Here for young people
Here for communities
Here for you

Contextualising the Early Years National Funding Formula 2023/24

February 2023

Everyone should have a fair chance to discover who they are and what they can become.

About YMCA

YMCA believes in fairness and opportunity. There are essential building blocks for a full and rewarding life: a safe home; acceptance; guidance; friendship; physical and mental health; academic support; employment skills; and access to real opportunities. Many young people have never known these things; other people have lost one or more as they grew up, but we all need them. All of us. At YMCA, we provide these critical foundations for a fresh, strong start for young people and a better quality of life in the community.

YMCA is the largest charity provider of Early Years Education across England. We work with 7,528 children each year across 89 childcare settings and help them take their first step, speak their first word and ultimately have a transformative effect on their path into adulthood. We particularly work in low income communities where families face multiple vulnerabilities and often need the greatest support.

Summary

The Early Years National Funding Formula for 2023/24 falls short in supporting early years providers to deliver the government's free childcare scheme. Settings are now at risk due to inflation and the national living wage outstripping the level of funding increase being provided to local authorities for the coming year.

- Two year old early years funding rate has increased by 4.4% for 2023/24.
- Three and four year old funding rate has increased by 3.2% for 2023/24.
- Nearly half (47.7%) of local authorities have had a funding increase of 2% or less for two year olds in 2023/24.
- One third (33.8%) of local authorities have had a funding increase of 2% or less for three and four year olds in 2023/24.
- Early Years Pupil Premium has increased by 3.33% for 2023/24.
- Inflation (CPI) represents a 10.1% increase in costs and the National Living wage has been increased by 9.7%.
- There is now a 7% shortfall in funding for three and four year old early years funding and 5.7% for two year olds in keeping pace with the rate of inflation.

What is the Early Years National Funding Formula?

Since its introduction in April 2017, the EYNFF has set the hourly funding rates that each local authority is paid to deliver the universal and additional entitlements for three and four-year-olds. There is a separate formula that sets the hourly funding rates for two-year-olds.[1]

How is the formula worked out?

The EYNFF is made up of a base rate and additional needs funding with a local area cost adjustment. The base rate is the level of funding for all areas, regardless of location or need, this represents 89.5% of total funding. The additional needs element considers children eligible for free school meals, children with disabilities and children with English as an additional language. The cost adjustment reflects the local area costs across the county.[2]

The Government also sets a funding floor, for 2023/24 no local authority will receive less than £4.87 per hour, which is a 26p increase from the previous year.

In 2022 the Department for Education consulted on changes to the EYNFF, the main changes as a result are around local authority responsibilities in telling providers about changes in funding and providing additional information on supplements.[3]

For 2023/24 the Department for Education ensured every local authority received at least a 1% increase in early years rates and in total injected £20 million nationally to help the rising cost of living. They also introduced a gains cap of 4.9% for three and four year-olds and 10% for two year-olds and raised the funding floor to £4.87.[4]

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[1] https://www.gov.uk/government/publications/early-years-funding-2023-to-2024/2023-to-2024-early-years-funding- formulae-technical-note

[2] https://researchbriefings.files.parliament.uk/documents/CBP-8052/CBP-8052.pdf

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1124890/Early_years_funding_formulae_consultation_government_response.pdf

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1124890/Early_years_funding_formulae_consultation_government_response.pdf

2023/24 Early Years National Funding

The average annual increase in the early years funding forumla for 2023/24 was 3.2% for three and four year olds and a 4.4% increase for two year olds. [5]

One third (33.8%) of local authorities received an uplift of 2% or less for three and four year olds and nearly half of local authorities (47.7%) received an uplift of 2% or less for two year old funding.[6]

Percentage increase for two year old funding rate	Number of Local Authorities	Percentage of Local Authorities
1% and under	1	0.7%
1.01 – 2%	71	47%
2.01 – 3%	8	5.2%
3.01% - 4%	10	6.6%
4.01 – 5%	9	6%
5.01 – 6%	7	4.6%
6.01 – 7%	0	0%
7.01 – 8%	1	0.7%
8.01 – 9%	3	2%
9.01 – 10%	20	13.2%
10.01 – 11%	21	13.9%

