

# Merton's Early Years Funding Formula 2024/25

## Consultation document

### 1. Introduction

- 1.1. In preparation for the introduction of the expanded early education entitlement, the Government consulted on their proposed arrangements for the way in which early years funding is calculated and distributed to local authorities. This included the proposed requirements that local authorities must follow when distributing the grant to Early Years providers.
- 1.2. The Department for Education (DfE) early years funding [consultation response](#) was published on 29 November 2023. As a result of the DfE consultation and changes made to guidance on how local authorities should allocate early years funding in the next financial year 2023/24, London Borough of Merton is required to consult locally on their arrangements to distribute the early years funding through a local funding formula in 2024/25.
- 1.3. This consultation relates to the proposed formula that we intend to use to distribute the existing early education entitlements and the new expanded entitlements from April 2024. More details can be found at [www.childcarechoices.gov.uk](http://www.childcarechoices.gov.uk).
- 1.4. Before the Merton early years funding formula for financial year 2024/25 is agreed, the London Borough of Merton wants to hear your views on the proposals set out in this document.
- 1.5. You will need to read this consultation to enable you to answer the questions in the consultation feedback form. Please complete the feedback form by 01 February 2024
- 1.6. We appreciate this a lengthy and technical document, if you have any questions please contact [laura.byrnes@merton.gov.uk](mailto:laura.byrnes@merton.gov.uk) , copying in [eyfunding@merton.gov.uk](mailto:eyfunding@merton.gov.uk)
- 1.7. We will be talking to primary headteachers in their January meeting and holding provider engagement session to answer any question regarding this consultation document on the following date – please click on the link to register your attendance.

[Tuesday 23 January 2:00-3:30pm](#)

[Thursday 25 January 2024 10:00- 11:30am](#)

[Tuesday 30 January 2024 7:00 –8:00pm](#)

**Thank you in advance for taking the time to read this document and providing you valuable feedback.**

## 2. Key documents

- 2.1. [Appendix A Additional information EYDSG and non- formula elements](#)
- 2.2. [Merton Early Years funding formula Consultation feedback form](#) - to be completed and returned by **1 February 2024**.

## 3. Early Years Block -Dedicated Schools Grant (DSG)

### Current Overview and context

- 3.1. The Early Years Block of the Dedicated Schools Grant (EYDSG) is the funding allocated by the DfE to local authorities (LAs). The early years block of the DSG **currently** consists of 4 funding streams that is distributed by the LA to Early Years Providers: Schools, Day Nurseries, Preschools, Childminders and Independent Schools (PVI) delivering the free childcare and education entitlements:
  - 2-year-old entitlement funding stream
  - 3 & 4-Year-old entitlement funding stream
  - Early Years Pupil Premium (EYPP)
  - Disability Access Fund (DAF)
- 3.2. The requirements for distributing each of the funding streams is based on participation rates and child eligibility. Most of the funding streams must be passed through in full to providers, the exception to this was the 3& 4-year-old entitlement funding where a minimum of 95% must be passed through using a local funding formula and a maximum of 5% can be retained centrally.
- 3.3. The Early Years Pupil Premium (EYPP) and the Disability Access Fund (DAF) funding streams are based on central Government calculations and are child (participation) led for 3-&4-year-olds only. These funding streams are reported separately from the entitlement funding with EYPP subject to claw back arrangements, and DAF funding stream distributed at year end if there is any under spend. They do not form part of the local funding formula.
- 3.4. LAs set their own local Early Years Funding Formula, in accordance with statutory requirements set down by Government [Early years funding: 2023 to 2024 - GOV.UK \(www.gov.uk\)](#)
- 3.5. Further details on the current funding formula can be found in section 2 below as well as [Merton's Schools Forum November 2022 meeting papers and minutes](#)

### Childcare reforms 23 -26

- 3.6. The Government Spring Budget 2023 announced a significant expansion of the early education and childcare entitlements, enabling

eligible working families with children from 9 months to be able to access up to 30 hours of free childcare by September 2025, this expansion will be rolled out in phases commencing from April 2024.

