



## Schools Funding Forum 23<sup>rd</sup> February 2021

## ITEM 3

**Subject Heading:**

**Early Years Funding 2021-22**

**Report Author:**

**Nick Carter – Principal Finance Officer  
(Schools)**

**Eligibility to vote:**

**All school and academy members and  
the PVI representative**

### SUMMARY

This item is for the Schools Funding Forum to consider the Local Authority's recommendations on the funding of early years provision in Havering for the financial year 2021-22 following consultation with the Early Years Provider Reference Group and early years providers.

### RECOMMENDATIONS

The Schools Funding Forum agrees that:

1. (i) The basic hourly rate for 2 year olds is increased from £5.68 to £5.76  
(ii) A contingency of 1% is retained to meet the cost of any in-year increase in 2 year old hours not funded by the Government
2. (i) The basic hourly rate for 3 & 4 year olds is increased from £5.00 to £5.02.  
(II) The Early Years Inclusion Fund funded from the Early Years Block remains at £300,000 and that the hourly rate for eligible children remains at £4.90.
3. That deprivation is retained as the only supplementary factor and that the rates of funding continue to be aligned with the rates that are used for schools in the National Funding Formula.

4. That the centrally retained budget remains unchanged at £820,000.
5. That in future, the use of any underspend in the Early Years Block is discussed with the Early Years Provider Reference Group before any proposals are brought to the Schools Funding Forum and before any decisions are made on its use.

## REPORT DETAIL

### **1. Consultation Process**

The agenda item covering early years funding was not considered at the last meeting of the Schools Funding Forum so that discussion could take place first with the Early Years' Provider Reference Group (EYPRG). The consultation process was as follows:

19<sup>th</sup> January 2021 Meeting between Local Authority and EYPRG to discuss funding proposals and the funding consultation with early years providers.

26<sup>th</sup> January 2021 Proposed consultation document sent to EYPRG members for review.

28<sup>th</sup> January 2021 Consultation document sent out to early years providers

10<sup>th</sup> February 2021 Closing date of consultation

12<sup>th</sup> February 2021 Meeting between Local Authority and EYPRG to consider the outcome of the consultation and to agree proposals to be taken to the Schools Funding Forum

23<sup>rd</sup> February 2021 School Funding Forum meeting to be held with the single item of Early Years Funding 2021-22 on the agenda.

### **2. Consultation document, outcome of consultation and proposals for 2021-22 funding**

The consultation document sent to early years providers is shown at Appendix A. This has been amended to include the results of the consultation and the proposals now brought to the Schools Funding Forum for consideration (shown in red).

The findings of the consultation were discussed at the meeting between the Local Authority and EYPRG on 12<sup>th</sup> February 2021 and the funding proposals to be brought to the Forum agreed.

The consultation document includes details of Havering's indicative Early Years Block allocation for 2021-22 and the basis on which the proposals were formulated. The calculations supporting the proposed rates are attached at Appendix B. These were presented to EYPRG but not included with the consultation.

Registered hours for early years pupils at the October 2020 Census were 5% lower than the previous year. In estimating the grant that will be received from

Government, and the payments that will be made to providers, it was assumed that registered hours for January 2021 would also be 5% lower than the previous year. Census returns for January 2021 indicate that the figures used in calculations are very close to the actual figures.

### **3. Underspending of the Early Years Block**

At the meeting between held on 12<sup>th</sup> February 2021 the representatives of early years providers asked that in future any underspend in the Early Years Block at the end of the financial year be ring-fenced for early years use.

It was agreed between the representatives and the Local Authority that, in future, the use of any underspend in the Early Years Block would be discussed with the Early Years Provider Reference Group before any proposals were taken to the Schools Funding Forum and before any decisions were made on its use.

The Schools Funding Forum is asked to give its agreement to this procedure.