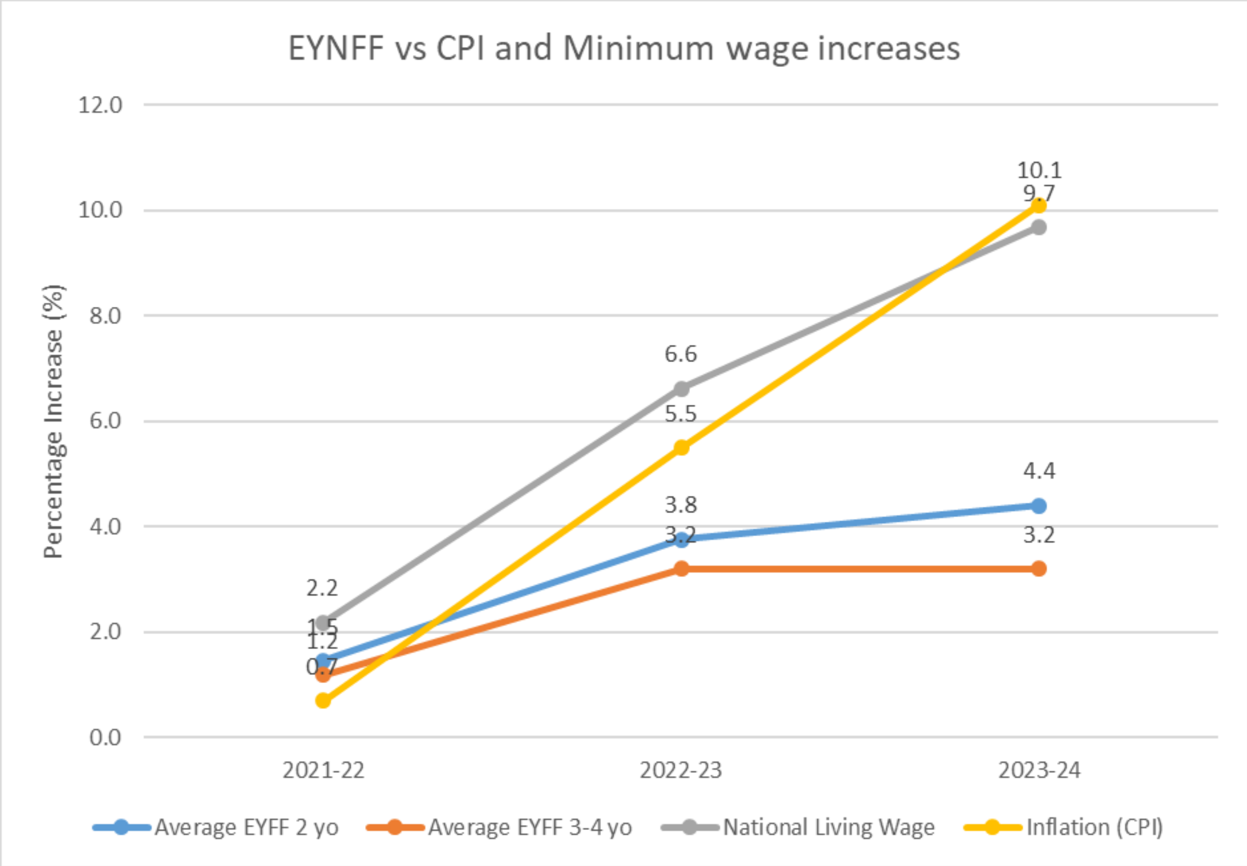
[5] https://www.gov.uk/government/publications/early-years-funding-2023-to-2024

[6] https://www.gov.uk/government/publications/early-years-funding-2023-to-2024

Percentage increase for three and four year old funding rate	Number of Local Authorities	Percentage of Local Authorities
1% and under	25	16.6%
1.01 – 2%	26	17.2%
2.01 – 3%	9	6%
3.01% - 4%	20	13.2%
4.01 – 5%	65	43%
5.01 – 6%	6	4%

This is against a backdrop of rising inflation, by January 2023 CPI hit 10.1%, increasing the every day costs of running early years provision including food, rent and electricity bills. The National Living Wage was increased for 2023/24, with wages accounting for around 70% of a YMCA early years settings overall expenditure, and this was uplifted by 9.7% between 2022/23 and 2023/24.

With the Early Years National Funding Forumla not truly taking into account the rising inflation rate there is now a 7% (6.9%) shortfall between the increase in the rate paid for three and four year olds and the increase in inflation during the same time period. For the two year old rate the shortfall is 5.7%.



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Additionally, Early Years Pupil Premium, which is additional funding given to providers who support families from low income backgrounds increased in 2023/24 by 3.33%, going from 60p per hour per child to 62p.[8]

[7] https://www.gov.uk/government/publications/early-years-funding-2021-2022; https://www.gov.uk/government/publications/early-years-funding-2022-to-2023; https://www.gov.uk/government/publications/early-years-funding-2023-to-2024; https://researchbriefings.files.parliament.uk/documents/SN02792/SN02792.pdf

https://www.gov.uk/national-minimum-wage-rates

[8] https://www.gov.uk/government/publications/early-years-funding-2023-to-2024/2023-to-2024-early-years-funding- formulae-technical-note

What is the impact of the funding formula not keeping pace with inflation?

YMCAs are now having to make difficult decisions about their early year settings. In many cases we already operate at a loss because government funding does not cover the full cost of what it takes to be a good early year's provider which does not place a cap on how many free early years places are provided.

One local YMCA has already decided to close four of its settings in an area leaving 145 children seeking a new early year's placement.[9] Further YMCAs are having to change their business models of review if they can still operate in the most deprived areas of the countries.

YMCA providers told us:

"As a result of the woefully low funding settlement, we will be closing three of our nurseries in the next month. Regrettably, these are in the most deprived areas of our patch, where families need the support most, however having heavily subsidised these nurseries for a few years to hundreds of thousands of pounds, it is clear there is simply no sustainable business model when relying on government funding...even when this is the very people the government should be trying to level up."