- 3.7. From April 24 - Eligible working families of children aged 2 years can access up to 15 hours a week free childcare
- 3.8. From September 24 - Eligible working families of children aged from 9 months can access up to 15 hours a week free childcare
- 3.9. From September 2025 - Eligible working families of children from 9 months can access up to 30 hours a week free childcare
- 3.10. The education and childcare entitlement expansion will increase Merton's EYDSG allocation in 2024/25.
- 3.11. A summary of the new requirements for local authorities on distributing the 24/25 EYDSG are as follows.
- 3.12. A minimum 95% pass through rate applies for **each** of the age-related entitlement funding streams, which are.
  - 9 month – 2-year-old offer - Under 2's (new offer)
  - 2-year-olds (existing and new offer) and
  - 3 & 4-year-olds (existing)

Calculated as part of the passthrough are.

- Single base rate (formula element)
  - Funding supplements (formula element)
  - Special Educational Need Inclusion Fund (SENIF) (non-formula element)
  - Contingency fund (non-formula element)
- 3.13. Supplements can equate to up to maximum of 12% of the 95% pass through rate.
- 3.14. Permissible supplements that LA's can use in their local funding formula are.
- Deprivation (Mandatory for 3&4-year-olds only/optional for other age ranges)
  - Flexibility (optional)
  - Sparsity(optional)
  - Quality (optional)
  - English as an Additional Language (optional)
- 3.15. The LA can centrally retain 5% of each of the age related funding streams, to deliver its statutory duties and support best early years practice locally
- 3.16. DAF- to be available as a lump sum to eligible children from 9 months (outside the formula and scope of this consultation)

- 3.17. EYPP – to be allocated for all eligible children from 9 months. (Outside of the formula and scope of this consultation)
- 3.18. Local authorities must consult with their Schools Forum and early years providers regarding any changes to their local funding formula.
- 3.19. Sections 5-8 set out the councils proposed funding formula and details on arrangements for distributing the EYDSG in 2024 /2025 for consultation.

#### **4. The current distribution of Merton's EYDSG 2023 / 2024.**

##### **2-year-old entitlement funding stream**

- 4.1. The full entitlement funding stream for 2-year-olds is passed on to providers through a fixed hourly base rate and the distribution of SENIF.
- 4.2. There were no compulsory formula elements for distribution of the 2-year-old funding.
- The 23/24 the 2-year-old entitlement funding stream was proportioned in the following way (rounded to the nearest %):
  - Formula elements: 97% of funds are distributed via a fixed per hour single base rate.
  - Outside of formula: 2% of funds are distributed to providers via SENIF
  - Outside of formula: 1% of funds is the contingency budget which supports the management of in year fluctuations in participation and demand for SENIF.

##### **3&4-year-old entitlement funding stream 23/24**

- 4.3. As required, the council's funding formula and distribution of the funding stream is based on a passthrough rate of 95% that is made up of the following funding formula elements.
- 86% of the passthrough is distributed via the single base rate paid to all providers.
  - 3% of the pass through is distributed via the deprivation supplement paid on the basis on EYPP eligibility.
  - 0.2% of the passthrough rate is distributed via the sparsity supplement to Childminders only.
  - 1.4% of the passthrough is distributed via a quality supplement applicable to schools only. (This is the Teachers Pay and Pensions Grant)
  - Outside of formula: 2.8% of funds are distributed to providers via SENIF.

- Outside of formula: 1.8% of funds is the contingency budget which supports the management of in year fluctuations in participation and demand for SENIF.

4.4. Full details of the current 2023/24 funding formula can be found in the [November 2022 School Forum papers](#)

## **5. The Consultation - Proposed Early Years Funding Formula and DSG distribution arrangements 2024/25**

5.1. In 2024/2025 there is new statutory requirements that the LA must follow to set its local funding formula to distribute the entitlements. Councils must consult with providers and the schools' forum prior to implementing its local funding formula and arrangements in the financial year 2024/25

5.2. In 2024/25 there will be five main funding streams in the EYDSG (shown below).

- Under 2's expanded early education and childcare entitlement funding
- 2-year-old early education and childcare entitlements funding
- 3&4-year-old early education and childcare entitlements funding
- Early Years Pupil Premium (EYPP)
- Disability Access Fund (DAF)

