

Decision Report – Lead Member Decision

Forward Plan Reference: FP/24/01/24

Decision Date – 29 April 2024

Key Decision – yes

Confidential Information – no



Early Years Block – Early Years Single Funding Formula 2024-25

Executive Member(s): Lead Member for Children, Families and Education

Local Member(s) and Division: All

Lead Officer: Amelia Walker – Assistant Director, Education Partnership & Skills

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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 eligible children aged 9-months-old to 4-years-old. For 2024/25, as a result of the Expansion of the Early Years Entitlement, Somerset's overall funding allocation has been increased to provide funding for additional childcare hours:
 - From April 2024 eligible working parents of 2-year-olds will be able to access 15 hours of funded childcare per week for 38 weeks of the year (a maximum of 570 hours per year).
 - From September 2024 this offer will be extended to eligible working parents of children from the age of 9-months-old.

For the 2024-25 financial year the Government has increased the rate payable for 3&4-year-olds from £4.87 to £5.47 per hour, and from £5.63 to £7.48 per hour for eligible 2-year-olds. Children aged under 2-years-old were not previously funded, the rate for this age range is £10.16 per hour.

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. This must include a deprivation supplement for 3&4-year-olds and although discretionary for the 2-year-old and

the under 2-year-old hourly rates, the guidance expects local authorities to ensure that funding for deprivation is reflected within the funding approach, which could be achieved through a deprivation supplement. Whilst the guidance allows for the option of two differing hourly rates for eligible 2-year-olds from disadvantaged families and eligible 2-year-olds from working families, the disadvantaged rate must be at least equal to the working families rate. At least 95% of the Early Years Single Funding Formula (EYSFF) funding rate must be passed to Early Years providers.

Recommendations

3. Lead Member for Children, Families and Education agrees:
 - a. A base rate of £5.23 per hour per child for the Early Years Single Funding Formula for children aged 3&4-years-old for 2024-25.
 - b. A base rate of £7.16 per hour per child for the Early Years Single Funding Formula for eligible children aged 2-years-old for 2024-25.
 - c. A base rate of £9.78 per hour per child for the Early Years Single Funding Formula for eligible children under 2-years-old for 2024-25.

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. Somerset is proposing a basic hourly funding rate for children aged 3&4-years-old of £5.23 per hour, eligible children aged 2-years-old of £7.16 per hour, and eligible children aged under 2-years-old of £9.78 per hour, for 2024-25. This is an increase of £0.58 for 3&4-year-olds, and £1.70 for eligible 2-year-olds. The proposed basic hourly funding rate for eligible children aged under 2-years-old is £9.78, this age group was not previously funded in 2023-24. During the 2023-24 financial year the Early Years Supplementary Grant, which acted as a mid-year uplift, provided an additional hourly rate during the period September 2023 to March 2024 for eligible 3&4-year-olds of £0.32 and for eligible 2-year-olds of £1.69. Although this Government grant was not intended to form part of the base rate, when taking this into account, there is an increase on the hourly rate in

contrast to the last financial year of £0.26 for 3&4-year-olds, and £0.01 for eligible 2-year-olds. *Once the deprivation factor has been applied the average rate payable to providers from April 2024 for 3&4-year-olds will be £5.31 per hour per child and £7.23 per hour per child for eligible 2-year-olds. From September 2024 when funding commences for eligible children aged under 2-years-old the average rate payable to providers will be £9.85 per hour per child once the deprivation factor has been applied.*

Other options considered

7. Within the parameters set by the Government, the cost of various base rates for the three age ranges were modelled. Guidance requires a deprivation rate to be payable on the funded hourly rate for children aged 3&4-years-old, although not mandatory for the hourly rates of children aged 2-years-old and under 2-years-old, guidance expects local authorities to ensure that funding for deprivation is reflected in their approach, which could be through a deprivation supplement. Whilst there can be two different hourly rates decided for the eligible 2-year-olds from disadvantaged families and eligible 2-year-olds from working families, the disadvantaged rate must be at least equal to the working families rate. Formulating hourly rates for these two age groups without deprivation was considered, along with the option of different rates for the two 2-year-old entitlements. The inclusion of a deprivation rate, and one single rate for all eligible 2-year-olds was preferred as this creates a consistent approach and maximises supporting the most deprived children, recognising the additional costs associated with supporting children from disadvantaged backgrounds.
8. The base rates proposed provide the maximum hourly rate to be passed through to providers, without creating a significant deficit balance, which would have to be recovered later from providers through an adjustment.
9. The base rates proposed 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 Local Authority decided to continue to retain only 3% of the budget for central services, maximising the funding forwarded to providers.

Links to Council Plan and Medium-Term Financial Plan

10. The schools Budget supports the ethos of the Somerset Childrens and Young People's Plan 2022-2024 that children learn well and develop skills for life.
11. Funding childcare places for early years aged children, helps towards providing early education and a good start in life for many children.