"We are seeing in the rise of children presenting with quiet complex SEN needs. At the moment I have 110 families registered with us, and currently 10 children on our SEND register. Many of these children and their families will also have an early help assessment in place. In [area] we can apply for early years inclusion funding (EYIF). The panel receives a high number of applications and a good application can take up to three hours of the SENCO's time to complete. Currently [area] pays £8.26 per hour for this funding and there is no planned increase for this amount in next year's funding rates."

"We are seeing in work poverty arising with staff and I'm not sure our parents can sustain an extra cost burden. The thing that amazed us is the government is intent on encouraging people and particularly parents back into the work place - this isn't going to happen whilst early years is the orphan of the funding regime - parents won't be able to afford any extra costs and settings can't take on any more costs without forced closures becoming common place."

"Not an easy pill to swallow with food costs up 30%, energy costs up 30-40% and National Living Wage increases too. Our parents are struggling, our staff are struggling and our hands are tied. There is no more fat left to trim."

"We continue to run our preschool provision for deprived areas at a loss. Expecting nurseries and preschools to subsidise funded places by charging higher fees for those that can afford it is a stealth tax on working families and a systematic prejudice against low income families and deprived children. The continued trend of inadequate funding is leading to substantial closures of local sites, reducing the working population and increasing risk for vulnerable children."

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9 https://www.dailyecho.co.uk/news/23305625.southampton-ymca-nurseries-set-close-february/

What was the situation before inflation started to increase rapidly?

The local authority funding rate is too low compared to cost of delivery

Prior to the 2023/24 Early Years National Funding Formula announcement, 80% of YMCA childcare settings said they cannot deliver childcare at the funding rate provided by the local authority. This means they either operate at a loss or private fee paying families have to subsidise the cost of delivery. In deprived communities, where the majority of families only access funded childcare places, all too often there is no choice but to operate at a loss. Previously YMCA had reported that for every hour of early year's education YMCA offers per child on the government scheme, we lose on average £1.07 per child per hour, as funding does not cover the full cost of delivery.

This is echoed nationally with there being a 20% shortfall in funding across the country compared to cost of provision.[10]

Government policy penalises settings in the most vulnerable communities

64% of YMCA early years income comes from government funded places. This is often because more commercial providers place a cap on the number of funded places they take as it is less profitable and also chose to operate in more affluent communities. However, 80% of YMCAs who provide early years education do not put any caps on their ability to take government funded places to support those families who need it most.

YMCA often has a disproportionate amount of funded places, compared to other providers, to ensure those disadvantaged families do not go without. In some areas we operate, all the places we offer are government funded, without any subsidy from private non-funded places charged at a higher rate.
Almost half (45%) of all YMCA childcare settings are in the 30% most deprived areas and as such, we can have the greatest impact on children reaching attainment outcomes.[11]

YMCA research demonstrates that amongst our settings there are higher levels of additional needs in more deprived settings compared to more affluent ones. This leads us to working on reduced ratios in some areas in order to support those with higher level needs. We can demostrate that there is a lack of additional non-government funding hours being bought in deprived settings meaning there is an inability to cross subsidise the additional support required for these children.

The cost of delivery is rising at a disproportionate rate compared to the increases in the funding rate

Staffing is one of the biggest expenses a childcare provider has, forming around 70% of expenditure. With the increasing National Living Wage, it is clear the funding rate has not been rising at the same

[10] APPG for Childcare and Early Education, Steps to Sustainability, 2019, p.5

[11] MHCLG, Index of Multiple Deprivation Rank, accessed: 1/3/21

pace. With a sector already in a fragile state, the shortfall for those who provide a large number of funded places must be addressed.

Since 2016 the National Living Wage has increased by 24% and in that same time the average funding rate that local authorities give to providers has only increased by 13%. This forces an additional burden of higher wages onto providers.[12]

Recruitment in crisis

Local YMCAs are finding it increasingly hard to find qualifed staff to work in early years. Many of them set out that the salaries in which they were offered in an early years setting, as dictated by the funding rate, are not high enough to attract talent or retain them in the organisation. YMCAs sited that workers often left for jobs in supermarkets because it paid more money.

For staff members who continue to work in early years, many are struggling with the impact of the cost of living crisis. YMCA heard reports of staff members being unable to afford to buy correct uniform, pay for lunches or afford the petrol in their car to drive to work. Some YMCAs have adapated by offering staff members free meals with the children they work with, washing their uniforms and offering advanced wage payments.

Recommendation

YMCA recommends that the Department for Education should reconsider its funding allocations for 2023/24 and for them to fully take into account rising rates of inflation and the national living wage. In particular to focus on financial support for those settings which work in the most deprived areas of the country.

[12] Gov.UK, National Minimum Wage and National Living Wage rates, accessed: 1/3/21 compared to Gov.UK, Early years funding: 2021-2022, 2020 and Gov.UK, Early years national funding formula: funding rates and guidance, published 2016, updated 2018 (data for years 2016-2020)

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