5.3. Local authorities are required to.

- Pass through 95% of all three entitlement funding streams (1-3 above) to providers.
- Distribute all entitlement funding streams through a local funding formula.
- Limit the amount of funding used for the funding formula supplements to a maximum of 12% of the passthrough rate (95%) on each entitlement funding streams
- Apply the mandatory deprivation supplement in the 3& 4-year-old funding formula only. It is optional for the under 2's and 2-year-old funding formulas.
- Create a Special Educational Needs Inclusion Fund that is available for eligible children from 9-month-olds taking up their free childcare entitlements, and to consult on the value of this

5.4. To note, the national EYDSG allocations for each of the three early education and childcare entitlements funding streams are calculated using differing funding base rates, weighting and factors. This means there will be different hourly single base rates and supplement rates allocated to local providers dependant on the age of the child (reflecting the different cost of delivery particularly due to the difference in statutory staffing ratios)

## **6. Merton's approach to distribution of the EYDSG - The Principles**

6.1. To maximise the amount of funding all providers receive for all children and to reduce bureaucracy, the council proposes to apply the following established and embedded principles to the proposed 24/25 local funding formulas for each age-related funding stream.

Elements within the formula:

6.2. pass through 95% of the each of the early education and childcare entitlement funding stream (i) Expanded entitlements from 9-month to 2 years; (ii) existing and expanded entitlement for 2-year-olds and (iii) universal and extended 3&4year olds, to early years providers and schools.

- to apply a single base rate for each age-related entitlement funding formulas to simplify the distribution of funding and markets management.
- to limit the number of supplements used in LBM's funding formula to ensure the base rate is maximised, to support high quality ordinarily available provision.
- to apply deprivation supplement that supports a narrowing of the gap at the end of the EYFS and is aligned to EYPP eligibility.

6.3. To meet the statutory duties, support the sector and families and promote early childhood development and school readiness, the council proposes the following for elements outside of the formula (non-formula elements):

- to create a SENIF for each age range as part of the 95% pass through, to be administered via an application process that supports our overarching approach to SEND and ordinarily available provision in the Early Years Foundation Stage.
- to create a contingency fund for each of the entitlements from the 95% pass through rates to manage the fluctuation in participation throughout the year, supporting any additional growth in demand for SENIF or Deprivation. Any underspend will be distributed fairly based on participation levels at the end of the year where appropriate.
- to retain 5% of each of the early education and childcare entitlement funding streams for statutory administration, management and support services that work directly with settings.

**7. London Borough of Merton is now consulting on their proposed funding formula and the elements outside the formula in financial year 2024/25 as set out below.**

**Under 2's: Expanded entitlement.**

7.1. The council proposes to implement a formula that consists of a single base rate and one supplement. (Percentages have been rounded where possible, therefore may not add up to 95% exactly)

**Formula elements**

- 91% of the passthrough to be distributed via single base rate that is paid to all provider types.

- 2.5% of the pass through to be distributed via a deprivation supplement – paid to all provider type, based on a child’s eligibility for EYPP.

#### Non- formula elements

- 0.3% of the pass through to be distributed via a SENIF
- 1% of the pass through to be used to create a contingency budget.

### **2-Year-olds:** Existing and Expanded entitlements.

7.2. The council proposes to implement a formula that consists of a single base rate and one supplement. (Percentages have been rounded where possible, therefore may not add up to 95% exactly)

#### Formula elements

- 91% of the passthrough to be distributed via the single base rate that is paid to all provider types.
- 3% of the pass through to be distributed via deprivation supplement – paid to all provider type, based on a child’s eligibility for EYPP.

#### Non-formula elements

- 0.7% of the pass through to be distributed via SENIF
- 0.3% to create the contingency budget.

### **3&4-year-olds:** Universal and Extended entitlements

7.3. The council proposes to implement a formula that consists of a single base rate and two supplements. (percentages have been rounded where possible, therefore may not add up to 95% exactly)

#### Formula elements

- 84% of the pass through to be distributed via the single base rate - paid to all provider types.
- 8% of the pass through to be distributed via a deprivation supplement – paid to all provider type, based on a child’s eligibility for EYPP.
- 2% quality supplement – available to Schools only to support the increase in teachers’ pay and pensions contributions.

#### Non-formula elements

- 1.3% of the pass through to be distributed via a SENIF
- 0.2% of the pass through to be used to create a contingency budget.

