

Subject	<b>2023-24 Early Years Single Funding Formula (EYSFF)</b>
Meeting Date	16 January 2023
Executive Summary	<p>This report sets out the options for the early years single funding formula (EYSFF) for the financial year 2023/24 to enable a recommendation to be made to the council.</p> <p>Central budgets to support the council's statutory duties for early years are also set out in the report for agreement.</p> <p>A summary of responses to the consultation undertaken with the sector is in the process of being collated and will follow (as Appendix 2).</p>
<b>Recommendations</b>	<p><b>It is RECOMMENDED that the Schools Forum:</b></p> <ol style="list-style-type: none"> <li>I. Recommend to Council the 2023/24 EYSFF according to option 2 included in the consultation, as amended for the final funding rates in the December 2022 settlement as set out in Tables 3 and 4.</li> <li>II. Agree the central budgets supporting the early years free entitlements, set at the same level as 2021/22 and 2022/23 at £184,000, as shown in Table 4.</li> </ol>
Reasons for Recommendations	The LA must consult Schools Forum on the Local Funding Formulae for early years to apply in in the 2023/24 financial year.
Portfolio Holder(s):	Councillor Nicola Greene – Council Priorities and Delivery Councillor Mike White – Children and Young People
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Wards	Council-wide
Classification	For Information

## Background

1. The Early Years National Funding Formula (EYNFF) continues to be delivered through the Early Years Block of the Dedicated Schools Grant (DSG). Each Local Authority (LA) area's allocation is determined using a National Funding Formula (NFF). The LA is responsible for distributing this funding between childcare providers through a local Early Years Single Funding Formula (EYSFF). The methodology for applying supplements is determined locally and is the decision of the Local Authority with a requirement to consult providers on any changes proposed.
2. For the 3 and 4 year old entitlements, the local authority must allocate funding to providers through a base-rate, a mandatory deprivation supplement (other supplements are possible) and support for children with SEND as well as contribute towards the cost of central functions (which include checking eligibility for the additional 15 hours for working parents and support provided by central SEND teams).
3. The funding rate for 2 year olds operates as a single basic rate for all providers and includes a contribution to the cost of central functions. These functions include checking the eligibility of children, marketing the early years entitlement and providing funding to support children with special educational needs and disability (SEND), although supporting SEND in this age group is not a mandatory requirement. There is also no requirement for a separate deprivation supplement as all hours delivered under this funding are targeted at disadvantaged children.
4. When discussing the use of this funding from government with providers, it has been useful to consider how the hourly rates are used rather than using total funding figures.
5. The funded rate is the notional use of the headline government funding rate, the provider rate is the amount providers receive for each eligible hour of provision. Except for the base rate, the "cost" to the funded rate is less than the provider rate because not all funded hours will be eligible for all supplements. For example, the deprivation rate based on current method of distribution is paid to approximately 25% of eligible hours. i.e. one hour paid to providers for every four funded from government. This means that each hour from government contributes just over 13p towards deprivation supplements (£0.1325 x 4hrs funded = £0.53 paid for 1 hour to providers)
6. The LA budget for the EYFF assumes that funding will be received from government for the same number of hours as it pays to providers. However, funding the LA is based on the January census whereas funding to providers is currently based on actual hours delivered through the term. As numbers often increase after census there is a risk that the LA will need to pay for more hours than it receives funding for.
7. Since BCP was formed, £61million has been received and there is a cumulative 3 year deficit on the block of £0.169 million (less than 2% annual funding). See Table 1 below.

**Table 1 – Early Years Block 2019 – 2022**

	£millions	2019-20	2020-21	2021-22	Since BCP
	DSG	20.310	20.879	19.830	<b>61.019</b>
	Spend	20.257	20.663	20.268	<b>61.188</b>
	<b>In-Year Surplus/(Deficit) (£millions)</b>	<b>0.053</b>	<b>0.216</b>	<b>(0.438)</b>	<b>(0.169)</b>

## Illustrative Allocations

8. In July 2022, the DfE released an illustrative funding rate for local authorities for 2023-24. To ensure timeliness of the consultation process aligned to feedback received in previous years, the Council used illustrative funding rates to inform the options presented for consultation. Details of the indicative hourly funding rates are as follows:
  - 3 and 4-year-olds: funding rates potentially to increase by 25p from £4.61 to £4.86
  - 2-year-olds: funding rates potentially to increase by 16p from £5.60 to £5.76
9. The consultation took place during November – December 2022 and providers were asked to note that final funding settlement figures issued by government may be subject to change. A copy of the consultation document is provided at **Appendix 1**. A summary of the outcome of the consultation is provided at **Appendix 2**.
10. In respect of nursery classes in schools, the indicative allocations included that the Teachers Pay and Pensions Grant (TPPG) previously provided to support additional teacher salary costs had been subsumed into the 3&4 year old funding rate at £0.02 per hour (based on TPPG equivalent to £78,000). Importantly, the impacts modelled in the consultation did not allow for the loss of the TPPG grants for school nursery classes. **Appendix 3** shows the current year allocations as published on the ESFA website of £87,607. Two schools currently in receipt of this funding are no longer providing nursery classes in 2023-24 (equal to £10,255) and thus the impact for the remaining schools for 2023-24 totals £77,352.
11. Differentiated funding for differing costs has been much debated over the years. There are differentiated costs across providers in the sector where no additional funding is possible through introducing a supplement. This includes, for example, that only some providers pay business rates directly or indirectly (note that school business rates are funded at cost through the schools NFF). Smaller voluntary settings and schools do not need to cover a profit element. Larger private settings will generally have greater economies of scale across their operations potentially to balance other higher costs. The DfE moved away from this approach with providers needing to manage their costs within the funding envelope provided. Added to this, the feedback from providers in previous consultations has been to maximise the base rate. It is with this in mind that no proposal is made to introduce a new supplement to replace the TPPG grant.

