By email: earlyyearsentitlementsexpansion.consultation@education.gov.uk

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ADCS response to Early years funding – extension of the entitlements

1. The Association of Directors of Children's Services Ltd. (ADCS) is the national leadership organisation in England for directors of children's services (DCSs) under the provisions of the *Children Act (2004)*. The DCS acts as a single point of leadership and accountability for services for children and young people in a local area, including children's social care and education. ADCS welcomes the opportunity to comment on the proposals outlined in the Early years funding – extension of the entitlements consultation.

Context

2. Extending entitlements to working parents will enable more children to access early education from a younger age. A child's access to high quality early years provision is linked to better academic results and improved cognitive and socio-emotional development in primary school, particularly for children from disadvantaged backgrounds (DfE, 2021). However, these reforms have come at a time when the market is in crisis, with early years providers facing high costs and severe workforce challenges (DfE, 2022). The number of available childcare places has reduced by 24,500 (2%) from 2022 to 2023, with 4,800 fewer childcare providers registered with Ofsted (DfE, 2023). Recent LGA (2023) research found that 40% of LAs reported more closures in the Autumn term of 2022 compared to the same period in 2021, suggesting that closures are on the rise. Local authorities have a statutory duty to ensure that there are sufficient free childcare places to enable take-up of early years entitlements, however some ADCS members have reported that providers in their area who currently cater only to 3 and 4 year olds, are reluctant to extend their offer to younger children, particularly infants from 9 months old. Increasing capacity across the sector to meet this additional need will not be a straightforward task and must be addressed ahead of the reforms being implemented.

Funding envelope

3. An Early Years Alliance survey from 2022 found that 90% of providers reported that their 2022 funding rates are not sufficient to cover the cost of delivering funded childcare places, and a third reported that they were operating at a loss (Early Years Alliance, 2022). The Early Years Supplementary Grant (EYSG) offered some relief, although IFS analysis (2023) found that while the announced funding is broadly in line with expected increases in providers' costs over the next two years, it actually represents a 13% real terms cut since 2017-18 when adjusted for the cost of inflation. The Women's Budget Group (2023) estimated that £1.8bn is required to make up the funding shortfall for existing funding entitlements, following years of chronic underfunding and pressures exacerbated by the cost of living crisis. Further to that, an additional £5.2bn would be needed for the expansion of the entitlements. Together, the additional £288m allocated for 2024-25 and DfE's expectation to provide over £4.1bn a year by 2026-27 in total, falls significantly short of this figure and puts the expansion of the entitlements as well as the security of the market at risk. No matter how carefully the funding is distributed, if the funding envelope is not sufficient, the market will not be able to successfully deliver on these new expectations.

National funding distribution for the entitlements of two year olds and under two year olds

4. Basing the funding formula for two year olds and under two year olds on the funding formula for three and four year olds seems sensible, as does the need for funding rates to be higher, the younger the age group, due to the change in ratios, required space and type of provision. The inclusion of the IDACI measurement as a more nuanced measurement of deprivation is welcomed and should be added to the three and four year old funding formula at the earliest point.

5. As ADCS has commented previously, the General Labour Market measure makes up 80% of the area cost adjustment, meaning that the vast majority is determined by wages last calculated in 2013/14. Not only is this information outdated, salaries of early years workers are notoriously low, and hover around minimum wage (DfE, 2021). Anecdotally, there seems to be very little variation by region, which means that this measure might skew the formula. Furthermore, the formula assumes that more money should be directed towards areas where wages are highest. This is a simplistic assumption as more nursery closures are happening in areas of disadvantage, the same areas where it is difficult to stimulate the market (NDNA, 2023). Higher funding rates could be used to encourage provision to open in areas where high quality education can have the greatest impact on children, in line with levelling up aims. It would be worth exploring alternative approaches to ensure funding methods and allocations reflect the current context.

6. Funding for three and four year olds is not in scope in this consultation which is disappointing given the viability of the sector is largely reliant on this funding, with nurseries having around 10 times more three and four year old children than aged two years and under (NDNA, 2023). While this ratio is likely to change with implementation of the entitlements, funding for three and four year olds will still make up a significant part of the early years sector's income and it should adequately reflect the true cost of delivering early education and childcare.

Funding floors

7. ADCS members welcome the fact that funding rates for 2024-25 are higher than they have been for 2023-24 in all areas, although a number of LAs are projected to have lower funding rates in 2024-25 when the EYSG is factored in. Although this was always understood to be a standalone one-off grant, in reality, this will make it difficult for providers in these areas to adjust to a lower funding rate at a time when costs are still high, there are significant workforce challenges and they are expected to increase capacity in line with the entitlement expansions. A minimum funding floor would be welcomed to guard against this.

Pass through rate

8. LAs rely on centrally retaining up to 5% of the early years funding in order to fund central SEND support, eligibility checking, etc., particularly when funding for such functions is being squeezed due to real term budget cuts in local government finance and inflationary pressures. ADCS members welcome the extension of the pass-through rate to apply to funding for two year olds and under two year olds, however LA early years teams will be under substantial pressure over the next few years to meet the demands of the increased entitlements. The £12m funding for LAs to support the roll out will go some way to increase the capacity of these teams, but this is unlikely to be sufficient.

Pupil premium

9. ADCS members welcome the expansion of the early year pupil premium (EYPP) to all children eligible for the funded entitlements. EYPP should be increased in line with school

pupil premium, which would improve the quality of education and make it more affordable for nurseries to be more inclusive.

10. If you would like to discuss any of the points raised in this consultation further, please contact sarah.wilson@adcs.org.uk in the first instance.