## **8. Proposed funding formula elements illustration**

8.1. An illustration of the proposed formula elements to be distributed to providers in 24/25 for each of the funding entitlements is shown in the table below.

#### Formula elements

Entitlement	Base rate	Deprivation supplement	Quality supplement
Expanded entitlement for <b>under 2's</b> (9 months – 2 years)	<b>Included</b>	<b>Included</b>	Not included
Existing and Expanded entitlement for <b>2-year-olds</b> .	<b>Included</b>	<b>Included</b>	Not included
Universal and Extended Entitlement for <b>3&amp; 4-year-olds</b>	<b>Included</b>	<b>Included</b>	<b>Included</b>

Please note a change to formula for 24/25 for childminder sparsity element for -3& 4-year-old places, it is proposed this is removed.

8.2. [Appendix A](#), has been prepared for information only, to support providers and the schools forum respond to this consultation. It provides additional information and calculations considered in the development of the proposed funding formulas; this includes details on the non- formula elements as well as details (subject to the outcome of this consultation) of the proposed funding rates anticipated to be paid to providers in 2024/25.

## 9. Non- formula elements

9.1. There are three elements that form the main EYDSG which are not required to be part of the funding formula. Two of these elements are to be funded from the 95% high pass through rate, and one element is the LA retention to fund related activity/services.

## Special Educational Needs Inclusion Fund (SENIF)

10. Excerpt from DFE: [Early years entitlements: local authority funding operational guide 2024 to 2025 - GOV.UK \(www.gov.uk\)](#) states the following.

*“With the introduction of the new working parent entitlements for 2024 to 2025, local authorities should establish SENIFs for all children with SEN eligible for or taking up the entitlements, regardless of the number of hours taken. These funds are intended to support local authorities to work with providers to address the needs of individual children with SEN who are taking up the entitlements. This fund will also support local authorities to undertake their responsibilities to strategically commission SEN services as required under the Children and Families Act 2014.*

### Eligibility

*Local authorities should target SENIFs at children with lower level or emerging SEN. Children with more complex needs and with an education, health and care plan (EHC) plan continue to be eligible to receive funding via the high needs block of the DSG. Further information on the high needs funding system can be found in the [high needs funding arrangements: 2024 to 2025](#). As with other elements of early years funding, SENIFs should apply to children attending settings in the relevant local authority area, regardless of where they live.*

### Value

*The value of the fund should consider the number of children with SEN in the local area, their level of need, and the overall capacity of the local childcare market to support these children. **Local authorities should consult with early years providers to set the value of their local SENIF.***



## **Sources of funding**

*Local authorities should establish their SENIFs using funding from the early years block and/or the high needs block of their DSG allocation.*

## **Allocation of funding**

*As part of the preparation and review of their 'SEND local offer', local authorities must consult with various bodies including early years providers, parents and SEN specialists on the services and provision available to support children and young people with SEN and disabilities, and their families. As part of this 'SEND local offer', local authorities should publish details on how their SENIF will be used to support their early years SEN cohort. These details should include the eligibility criteria for the fund, the planned value of the fund at the start of the financial year, and the process for allocating the fund to providers.*

*Local authorities should pass the majority of their SENIF to providers in the form of top-up grants on a case-by-case basis. Local authorities can also support specialist SEN services in their local area.*

***Funding used for these local authority-wide support services will not count towards the 95% pass-through; they will be counted within the 5% centrally retained funding.***

## **Eligible providers**

*All early years providers that are eligible to receive funding for the entitlements are eligible to receive funding from the SENIF to support children with SEN attending their settings.*

## **Compliance**

*Local authorities must record the planned value of their SENIFs in their early years proforma of the s251 budget returns.*

10.1. Merton's SENIF budgets are established from the 95% pass through of **each** of the age-related entitlement funding streams, this means the total amount of each SENIF budget varies based on the age of the child and the estimated participation rates for eligible children. There is a requirement to publish the value of the fund each year.

10.2. The proposed value of the mandatory SENIF for 2024/25 will be based on the following methodology:

10.3. Where applicable, previous year's average participation for SENIF funding for three funding periods January 2023, May 2023 and October 2023

- 2-year-olds existing
- 3- and 4-year-olds universal and extended

Then an estimated participation of eligible children for expanded entitlement.