## Levers and Options Presented in the Consultation

12. The options presented for consultation consider how the notional 25p funding increase could be utilised and importantly, how the projected increased demand for SEN inclusion funding could be paid for.
13. **Special Educational Needs Inclusion Funding Pressures:** The SENIF for 2022-23 has a budget of £900,000. At the end of the summer term, more than half of this budget had been used. It is expected this budget will overspend in 2022-23 with continuing growth throughout 2023-24. This rise in demand is despite the fall in the number of funded hours year on year which is compounding the budget issue. Based on the hours paid to providers in 2022-23, a SENIF fund of only £809,000 would be generated by the funding rates in 2022-23, despite a budget of £900,000. It is forecast that demand will continue to grow and require a fund of c £1.3 million, at current funding rates to providers in 2023-24 with a funding shortfall of £400,000. In order to manage this shortfall, the Council has modelled the impact on providers of several changes using the 'levers' set out below. The extent to which the lever is 'pulled' is modelled to balance a projected shortfall in the SENIF.

14. **Levers to pay for any increase in SENIF:** There are 3 'levers' available as follows:

- **Lever 1:** Remove the need to increase the size of the SENIF, either by reducing funding rates or changing the criteria so that fewer hours are eligible for the supplement. This would allow any DSG hourly funding increase rate to be put into the provider base rate.
- **Lever 2:** Reducing the deprivation funding rate to release sufficient funding to cover the increase of eligible hours expected in SENIF, again allowing any increase in the DSG hourly funding to be passed on to the provider base rate but allowing SENIF funding rates to be maintained.
- **Lever 3:** Limiting the increase in the provider base rate by utilising some of the funding increase to cover the increase of eligible hours expected in SENIF whilst maintaining the current SENIF rates.

15. **Options:** After discussions with Early Years Sub-Group, 3 options were presented for consultation as follows:

- **Option 1:** Reduce the Deprivation Supplement by 13p and remove Tier 1 SEN Inclusion Funding
- **Option 2:** Reduce the Deprivation Supplement by 20p and remove Tier 1 SEN Inclusion Funding
- **Option 3 :** Remove Tier 1 SEN Inclusion Funding

16. Each option is presented in the consultation paper in more detail. Also presented in the consultation paper are details of other options considered and discounted based on discussion about the principles which underpin the work of both the Council and the sector to promote fair access and assist the LA in championing the needs of vulnerable children and families, several options were explored and discounted as undeliverable. Options discounted were found to have a negative impact either, financially for some provider groups or, individually, for SEND children.

## Consultation Outcome

17. The Early Years Single Funding Formula consultation paper and online link for response was emailed to 301 childcare providers registered for early education funding within Bournemouth, Christchurch and Poole Council (BCP) on 14 November 2022. Several reminders were issued, including an article in the Early Years and Childcare News bulletin. A total of 5 briefing events were held, 2 in-person on 21 November and 3 virtual briefings thereafter. Virtual briefings were extended in order to improve the engagement and response rate of childminders. The deadline for responses to the consultation was 11pm on 9 December 2022.

18. Overall, 32% of the sector returned feedback on the consultation (96 responses of a total 301). The Council kept a record of provider's questions from each briefing session. A comprehensive summary of the responses to the consultation are contained in the consultation outcome provided at Appendix 2. Headlines from the consultation responses are set out in Table 2 below.

**Table 2: Consultation – Headline Responses**

	Question	Outcome/Response
Q1	Please indicate your support for your preferred option presented in this consultation.	61.5% indicated their support for Option 2. All types of settings prefer this option with the exception of School Nursery Classes where 5 of the 7 settings prefer Option 3.
Q2	We propose to make no change the current eligibility criteria for the Deprivation Supplement or SEND Tier 2 funding. Also, we do not intend to change the 0.4% retained for Central Services or introduce any further elements into the funding formula. Do you agree with this proposal?	90% of settings who responded agree and 10% disagree.
Q3	Please use this section to provide any additional comments you wish to make.	It is very clear that local providers and providers across England are facing increasing financial pressure and challenging times. There is widespread agreement across the sector that government funding is insufficient. The Council is therefore mindful that there is no one perfect option presented. See paragraph 20 below for a summary of key pressures and refer to pages 8-12 Appendix 2 for detailed questions and comments received.