Financial and Risk Implications

12. 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 2024 to be confirmed in June 2024 following verification of the January 2024 Early Years census. Funding for the autumn term 2024 and spring term 2025 is not confirmed until June 2025, based on the January 2024 and January 2025 Early Years census results.
13. There are risks involved with setting the EYSFF for 2024-25 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 a proposal to manage the risk.
14. Early Years funding for 2024-25 totals £50,210,849 including Disability Access funding and the Early Years Pupil Premium allocation. The entitlement funding available to providers is £48,350,200 with £1,434,000 (3%) retained as the Early Years central budget to support the sector which includes sustainability grants, safeguarding, Early Years SEND and administration of the Early Years Entitlement. A contingency of £1,524,100 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 2024 census.
15. 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&4-years-old 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&4-year-olds in working families. As part of the Expansion of the Early Years Entitlement in 2024 and 2025, from April 2024 eligible children aged 2-years-old in working families will be eligible for

570 hours of funded childcare per year, increasing to 1140 hours from September 2025. From September 2024 eligible children aged under 2-year-olds in working families will be eligible from 9-months-old for 570 hours of funded childcare per year, increasing to 1140 hours from September 2025.

16. 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 to not offer funded places. The Local Authority has a duty to ensure sufficiency of childcare places in Somerset, therefore if the demand for funded childcare is not met by the private, voluntary or independent sector, the Local Authority will have to stimulate supply or fill the gap by creating provision. If the Local Authority needs to fund or partially fund the creation of new provision to meet the statutory requirement, this would be very costly, particularly if a new building is required.

17. In 2023 the population of children aged 0 to 4-years-old in Somerset reduced by 1.18% on the previous year. Funding is based on the January 2024 and January 2025 census results and the contingency held by the Local Authority will mitigate an anticipated small decrease in early years population. The reduction in the birth rate presents a risk to providers in terms of viability, however overall demand for early years places is increasing each year and will increase further with the phased expansion of the Early Years Entitlement. 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.

18. The key risks associated with setting the Early Years Funding Formula are set out below:

Key risk 1: The total allocation is not sufficient to cover Early Years Entitlement claims at the proposed hourly rate.					
Likelihood	3	Impact	2	Risk Score	6
A contingency of £1,524,100 will be retained in reserves against any fluctuation in the hours claimed.					

Key risk 2: Following census returns, a reduction in the Early Years population leads to return of funding to the DfE.

Likelihood	3	Impact	2	Risk Score	6
A contingency of £1,524,100 will be retained in reserves against any return of funding to the DfE due to a possible reduction in numbers in the 2024 census.					

Key risk 3: Providers are not paid a sufficient rate to cover their costs and as a result, choose to not offer funded places.					
Likelihood	3	Impact	2	Risk Score	6
The base rates proposed provide the maximum hourly rate to be passed through to providers, without creating a significant deficit balance.					

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 early years children. The Equalities Manager has agreed 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 eligible children aged 9-months-old-plus of eligible working families.
- The Early Years Entitlement for eligible 2-year-olds of eligible working families.
- The Early Years Entitlement for eligible 2-year-olds of disadvantaged families.
- The Early Years Universal Entitlement for 3&4-year olds.
- The Early Years Extended Entitlement for 3&4-year-olds of eligible working families.
- The Early Years Pupil Premium (EYPP)
- The Disability Access Fund (DAF)

33. In the Spring Budget of 2023, the Chancellor announced that funded childcare hours would be extended to children of eligible working parents in England from the term after they turn 9 months old. The expansion will offer up to 30 funded hours of childcare per week over 38 weeks of the year for eligible children. The expansion will be rolled out in phases as follows:

- From April 2024 15 hours a week offered to eligible children aged 2-years-old.
- From September 2024 15 hours a week offered to eligible children aged 9-months-old-plus.
- From September 2025 the offer will be increased to 30 hours a week for eligible children.

34. For the 2024-25 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 £5.63 to £7.48 per child per hour for eligible 2-year olds (an increase of 32.9%) and from £4.87 to £5.47 per child per hour for 3&4-year olds (an increase of 12.3%). The financial year 2024-25 will be the first time that children aged 9-months-

old-plus have been funded by the Government. The gross rate payable to Somerset is £10.16 per child per hour. During the 2023-24 financial year the Government also made payment of the Early Years Supplementary Grant to Somerset, which acted as a mid-year uplift, providing an additional gross hourly rate during the period September 2023 to March 2024 for eligible 3&4-year-olds of £0.33 and for eligible 2-year-olds of £1.79.

Background Papers

35. Early Years National Funding Formula rates and guidance for local authorities: [Early Years funding: 2024 to 2025 - GOV.UK \(www.gov.uk\)](http://www.gov.uk)
36. Minutes of School Forum on 21st February 2024 (available on request).

Appendices

- None

Assurance checklist

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	15/03/2024
Communications	Peter Elliott	21/03/2024
Finance & Procurement	Nicola Hix	22/03/2024
Workforce	Alyn Jones	14/03/2024
Asset Management	Oliver Woodhams	09/04/2024
Executive Director / Senior Manager	Amelia Walker	15/04/2024
Strategy & Performance	Alyn Jones	14/03/2024
Executive Lead Member for Children Families & Education	Cllr Heather Shearer	12/03/2024
Consulted:		
Local Division Members	All	
Opposition Spokesperson for Children, Families & Education	Cllr Frances Nicholson	02/04/2024
Scrutiny Chair	Cllr Leigh Redman	14/03/2024