

Date of meeting:	Thursday 19 th January 2023
Title of report:	Early Years Funding Update
Type of report: Delete as required	For information & decision.
Executive summary: Including reason for submission	<p>This report considers the following areas:</p> <ul style="list-style-type: none"> • An update on the 2023/24 Early Years DSG allocation and requests approval of the associated planned expenditure. • Notification of a consultation to be undertaken on the funding rates to be paid to early years' providers for the funded early education entitlement for disadvantaged 2 year olds and 3 & 4 year olds for the 2023/24 financial year • An update on the latest position with regard to the supplementary funding provided for Maintained Nursery Schools.
Budget / Risk implications:	The levels of funding delivered by the Early Years National Funding Formula via the Early Years DSG impact on the sustainability of providers of early education and childcare and on the Council's ability to ensure sufficient places are available for families in line with statutory duties. The funding 'pass through' requirements impact on the services provided by the council.
Recommendations:	<p>The North Yorkshire Schools Forum is asked:</p> <ul style="list-style-type: none"> • To note the funding consultation to be undertaken with early years' providers within North Yorkshire. The views of the Schools Forum are requested on the proposed funding rate changes for the 2023/24 financial year. • To note the position with regard to the provision of supplementary funding for maintained nursery schools for the 2023/24 financial year. • To note the 2023/24 Early Years DSG allocation and to approve the associated planned expenditure.
Voting Requirements	All Schools Forum Voting Members
Appendices:	N/A
Report originator and contact details:	<p>Sally Dunn, Head of Finance – Schools & Early Years</p> <p>sally.dunn@northyorks.gov.uk</p>

Presenting officer:

Howard Emmett: Assistant Director, Strategic Resources

Howard.Emmett@northyorks.gov.uk

1.0 PURPOSE OF THE REPORT

1.1. This report considers the following areas:

- An update on the 2023/24 Early Years DSG Allocation and requests approval of the associated planned expenditure.
- Notification of a consultation to be undertaken on the funding rates to be paid to early years' providers for the funded early education entitlement for disadvantaged 2 year olds and 3 & 4 year olds for the 2023/24 financial year
- An update on the latest position with regard to the supplementary funding provided for Maintained Nursery Schools.

2.0 BACKGROUND

2.1 The Early Years National Funding Formula currently provides a local authority funding rate for three and four olds in North Yorkshire at the funding floor level of £4.61 per hour. This funding rate provides the calculation basis for the 2022/23 three and four year old Early Years DSG allocation. The local authority hourly funding rate covers both the costs of provider funding and any central services related to early years provision that are provided free at the point of delivery.

2.2 In addition to the early years funding increases announced in the Autumn 2021 Spending Review for the 2023/24 financial year, the DfE have announced that, nationally, additional funding of £20m will be provided in 2023/24 to support the early years sector with the costs associated with the increase in the National Living Wage from April 2023¹. The DfE have also provided a response to their Early Years National Funding Formula (EYNFF) consultation undertaken in Summer 2022. The response confirmed the implementation of the following changes for the 2023/24 financial year:

- The underlying datasets driving the early years' funding formulae will be updated to the most recently available data.
- Teachers pay and pension grants will be mainstreamed in both the EYNFF and MNS supplementary funding. In addition, the cap on funding supplements will be increased from 10% to 12% of the total value of the planned formula funding to providers to allow, if required, additional supplement provision to be added to a local funding formula for the allocation of this funding.
- The application of year-to-year protections of +1% and a gains cap of 4.9% and 10.0% for the EYNFF and 2-year-old formula respectively. The minimum funding floor for the EYNFF has increased to £4.87.
- A minimum funding floor for the MNS supplementary funding hourly rate of £3.80 and a cap on the MNS supplementary funding hourly rate of £10

2.3 On the 16th December 2022, the DfE announced an increase in the early years' local authority funding rate for the 2023/24 financial year. The funding rate for three- and four-year olds in North Yorkshire (i.e. the amount received by the local authority) will increase by 26p per hour from £4.61 per hour to £4.87 per hour (the minimum funding floor). The increase in funding for three- and four-year olds reflects the mainstreaming of the teachers' pay and pension grant equating to 5p per hour and 21p related to the funding increase outlined in the Spending Review announcements and the updating of the underlying data to the latest available datasets. The level of funding for

¹ The National Living Wage (NLW) will rise to £10.42 from 1 April 2023, an increase of 92 pence or 9.7%.