# **Consultation Responses from Early Years Providers on Funding for Financial Year 2021-22**

## **Introduction**

This consultation response document provides a review of the responses from the stakeholders in the Early Years sector on the proposed options for the allocation of funding to early years providers for the financial year 2021-22.

Following the providers responses to the Local Authority, the Early Years Provider Reference Group (EYPRG) and Schools Funding Forum will be advised on the outcome of the consultation.

## **Process**

The consultation period ran from Thursday 28<sup>th</sup> February to Wednesday 10<sup>th</sup> February 2021.

A summary of responses to the consultation will be reported to the meeting of the EYPRG on Friday 12<sup>th</sup> February, before Schools Funding Forum ratifies the final decisions taken by the Local Authority for the 2021-22 financial year.

## **Responding to the Consultation**

This consultation paper was sent to all private, voluntary and independent early years providers and head teachers of schools with nurseries.

All responses were returned by Wednesday 10<sup>th</sup> February 2021.

## **Responses**

There were 63 responses to the consultation as follows:

<b>Childminder</b>	13
<b>Day Nursery</b>	14
<b>Preschool</b>	30
<b>School</b>	6

## **Early Years Funding 2021-22**

### **1. Additional Funding for Early Years 2021-22**

Early Years education is funded through the Early Years Block of the Dedicated Schools Grant. For financial year 2021-22 local authorities received indicative allocations of funding on 17 December 2020.

Allocations include a share of the additional £44m increase announced by central Government in the spending review in November. This additional funding has been allocated through a 6p increase in the hourly rates used to fund the local authorities for 3-4 year olds and an 8p increase in the hourly rates used for 2 year olds.

Havering's increase is as follows:

	2 year olds	3-4 year olds
2020-21	£5.74	£5.36
2021-22	£5.82	£5.42
Increase	£0.08	£0.06

### **2. Indicative DfE funding of Havering's Early Years Block funding 2021-22**

Local authorities receive an initial allocation of Early Years funding for financial year 2021-22 based on the latest data available which was from the January 2020 Census.

Based on January 2020 data, Havering's initial allocation for 2021-22 is as below.

2 Year Olds			3/4 Year Olds			Total Funding for distribution to providers
Cohort (PTE)	Unit of funding	Allocation	Cohort (PTE)	Unit of funding	Allocation	
569.26	£5.82	£1,888,464	6,056.10	£5.42	£18,709,716	£20,598,180

This will be updated from the January 2021 Early Years census although the funding that a local authority's grant allocation based on that census is not adjusted until June/July. A local authority's initial allocation could, therefore, either increase for higher numbers of participation or reduce if lower.

The LA received an adjustment to funding in July 2020 of £700,768. This is to be used to protect against any fall in funding resulting from a reduction in registered hours.

### 3. Distribution to Providers

#### 3.1 2 Year Olds Funding

The funding arrangements are straightforward as, unlike with 3 & 4 year olds, the grant is passed on fully to providers after the setting of a small contingency to fund any growth in the summer term.

Setting a small contingency will enable the LA to have a budget from which to fund local provision that is not funded by the Government.

#### Proposal

- (i) It is proposed to increase the base rate by 8p per hour from £5.68 to £5.76.
- (ii) It is proposed to set a contingency of £19,000 for a 1% growth in provision to be funded.

Q.1	<i>Do you agree that for 2 year olds:</i>  (i) <i>the hourly rate is increased from £5.68 to £5.76</i>  (ii) <i>a contingency is set at 1% of the number of places on which the LA is funded</i>
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The responses are as follows:

Summary	Question	Yes	No
1 (i)	2yo - the hourly rate is increased from £5.68 to £5.76	98.4%	1.6%
1 (ii)	a contingency is set at 1% of the number of places on which the LA is funded (initially £19,000)	96.3%	3.7%

There is an overwhelming agreement to the LA proposal for the base rate to be increased by 8p for the financial year, with the provision of a contingency of 1% to fund any growth that the central government settlement does not cover.