19. The consultation responses show a clear preference for Option 2 - *Reduce the Deprivation Supplement by 20p and remove Tier 1 SEN Inclusion Funding*. Based on the indicative funding rates, the following changes are proposed under Option 2:

- **Deprivation:** the deprivation supplement paid per hour is reduced by 20p, to 33p per hour compared to the current year and
- **SEND Tier 1 Funding:** SEND T1 funding would be removed completely from the SENIF.
- **Base Rates:** The 3 and 4 year old base rate is increased by 22p to £4.48 and the 2 year old rate is increased by 17p to £5.45.
- Taking account of the extraordinary base rates for 2022-23, funded as described in 3.1 of the consultation document (Appendix 1), the actual base rate increase is 13p for 3 and 4 year olds and 8p for 2 year olds.
- Figures are subject to change to take account of DfE final settlement (see paragraphs 21 and 22).

20. **Pressures faced by the sector:** It is important to emphasise the sector nationally is under severe financial pressure. Locally, our providers across BCP report financial strain caused by inflation impacting the cost of staffing and supplies, significant increases to business rateable values, rising costs of utilities and a recruitment crisis. The sector feel very strongly that the current model of childcare is unsustainable caused by persistent under-funding and unrealistic hourly rates. The sector consider that the options presented do not help alleviate the pressures faced and there is concern about the impact of these on the quality and sufficiency of our early years sector. In the absence of increased funding, the sector is seeking solutions and resolutions from policy makers to reduce the demands placed on the sector, reduce workloads and help address the recruitment crisis and low pay.

## Update for DfE Final Settlement/Allocation

21. The final hourly rates were confirmed by government on the 16 December 2022. Actual hourly rates as compared to indicative funding rates are summarised as follows:

- 3 and 4-year-olds: funding rates to increase by 26p from £4.61 to £4.87 representing a penny increase from the indicative funding rates consulted on
- 2-year-olds: funding rates to increase by 28p from £5.60 to £5.88 representing a 12 pence increase from the indicative funding rates consulted on.

22. During the course of the consultation and in discussion with sub-group, it was agreed that any difference in the amounts from illustrative funding rates and final allocations would be split pro-rata across the funding formula. Given the increase to the 3 and 4 year olds rate was just 1 pence, this has been added to the base rate. Similarly, the 12 pence increase in the 2 year old funding rate has been added to the base rate as there are no other supplementary factors in the formula.

23. The final rates under Option 2 are set out in Table 3 below.

**Table 3 Proposed Early Years Single Funding Formula for 2023/24**

<u>2023-24 Rates</u>	3&4 yo rates			2 yo rates		
	Funded Rate	Provider Rate	% change from 22/23	Funded Rate	Provider Rate	% change
Funding Received	£4.87		5.6%	£5.88		5.0%
Base Rate	£4.49	£4.49	5.4%	£5.57	£5.57	5.5%
Deprivation Supplement	£0.08	£0.33	-37.7%			
SENDIF	£0.27	£6.30		£0.15	£6.30	
Central Functions	£0.03	-		£0.16	-	

### Recommended Option

24. Following the outcome of the consultation, Option 2 is proposed as the preferred option for the EYSFF to apply in the 2023/24 financial year. Taking account of the final allocation and consequent uplifts to the 3 and 4 year old and 2 year olds base rates, the proposed budget for 2023/24 is set out in Table 4 below.

**Table 4: Proposed budget under option 2 (amended for final allocation)**

	3 & 4 Year Olds	2 Year Olds	Total Spend	Notes
SEN	£1,061,640	£61,838	<b>£1,123,478</b>	T2 funding remains at £6.30 per hour. (T1 removed)
Central	£117,942	£65,960	<b>£183,903</b>	Represents 0.4% of total budget with no increase proposed
Base	£17,652,004	£2,296,246	<b>£19,948,250</b>	£4.49 3&4 year olds, £5.57 2 year olds
Deprivation	£314,351		<b>£314,351</b>	£0.33 for eligible hours (24.2% of hours)
<b>Total Spend</b>	<b>£19,145,937</b>	<b>£2,424,045</b>	<b>£21,569,982</b>	
<b>Funding Allocation</b>	<b>£19,145,937</b>	<b>£2,424,045</b>	<b>£21,569,982</b>	

25. The Schools Forum should:

- I. Recommend to Council the 2023/24 EYSFF according to option 2 included in the consultation, as amended for the final funding rates in the December 2022 settlement as set out in Tables 3 and 4.
- II. Agree the central budgets supporting the early years free entitlements, set at the same level as 2021/22 and 2022/23 at £184,000, as shown in Table 4.

### **Legal Implications**

26. Schools Forum must be consulted by the LA on the Local Funding Formula. The recommendation to the LA is to be made by School Members only (includes early years representatives).

### **Financial Implications**

27. Proposals in this report allow for a balanced forecast Early Years Block for 2023-24.

### **Background Papers**

None

### **List of Appendices**

**Appendix 1** Consultation Document Issues to Providers

**Appendix 2** Consultation Outcome/Responses

**Appendix 3** TPG and TPEGG Allocations for Schools with Nursery Classes