Early Years Funding Update

disadvantaged two-year olds will also increase by 13p per hour from £5.57 per hour to £5.70 per hour (representing a 2.3% increase). Early years' pupil premium will increase by 2p per hour (3 & 4 year universal entitlement hours only) from 60p per hour to 62p per hour (representing a 3.3% increase) and disability access funding will increase by £28 per annum from £800 per annum to £828 per annum (representing a 3.5% increase).

- 2.4 The regulations accompanying the Early Years National Funding Formula restrict the level of three- and four-year old funding which can be retained for the delivery of centrally managed services associated with early years' provision. The level of funding allowed to be retained is 5%. There are no regulations restricting the level of two-year old funding which can be retained by the local authority.
- 2.5 In addition to the three- and four-year old funding, the Early Years DSG allocation also includes funding for disadvantaged two year olds, early years pupil premium, disability access funding and maintained nursery school supplementary funding.
- 2.6 The three- and four-year old funding rate paid to early years providers consists of a base funding rate and funding supplements. The provider base funding rate for 2022/23 is £4.31 per hour. Within North Yorkshire, funding supplements are currently paid for deprivation, which is a mandatory funding supplement, and sparsity.

3.0 **CONSULTATION ON THE PROVIDER BASE FUNDING RATE FOR THREE & FOUR YEAR OLDS FOR THE 2023/24 FINANCIAL YEAR**

- 3.1 It is proposed to consult early years' providers within North Yorkshire on the following elements of three- and four-year old funding for the 2023/24 financial year:
 - Provider base hourly funding rate for three and four year olds
 - Sparsity funding supplement
 - The utilisation of the additional funding provided through the mainstreaming of the teachers' pay and pension grant

Provider Base Hourly Funding Rate

- 3.2 It is proposed to increase the provider base hourly funding rate for three- and four-year olds by 20p; this equates to 95% of the of the 21p increase in the 2023/24 local authority funding rate for North Yorkshire. The proposal would increase the three- and four-year old provider base rate funding from £4.31 to £4.51 per hour (representing a 4.6% increase). Dependent on the decisions made for 2023/24 in relation to the Sparsity funding supplement and the distribution of the funding previously allocated through the teachers pay and pension grant to schools and academies, the provider base rate funding may increase by a further 1p to 6p in addition to the 20p detailed above (ranging from an additional 0.2% up to an additional 1.4%).

Sparsity Funding Supplement

- 3.3 A Sparsity funding supplement has been available within North Yorkshire to support providers in areas where there is limited choice of early years' provision, and in circumstances where the provider is struggling to remain viable without additional interim financial support. Providers must apply for the funding and meet the following criteria:

Early Years Funding Update

- There is not a similar provider within 3 miles, and where, for at least 50% of children attending the setting, it is their nearest similar provider within 3 miles
- The provider is projecting that they will be operating at a loss in the next 12 months
- The provider has less than 3 months operating costs within their reserves
- Funding is based on a financial assessment carried out by NYCC
- Maximum award £16k

Over recent years there has been very limited usage of the £50,000 funding allocation for the Sparsity supplement, and it is now considered appropriate to request the views of the sector as to whether the Sparsity funding supplement should be retained for the 2023/24 financial year. An alternative funding option to the Sparsity funding supplement in instances where there is a risk to the sufficiency of early years' provision in a geographical area as a result of potential provider financial failure or limited availability of provision, would be the use of the Early Years DSG reserve to provide short-term exceptional financial support to secure early years provision for the children in the area. This option would provide greater flexibility in terms of the range of circumstances where short-term exceptional funding could be provided beyond those related purely to rurality e.g. short time shortages of early years provision in areas where significant housing growth has been experienced. Any discontinuation of the Sparsity funding supplement would result in the funding previously allocated to the supplement being available for distribution through the provider funding base rate; **this would add approximately 1p to the provider base rate funding for three- and four-year olds.**