Proposed action based on consultation responses:

- 1) 2 year old base rate – increase by 8p from £5.68 to £5.76
- 2) 1% Contingency earmarked to be paid to providers to fund the increase in demand

#### 3.2 3 & 4 Year Olds Funding

Local authorities are required to allocate at least 95% of the grant to providers. Local authorities are also required to set the level of a SEN Inclusion Fund to meet low level or emerging special needs.

The remaining grant is to be allocated to providers through a formula. At least 90% of the funding must be distributed through a basic hourly rate with up to 10% through supplementary factors

The base rate for 3 & 4 year olds was set at £4.90 at the start of the financial year 2020-21. Following a revised estimation of funding in June 2020, based on projections using the January 2020 census, the 3 & 4 year old base rate was increased by 10p an hour to £5.00 an hour. The 10p increase was for the 2020-21 financial year only and could not be guaranteed as sustainable for 2021-22.

### **Funding Options for 2021-22**

If the 3 & 4 year old funding rate is set at the original 2020-21 level of £4.90, based on projected numbers, this would leave a contingency of £224k. Usually this would need to be retained to meet the costs of increased numbers in the summer term. If the 2020-21 increased funding level of £5.00 is maintained there is a shortfall of £105k, This can be met from the brought forward balance of £701k retained, leaving £596k.

#### **Option A - Base Rate increased to £5.02 and SENIF Rate unchanged at £4.90**

It is proposed that the funding rate for 3 & 4 year olds is increased to £5.02. This would require £170k of the £701k retained, leaving £531k. Given the uncertainty of the impact of coronavirus on numbers, the Local Authority feel it would be unwise to set a rate at this stage that left less than this in reserve.

Funded hours in January 2021 may be suppressed due to the pandemic. These reduced hours will be used by the DfE to calculate the funding received for 2021-22. If the coronavirus situation were to improve, numbers for the summer term 2021 may be something closer to normal. The LA will need to fund providers for these near normal hours, but will receive funding from the DfE based on the reduced January figure.

If funding remains available or if there is a shortfall in funding, the 3 & 4 year old funding rate could be reviewed in the summer term in a similar way to the review of 2020-21 funding rates in June 2020.

Option A proposal is as follows:

Proposed Base Rate	Increase in base rate	SEN Inclusion Fund	Hourly rate for SEN support	Increase to SEN Support hourly rate
£5.02	2p	£300,000	£4.90	no change

#### **Option B – Base Rate increased to £5.01 and SENIF Rate increased to £5.01**

From the 95% to be allocated to providers, the LA must set an SEN Inclusion Fund.



The higher the amount of Early Years funding that is added to the current SEN Inclusion Fund of £300,000, the lower the amount that can be funded through the base rate.

The current funding rate for SEN Inclusion Fund is £4.90 per hour. Where a child has an EHCP a further £3.20 per hour is allocated to the provider, met from the High Needs Block. The SEN Inclusion Fund also meets the costs of training and some equipment.

Projections for 2020-21 show that of the £300,000 funded from the Early Years Block £298,872 will be spent, meaning that demand has matched the current funding available.

When funding rates were re-determined in June 2020, the base rate and the hourly rate for SEN Inclusion were equalised. If the funding rates are to be equalised for 2021-22, this would need to be at £5.01 per hour for both.

Option B proposal is as follows:

Proposed Base Rate	Increase in base rate	SEN Inclusion Fund	Hourly rate for SEN support	Increase to SEN Support hourly rate
£5.01	1p	£330,000	£5.01	11p

Q.2	For 3/4 year olds, which option do you favour?
	<b>Option A</b> – Base Rate increased to £5.02 and SENIF Rate unchanged at £4.90
	<b>Option B</b> – Base Rate increased to £5.01 and SENIF Rate increased to £5.01

The responses are as follows:

Summary	Question	Option A	Option B
2	Option A – Base Rate increased to £5.02 and SENIF Rate unchanged at £4.90 / Option B – Base Rate increased to £5.01 and SENIF Rate increased to £5.01	58.7%	41.3%

There was mixed views on the two options, and 58.7% of the respondents favoured Option A. Due to the majority favouring Option A, we are proposing to proceed with this, whilst noting that a sizeable minority of 41.3% were in favour of equalising the funding rates as in Option B.