- Under 2s (4)
- 2- 3s expanded (5)

10.4. To note, during the first year of the rollout of the early education and childcare entitlement expansion an estimated number of eligible children in the new age-related entitlements will be used to create the SENIF budgets.

10.5. The proposed/indicative value of the SENIF budgets available in 24/25 for providers to apply for are as follows. This will be dependent upon the outcome of this consultation.

Under 2's entitlement	2-year-old entitlement	3& 4-year-old entitlement
Circa. £8K (estimated 4 children)	Circa. £36K (estimated 9 children)	Circa. £193K (based on methodology above –48 children)

## 11. Contingency Fund

- 11.1. Contingencies form part of the 95% high pass through rate and are held centrally to ensure a minimal amount of resource is held back to accommodate any possible growth in SENIF or the deprivation supplement due to an increase in take-up within these cohorts of children. It is proposed that any funds remaining in the contingency are distributed across the sector at the end of the year.
- 11.2. The council aims to keep the contingency fund as low as possible to ensure that the majority of the funding is passed on to providers at the earliest opportunity to support with business planning and sustainability, however the council must also consider the impact of any fluctuation in participation or over-spend in SENIF to ensure that the funding formula is sustainable and within the funding envelope the council receives from the DfE.

## 12. Centrally retained (5%)

- 12.1. A limit for centrally retained items of a maximum 5% has been set by the DfE. Merton intends to retain 5% of the entitlement funding stream in 24/25 to delivery its statutory functions (see appendix A for further details)
- 12.2. LAs can charge for applicable services. Merton Council is not proposing at this stage to charge for support, training, guidance and inclusion work in settings.
- 12.3. Schools' Forum approval is required for the overall centrally retained items of the Early Years block.
- 12.4. The centrally retained budget in 2024/25 is estimated at £1.1m

## 13. Indicative Budgets

- 13.1. By the end of February 2024, providers will receive an indication of their annual income (indicative budget) for 2024/25, based on the previous year's headcounts/claims. i.e., May 2023, October 2023, and January 2024.
- 13.2. Schools and providers should note that the indicative budgets are only able to provide an indication of the potential income from the existing entitlement. It is not possible for the Council to accurately predict how many children in each school or setting will participate the new entitlements.
- 13.3. In 24/25, as normal PVI settings will be asked to confirm their anticipated/realistic numbers ahead of each term for all entitlement (new and existing) to reflect any changes more accurately to be reflected the level of funding that is paid up front to providers.

- 13.4. During 24/25, Schools and settings actual funding allocations and budgets will be adjusted based on their actual headcount/census in each funding period during the financial year.

#### **14. Administration, data collection and payments**

- 14.1. It is the Government's expectation that local authorities can distribute funding to providers monthly. In Merton, schools are paid monthly, with an adjustment following headcount. PVI providers continue to be paid with an 80% upfront payment, followed by a mid-point headcount, and then finally a payment that includes children who have commenced after the headcount.
- 14.2. Merton does not intend to change this arrangement in 2024/25, it will however, review the payment schedule for all providers once the roll out of the new childcare expansion is fully implemented and the funding formula is embedded.

#### **15. Responding to the proposals**

- 15.1. If you would like to make comments on any of the proposals relating to the Early Years funding, please do so in the appropriate section of the [Consultation Feedback form](#) by 1 February 2024.
- 15.2. We appreciate that this is quite a technical note and complicated matter, if you wish to discuss the details of this consultation document, please contact [laura.byernes@merton.gov.uk](mailto:laura.byernes@merton.gov.uk), additionally, providers will be able to join a virtual Q&A session- please register using the links below
- 15.3. Once the consultation period closes, Merton will publish the outcome of the consultation week commencing 5 February 2024.
- 15.4. The council will then issue providers with their indicative budget week commencing 12 February 2024

#### **16. Consultation Timeline**

**17 January 2024** - Schools Forum meeting

**18 January –1 February 2024** - consultation period

**18 January 2024** – Merton's headteachers meeting

**23 January, 25 January and 30 January 2024** - provider engagement meetings

**w/c 5 February 2024** – LA publishes consultation response and local funding rates

**w/c 12 February 2024** - publish consultation outcome and local funding rates and indicative budgets

**20 March 2024** -Schools Forum meeting