Additional Funding arising from mainstreaming

- 3.4 For 2023/24 the DfE have made the decision to mainstream the teachers' pay and pension grant that has been paid as a separate grant in 2022/23 to schools and academies operating early years provision where the early years' children are recorded on the school/ academy census. The mainstreaming of the grant funding equates to an additional 5p per hour on the local authority funding rate for three- and four-year olds within North Yorkshire. The local authority will be inviting views from the sector on two options for the distribution of this funding:

a. Option 1

The three- and four-year old provider funding base rate is increased by 5p per hour.

This option would:

- Provide additional funding benefit to all providers within the early years' sector, thus supporting those providers that have received limited additional financial support from the Government in response to the current economic pressures e.g. 10% increase in the national living wage, energy and other general inflationary cost pressures.
- Support the wider sector in recruiting, retaining, and developing a workforce able to deliver high quality early years' provision
- Reflect regional proposals for the distribution of the funding
- Minimise the levels of complexity, administration and bureaucracy required for the distribution of the funding.

Early Years Funding Update

b. Option 2

Introduce a Quality Supplement that would be paid to those providers that employ a qualified teacher to deliver the early years provision, where the qualified teacher is employed on teachers' pay and conditions and where the employer pays into the teachers' pension scheme for the teacher delivering the early years' provision.

The Quality Supplement rate would be 22p per hour for three- and four-year old universal and extended hours for those providers that employ a qualified teacher to deliver early years provision and where the qualified teacher is employed on teachers' pay and conditions and where the employer pays into the teachers' pension scheme for the teacher delivering the early years' provision

This option would:

- Seek to allocate the funding, previously paid by separate grant, to the schools and academies that had previously received the grant funding.
- Support the approach advocated by the DfE: *"We also encourage local authorities to use the quality supplement to distribute the additional funding they will receive because of the mainstreaming of the teachers' pay and pensions grants"*.
- Not be applicable to maintained nursery schools. The DfE state: *"Local authorities are reminded that the maintained nursery school portion of the teachers' pay and pensions grant funding has been rolled in to MNS supplementary funding, and they should avoid double-funding MNSs through this supplement."*
- Require providers applying for the Quality Supplement to evidence that they meet the eligibility criteria and require the local authority to check the eligibility of applications for the supplement.

Consultation Proposals

3.5 The views of the early years sector will be sought via consultation on the following:

- a. A proposed increase in the three- and four-year old provider base funding rate of 20p per hour to increase the base hourly funding rate from £4.31 to £4.51 per hour.
- b. The discontinuation of the Sparsity funding supplement for the 2023/24 financial year, with the use of the Early Years reserve to provide any short term exceptional financial support to a provider required to secure sufficiency of early years provision within a geographical area until the availability of provision can be stabilised. The discontinuation of the Sparsity funding supplement would allow for the provider base rate funding to be increased by a further 1p per hour in addition to the 20p detailed in (a) above.
- c. The options for the distribution of the funding previously allocated to schools and academies via the teachers pay and pensions grant:

Option 1: Increase the three- and four-year old provider base funding rate by an additional 5p per hour (in addition to the 20p detailed in (a) above)

Option 2: Introduce a Quality Supplement which would be paid to those providers that employ a qualified teacher to deliver the early years provision, where the qualified teacher is employed on teachers' pay and

Early Years Funding Update

conditions and where the employer pays into the teachers' pension scheme for the teacher delivering the early years' provision. The Quality Supplement rate would be 22p per hour for three and four year old universal and extended hours. The funding supplement would only be payable to those providers meeting the eligibility criteria.

- 3.6 No changes are proposed to the funding rates for the deprivation funding supplement.
- 3.7 It is proposed to undertake a 4-week consultation which will run between the 25th January 2023 and 28th February 2023.

