
Early Years Block – Early Years Single Funding Formula 2023-24

Executive Member: Cllr Tessa Munt - Executive Member for Children, Families & Education
Local Member(s) and Division: All

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Summary / Background

1. The Government's Early Years National Funding Formula sets the hourly rates that each Local Authority receives to pay the entitlement funding for 3 & 4 year olds and eligible 2-year olds. For the 2023-24 financial year the Government has increased the rate payable to Somerset from £4.61 to £4.87 per hour per child for 3 & 4 year olds and from £5.57 to £5.63 per hour per child for eligible 2 year olds.
2. Local Authorities are required to set and use a locally determined formula to fund the early years entitlement (the Early Years Single Funding Formula). The formula must have a base rate for all providers and must include a deprivation supplement for 3 & 4 year olds. At least 95% of the EYSFF funding rate must be passed to Early Years providers. It has been agreed at Schools Forum that a minimum of 97% will be passed to providers to maximise the hourly rate paid.

Recommendations

3. That the Executive Member for Children, Families & Education agrees:
 - a. A base rate of £4.65 per hour per child for the Early Years Single Funding Formula for 3 & 4 year olds for 2023-24
 - b. A rate of £5.46 per hour per child for eligible 2-year olds for 2023-24

Reasons for recommendations

4. The Local Authority manages the payment of Early Years providers who care for children eligible for funded childcare.
5. The base rates detailed above are designed to maximise the amount of funding passed to providers. The removal of the quality supplement in 2020-21 allowed the funding to be more equitably distributed across the sector.

6. In the year 2020-21, a significant number of providers saw a decrease in their hourly rate due to the removal of the quality supplement. To mitigate this, at least in part, the Local Authority agreed a minimum funding guarantee (MFG) for that year and the following two years. This meant that in 2020-21 no provider saw a fall in income of more than 1.5%, in 2021-22 of no more than a further 2.5% and in 2022-23 of no more than a further 3%. This ended the minimum funding guarantee period resulting from the removal of the quality supplement, so for the funding period 2023-24, MFG will not apply.
7. Somerset is proposing a basic hourly funding rate for 3 & 4 year olds of £4.65 per hour per child for 2023-24. This is an increase of £0.24 per hour on the 2022-23 rate of £4.41 and can be afforded due to an increase in the amount being given to the Local Authority. The average rate payable to providers from April 2023 will be £4.69 per hour per child once the deprivation factor has been applied. The high pass-through rate of 97% means that providers will get the maximum rate that is affordable within the parameters set by government.
8. The proposed rate for eligible 2 year olds is £5.46 per hour per child, an increase of £0.06 per hour on the 2022-23 rate of £5.40. Supplements do not apply to the 2 year old funding rate as only the most deprived 2-year olds are eligible for funded childcare.

Other options considered

9. Within the parameters set by the Government, the cost of various base rates for 2 year olds and 3&4-year olds were modelled. The base rates of £4.65 for 3 & 4 year olds and £5.46 for 2-year olds were the maximum available, allowing for 3% of the budget to be retained for central services and for a contingency fund to be kept in case of additional hours claimed. Any money unspent in the contingency fund at the end of the year is distributed to providers based on the number of hours claimed. Local Authorities can retain up to 5% of the budget for central services. Somerset receives the lowest available funding rate from the government and the LA decided to retain only 3% of the budget for central services, maximising the funding forwarded to providers.
10. There were no consultations on the components of the funding rate for the 2023-24 funding period. On 27 November 2019, Schools Forum agreed with the recommendation of the Early Years Sub-Group to cease the quality supplement element and for the funding to be added to the base rate (with a minimum funding guarantee for three years). There are no additional supplements, apart from the deprivation rate, which must be applied.

Links to Council Plan and Medium-Term Financial Plan

11. The Schools Budget supports the ethos of the Children and Young People's Plan 2022-25 that children learn well and develop skills for life.

12. Funding childcare places for 3 & 4 year olds, and eligible 2 year olds, helps towards providing early education and a good start in life for many children.

Financial and Risk Implications

13. Funding for Early Years is through the Early Years Block of the Dedicated Schools Grant (DSG). The initial allocation is provisional, with funding for the summer term 2023 to be confirmed in June 2023 following verification of the January 2023 Early Years census. Funding for the autumn term 2023 and spring term 2024 is not confirmed until June 2024, based on the January 2023 and January 2024 Early Years census results.
14. There are risks involved with setting the EYSFF for 2023-24 without knowing the amount of funding available; however, if the funding is insufficient to meet demand, Schools Forum will need to consider the implications the following year and make proposals to manage the risk.
15. Early Years funding for 2023-24 totals £30,648,428 including Disability Access funding and the Early Years Pupil Premium allocation. The entitlement funding available to providers is £30,351,227 with £910,500 (3%) retained as the Early Years central budget for sustainability, translation and interpretation contracts, early years communities and early years high needs. A contingency of £1,445,229 will be retained in reserve against any fluctuations in the hours claimed and any return of funding to the DfE due to a possible reduction in numbers in the 2023 census.
16. The Childcare Act 2006 requires Local Authorities to ‘ensure early years provision of a prescribed description is available free of charge to each young child that is eligible’. Currently, all children aged 3 and 4, and the most disadvantaged 2 year olds, are eligible for 570 hours of funded childcare per year. The Childcare Act 2016 extended this entitlement to include an additional 570 hours of funded childcare per year for 3 and 4 year olds in working families. Local Authorities have a duty to secure funded childcare places for qualifying children.
17. Providers can choose whether to offer places funded by the Government or not. If providers are not paid an amount that at least covers their costs, there is a risk that providers will choose not to offer funded places. If the demand is not met by the private, voluntary or independent sector, then the Authority will have to stimulate demand or fill the gap by creating provision. Increasing the awareness of funded childcare amongst parents is possible, but creating new provision is very costly, particularly if a new building is required.
18. The current reduction in the birth rate presents a risk to providers in terms of viability. When a childcare provider ceases to operate, the funding expected to be paid to that provider remains with the Local Authority, and any funds remaining at the end of the funding period are distributed between those open providers that offer early years entitlement places.

