Easy Explainer: Early Years Funding Rates

What does today's funding announcement mean?

We have announced local authority hourly funding rates for April 2024 to March 2025. These are the rates that the Department for Education (DfE) will pay to each local authority to fund the existing early years entitlements (for 3 and 4-year-olds and disadvantaged 2-year-olds) and the new working parent entitlements, for children aged 2 years old from April 2024, and 9 months and above from September 2024.

How are the local authority hourly funding rates determined?

The local authority hourly funding rates are determined using the early years national funding formulae (EYNFF). These formulae consider the different costs of delivering early years provision in different parts of the country.

The formulae include **a base rate** for each child, which is the same minimum funding for every child, no matter where they live or whether they have additional needs. This is based on the core costs of childcare provision and was informed by review on childcare costs.

On top of the base rate, we provide more funding for **additional needs factors.** This is based on the proportion of children in each area who have additional needs, and uses the following measures: deprivation, English as an additional language (EAL) and special educational needs and disabilities (SEND). We do this to reflect the higher costs of meeting these children's needs.

The hourly rate is then modified using the local **area cost adjustment** (ACA) to account for factors like staffing and premises, the costs of which vary across the country. This approach only increases funding; it never reduces the base rate or additional needs funding.

The formulae ensure funding is distributed fairly and transparently across the country, targeting areas where it is needed most. Each year, we publish step-by-step tables which show how we calculate the hourly rates given to each local authority.

Are these the final funding rates for providers?

The majority of the **local authority hourly rate** announced by DfE is to support providers with the core costs of providing entitlement hours and must be passed on to providers. A small proportion can be used to support local authorities to administer the entitlements locally.

Local authorities are best placed to determine how to use their total funding allocation to meet the needs of their communities. So, using the DfE rates as a starting point, local authorities set their own **provider hourly rates** using their own local formulae. These formulae and the provider hourly rates are different to the rates announced by DfE and are decided at a local level.

Before deciding on their local formulae and provider hourly rates, local authorities must consult with their providers and schools forum to decide how the money will be spent. They make sure that at least 95% of the money goes to providers overall. The 95% includes the funding streams below, which can be targeted at some providers and not others. This means that individual providers may receive more or less than 95%. Last year, on average, local authorities planned to pass on 97.8% overall.

The 95% includes:

- the **universal hourly base rate**, which is paid to all providers
- **supplements** for deprivation, rurality or sparsity, flexibility, quality and English as an additional language (although this extra money cannot be more than 12% of the total funding to providers). These are paid based on providers meeting certain eligibility criteria.
- **special educational needs inclusion fund (SENIF),** which should be targeted at children with lower level or emerging special educational needs (SEN).
- **contingency funding**, which is extra money set aside for changes in the number of children taking up the entitlements throughout the year.

Local authorities can keep up to 5% of their total funding for their own services, such as eligibility checking. Once this process is complete, providers should receive their rates. Local authorities are encouraged to do this in a timely manner to give providers enough time for business planning.