4.0 PROVIDER BASE FUNDING RATE FOR DISADVANTAGED TWO YEAR OLDS FOR THE 2023/24 FINANCIAL YEAR

- 4.1 In order to further develop and strengthen the early years' strategy within North Yorkshire, the local authority retained 1% of the local authority disadvantaged two year old funding rate in the 2022/23 financial year in order to resource the planned developments. The developments undertaken have related to strengthening the capacity of the Families Information Service in order to enable the service to be more resilient and proactive in collecting and analysing data regarding the childcare market within North Yorkshire. This will enable the local authority to continue to meet its statutory duty as well as support future developments of the early years strategy. 1% of the local authority disadvantaged two-year old funding will be retained for the 2023/24 financial year in order to support the continuation of this early years' strategy work within North Yorkshire.
- 4.2 The local authority funding rate for disadvantaged two-year olds has increased by 13p per hour for the 2023/24 financial year from £5.57 per hour to £5.70 per hour. It is proposed to increase the provider base hourly funding rate for disadvantaged two-year olds by 13p; this equates to the 13p increase received in the 2023/24 local authority funding rate for North Yorkshire. The proposal would increase the disadvantaged two year provider base rate funding from £5.51 to £5.64 per hour. The views of the early years sector will be sought via consultation on the proposed 2023/24 provider base funding rate for disadvantaged two-year olds.

5.0 2023/24 OTHER EARLY YEARS FUNDING ELEMENTS & LOCAL AUTHORITY EARLY YEARS DSG FUNDING ARRANGEMENTS

- 5.1 The national funding levels received from the DfE for the other early years funding elements for 2022/23 are as follows:

Funding Element	2023/24 Funding Level	<i>2023/24 increase in funding rate</i>	<i>2022/23 funding rate</i>
Early Years Pupil Premium	£0.62 / Per Hour (Universal Hours)	£0.02 / Per Hour (Universal Hours)	£0.60 / Per Hour (Universal Hours)

Early Years Funding Update

Disability Access Funding	£828 per annum per eligible child	<i>£28 per annum per eligible child</i>	<i>£800 per annum per eligible child</i>
------------------------------	--------------------------------------	---	--

Maintained Nursery Schools

- 5.2 The DfE have previously provided specific supplementary funding for maintained nursery schools (MNS) to enable their 2016/17 funding levels related to the delivery of universal provision to continue to be maintained. This has enabled a higher level of funding to continue to be paid to maintained nursery schools during the period which the supplementary funding is in place. In Summer 2022, the DfE announced an additional £10m investment in MNS supplementary funding from 2023-24, and they also consulted on proposals to distribute the MNS supplementary funding more evenly across all LAs with MNSs in 2023-24. In December 2022, the DfE confirmed the following developments for MNS supplementary funding for 2023/24:
- The introduction of a minimum funding floor set at £3.80 per MNS hour and a cap set at £10 per MNS hour, in order to distribute the supplementary funding more evenly between LAs with MNSs. North Yorkshire is receiving the floor level funding rate of £3.80 per MNS hour for three- and four-year old universal provision.
 - The funding which MNSs currently receive through the teachers pay and pension grants will be rolled into the supplementary funding that LAs receive for their MNSs from 2023-24. The indicative funding rate rolled into the MNS supplementary funding for North Yorkshire is £0.50 per hour; this funding is included within the overall £3.80 MNS supplementary funding rate.
- 5.3 The indicative MNS supplementary funding value for North Yorkshire is £414k. The indicative supplementary funding allocation is subject to adjustment at the end of the financial year to reflect the actual three- and four-year old universal hours delivered within the year by the MNS. The DfE have indicated that the level at which the minimum funding floor will be set for 2024-25 along with all other MNS supplementary funding rates will be announced in Autumn 2023. They have also stated that levels of supplementary funding for MNS for the financial years after this will be subject to the outcome of the next Spending Review. Discussions will be undertaken with the three MNS in North Yorkshire in order to review and agree the methodology for the distribution of the MNS supplementary funding. The DfE have provided confirmation that authorities may continue to use 'lump sums' to distribute additional funding to MNS. The Local Authority intends to lobby DfE for a clear and sustainable funding position for MNS.
- 5.4 The final Early Years DSG funding allocation for the 2023/24 financial year will be based on five-twelfths January 2023 early years census numbers + seven-twelfths January 2024 early years census numbers.