Likelihood	3	Impact	2	Risk Score	6
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Legal Implications

19. Legal implications: the decision to approve the EYSFF rates lies with the Lead Member for Children, Families & Education. The EYSFF complies with government guidance and the Early Years National Funding Formula.

HR Implications

20. None.

Other Implications:

Equalities Implications

21. Any proposed changes to the funding formula will impact all providers, whether positively or negatively. The use of the deprivation supplement will impact positively on the more deprived 3 & 4 year olds. The Equalities Manager has agreed in previous years that an Equalities Impact Assessment is not required for this key decision.

Community Safety Implications

22. No implications.

Climate Change and Sustainability Implications

23. Early Years providers play an important role in their communities and good quality, affordable childcare helps parents return to work or continue their working life. They also provide employment opportunities in urban and rural areas. A thriving network of pre-schools / nurseries and childminders allows parents to choose the childcare setting that suits their needs.
24. The increase in the funding rate has not kept up with cost-of-living increases. The level of funding given to Somerset is not enough to enable childcare businesses to pay a rate to attract and retain staff; across the sector there are issues with recruitment and retention of staff. The LA passports the maximum possible funding rate to early years providers.
25. For their businesses to be sustainable, Early Years providers need to be funded for their eligible children at a rate that covers their costs and at least approaches the amount they would receive if they charged parents directly.
26. The number of childminders in Somerset has been declining for at least the past 10 years, following the national trend. Several group providers in Somerset have closed in the past year, some citing lack of sustainability as the reason for closure.

Health and Safety Implications

27. None.

Health and Wellbeing Implications

28. The Local Authority aims to increase the base rate where possible to ensure that Early Years providers can provide sustainable places where possible for all families claiming Early Years Entitlements. The Early Years Entitlements enable access to high quality Early Years provision that helps children reach their full potential and supports parents into work or to increase their working hours.

Social Value

29. Not applicable.

Scrutiny comments / recommendations:

30. The proposed decision has not been considered by a Scrutiny Committee.

Background

31. The DfE allocates the Local Authority an hourly rate to fund the provision of the Early Years Entitlement.

32. The Early Years Block of the Dedicated Schools Grant (DSG) is made up of the following funding streams:

- The Early Years Entitlement for disadvantaged 2 year olds
- The Early Years Universal Entitlement for 3 & 4 year olds
- The Early Years Extended Entitlement for 3 & 4 year olds of eligible working parents
- The Early Years Pupil Premium (EYPP)
- The Disability Access Fund (DAF)

33. For the 2023-24 financial year the Government has increased the gross rate payable to Somerset (covering the funding available to providers, the Early Years central budget and the contingency for fluctuations in hours claimed) from £5.57 to £5.63 per child per hour for eligible 2 year olds (an increase of 1.1%) and from £4.61 to £4.87 per child per hour for 3 & 4 year olds (an increase of 5.6%).

34. Local Authorities are required to set and use a locally determined formula to fund all types of Early Years provision (the Early Years Single Funding Formula) and supply all providers with an indicative budget at the beginning of the financial year. The formula must have a base rate for all providers and must include a deprivation supplement for 3 & 4 year olds. Other supplements are at the Local Authority's discretion. The funding rate for 2023-24 comprises a base rate and deprivation supplement.

Background Papers

35. Early Years National Funding Formula rates and guidance for local authorities:
[Early years funding: 2023 to 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/early-years-funding-2023-to-2024)
36. Minutes of Schools Forum on 11th January 2023 and 22nd February 2023 (available on request).

Appendices

37. None

Report Sign-Off

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	26/06/2023
Communications	Chris Palmer	26/06/2023
Finance & Procurement	Nicola Hix	07/06/2023
Workforce	Chris Squire	08/06/2023
Asset Management	Oliver Woodhams	22/06/2023
Executive Director / Senior Manager	Amelia Walker	15/03/2023
Strategy & Performance	Alyn Jones	26/06/2023
Executive Lead Member for Children, Families & Education	Cllr Tessa Munt	02/06/2023
Consulted:		
Local Division Members	All	
Opposition Spokesperson for Children, Families & Education	Cllr Frances Nicholson	27/06/2023
Scrutiny Chair	Cllr Leigh Redman	27/06/2023