be 5% of the £7.68 allocated per child meaning £0.385 per hour for the disadvantaged fund.</p>
	Q7	<p>I don't think 5% should be allocated using IDACI as a measure for disadvantage as the data is flawed and erroneous. Nurseries cannot help the demographic of child they attract. We are a nursery on what is a deprived area however our IDACI score indicates that we do not attract children from deprived households. This is not something that we actively do.</p>
	Q8	<p>The variables are extensive which mean each setting has an individual ACORN rating for part of the disadvantaged funding 5%, which uses the IDACI data which can be erroneous as is based on postcode, some middle income families could live in a deprived postcode area. The FSM or ECS data is more reliable when looking at income which is a better indicator of deprivation.</p>

	Overall Comment	<p>Within the guidance it is stated that children who are from disadvantaged households should not be paid less than those from working households. Whilst I agree that two year old funding was initially brought in to help children from these households get into nursery and education I don't see the rationale of allocating the funds to 85% to working families 110% to disadvantaged families. A working family paying for childcare could actually be worse off in the current climate. Also whilst Gateshead has advocated one formula for all there is massive differentiation in the formula which will lead to lots of different rates being paid, the admin on this alone is ridiculous. The government are advocating free childcare for all families however the maths on this does not stack up when the minimum allowed is being passed through. Whilst I am happy that the quality 5% has not been applied to this funding I really think that 'quality' is at best down to interpretation and does not override experience of which my setting has a plethora. I would vote to abolish the quality funding for 3 and 4 year old settings. Put the base rate at 95% and use ECS to allocate disadvantaged funding. Even by just top slicing and giving all nurseries one rate of £7.30 per hour would ensure that disadvantaged children were not paid less than working families as all 2 year olds would be paid the same. Charges would not have to be levied by nurseries for consumables and parents would not be penalised. If these families are also entitled to EYPP they are in effect getting double funded anyway due to the criteria used for both ECS and EYPP.</p>
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24	Q2	The figure seems high as there is also a top slice for 3-4 year funding also
	Q4	10% is a lot to take off. Early Years funding is on its knees, wages are rapidly rising. Many of the children we care for who need additional one to one care or a higher staff ratio are not from deprived post codes. They have needs we must meet, they have no diagnosis so attract no additional funding. We need and deserve the maximum hourly rate to care for the children that enter our settings.
	Q8	Too much top slice
	Overall Comment	In September 2023 my funding for 3-4 year olds actually decreased due to acorn scoring. I am very concerned this happens again with the additional 2 year funding. Our workload didn't decrease, my outgoings didn't decrease, in fact everything increased including my stress levels of how I was going to manage as my funding was going down. To top slice funding so much is worrying when all of our outgoings increases so much each year. We are already paid a pittance for what we do, and what we do so well.

25	Q2	I do not feel the EY funding team should be paid out of this pot. They are already in place and the system is pretty much automated with settings inputting their own children, hours etc. I'm also aware other authorities are passing on the full funding amount, such as Newcastle, yet there are more deprived areas in Gateshead
	Q4	No, this is 85% of the rate the government are giving you. It's totally unfair that childminders in Newcastle are receiving £1.11 an hour more per child than their Gateshead counterparts. Over a 4 week period that's an extra £133 in my current circumstances
	Q5	Yes I do accept that is fair
	Q6	No I disagree it should be too sliced, the disadvantaged children deserve the full amount
	Q7	I have 2 x 2 year olds who will be starting at my setting in March