Early Years Funding Update

6.0 2023/24 EARLY YEARS DSG ALLOCATION – PLANNED EXPENDITURE

6.1 A summary of the 2023/24 Early Years DSG allocation is detailed below:

	£'000
Funding Direct To Providers	
Universal entitlement 3&4 year old places (incl. Funding Supplement provision)	20,066
Extended entitlement 3&4 year old places (incl. Funding Supplement provision)	10,451
2 year old places	3,275
Early Years Pupil Premium	291
EY Disability Access Fund	160
Maintained Nursery Schools Transition	414
Sub Total	34,657
Centrally Managed Services – funded by 3&4 Year Old DSG Funding	1,559
Centrally Managed Services – funded by 2 Year Old DSG Funding	33
Total Expenditure Funded by Early Years DSG	36,249
Funded By:	
2022-23 baseline	32,740
EYNFF Funding Rate Increase	1,703
Increase in 3&4 year old universal entitlement	759
Increase in 3&4 year old extended entitlement	824
Increase in 2 year old places	4
Early Years Pupil Premium	8
EY Disability Access Fund	41
Maintained Nursery Schools (MNS) Supplementary Grant rate increase	170
Total Early Years DSG	36,249

The final figures in relation to the funding to Early Years Providers and the DSG allocation are subject to in-year adjustments to reflect actual hours delivered during the year.

The early years' provider funding rates for disadvantaged two-year olds and three- and four-year olds for the 2023/24 financial year are subject to the outcome of the provider funding consultation. The 2023/24 rates for the other funding elements are proposed, based on the DfE funding rates, as follows:

Early Years Funding Update

Funding Element	Proposed Funding Level
Early Years Pupil Premium	£0.62 / Per Hour (Universal Hours)
Disability Access Funding	£828 per annum per eligible child

7.0 CENTRALLY MANAGED SERVICE PROVISION RELATED TO EARLY YEARS

- 7.1 As stated above, the local authority is allowed to retain no more than 5% of the three- and four-year old Early Years DSG funding allocation for early years centrally managed service provision in 2023/24. As the funding allocation will vary dependent on demand for the provision of 3 and 4 year old funded childcare, the centrally managed service budget which can be retained is also subject to some fluctuation. For 2023/24, the level of expenditure for this service provision funded from the three- and four-year old early years DSG will be £1.559m. Prior to the implementation of the Early Years National Funding Formula the funding allocation for these services was £2.17m; over recent years a budget saving of approx. £600k has been required in order to meet the 5% requirement. During this period, some central expenditure on early years' service provision has been met from local authority budget.
- 7.2 NYCC will retain 1% of the local authority disadvantaged two-year old funding for the 2023/24 financial year in order to support the continuation of the early years' strategy work within North Yorkshire. This work will include enhancing the support to the development of the different work streams within the Early Years Strategy including the statutory requirement to ensure there is sufficient childcare for children aged 0 – 14 (or up to 18 for disabled children) and the provision of information, advice and guidance to families and providers.
- 7.3 A breakdown of the centrally retained service provision planned expenditure to be funded from the three and four year old early years DSG is shown:

	2023/24
	£000's
Early Help	309.9
Early Years Sufficiency	84.9
School Improvement (includes Family Information Service)	326.4
Portage	308.3
Financial support (EY payments team, funding formula review etc)	203.6
Provider Email System	6.0
Other (e.g. data and performance, corporate overheads)	320.0
Early Years Strategy Development	33.0
Total Early Years Centrally Retained Service Provision Funded By Three & Four Year Old Early Years DSG	1,592.1

8.0 RECOMMENDATIONS

8.1 The North Yorkshire Schools Forum is asked:

- i. To note the funding consultation to be undertaken with early years' providers within North Yorkshire. The views of the Schools Forum are requested on the proposed funding rate changes for the 2023/24 financial year.
- ii. To note the position with regard to the provision of supplementary funding for maintained nursery schools for the 2023/24 financial year.
- iii. To note the 2023/24 Early Years DSG allocation and to approve the associated planned expenditure.

STUART CARLTON

Corporate Director – Children and Young People's Service