Proposed action based on consultation responses:

- 3) Adopt Option A proposal for the 3/4 year old base rate – increase by 2p to £5.02 and SENIF unchanged at £4.90

### 3.3 Supplementary factors

As well as the basic hourly rate, local authorities can also allocate funding through a limited range of supplementary factors. Up to 10% of the formula funding can be allocated through supplementary factors which can include:

- deprivation (mandatory supplement); local authorities must use this supplement to recognise deprivation in their areas
- rurality or sparsity (discretionary supplement); to support providers serving rural areas less likely to benefit from economies of scale
- flexibility (discretionary supplement); to support providers in offering flexible provision for parents; this could, for example, childcare wraparound care, out-of-hours provision, or to encourage a particular type of provider in an area (such as to meet a need for childminders in an area)
- quality (discretionary supplement); to support workforce qualifications, or system leadership (supporting high quality providers leading other providers in the local area)
- English as an additional language (EAL) (discretionary supplement)

In Havering, following past consultations, only the mandatory deprivation factor is used. The LA has reviewed the feasibility and reliability of using other optional supplements but recommends that this is not adopted in 2021-22. A further review will be carried out for 2022-23.

It has been agreed previously that the funding rates allocated for deprivation align with those of schools, using the Income Deprivation Affecting Children Index (IDACI).

In September 2019 the Government released an update of the IDACI data. This showed a significant change in deprivation levels, particularly in London where it had reduced. To lessen the impact on funding, the DfE changed the basis on which pupils are assigned to the seven deprivation bands. This is now done on the basis of rank rather than score.

To lessen further the impact of the move from 2015 data to 2019 data, the DfE increased the National Funding Formula values for each band.

In Havering, funding for IDACI is currently allocated at the same rate for schools and early years providers. If this were to continue for 2021-22, funding rates would be as follows:

Band	Hourly rate		Annual rate (38 weeks x 15 hours)		% change
	2020-21	2021-22	2020-21	2021-22	
A	£0.68	£0.71	£387.60	£404.70	4.41%
B	£0.50	£0.54	£285.00	£307.80	8.00%
C	£0.46	£0.51	£262.20	£290.70	10.87%
D	£0.43	£0.47	£245.10	£267.90	9.30%
E	£0.28	£0.30	£159.60	£171.00	7.14%
F	£0.24	£0.25	£136.80	£142.50	4.17%

G	£0.00	£0.00	£0.00	£0.00	0.0%
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Using the revised rates and methodology with October 2020 pupil data, the required budget for 2021-22 would be £361,611.

Q.3	<i>Do you agree that deprivation remains the only supplementary factor used in Havering's formula and the rates of funding continue to be aligned with the rates used in the schools' national funding formula?</i>
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The responses are as follows:

Summary	Question	Yes	No
3	Do you agree that deprivation remains the only supplementary factor used in Havering's formula and the rates of funding continue to be aligned with the rates used in the schools national funding formula?	95.2%	4.8%

There is an overwhelming agreement to the LA proposal for the deprivation funding factor being the sole additional factor in the Early Years formula, and for the funding rates and methodology to mirror the school funding formula for 2021-22.

Proposed action based on consultation responses:

- 4) Deprivation funding to remain as the only supplementary factor, using October 2020 data and the IDACI funding rates at the same level as for schools, converted into an hourly rate.

#### 4. Central Retention

LAs may retain up to 5% of the total funding for central services and administration including quality assurance, business support, data management, ICT systems and finance and accounting.

It is proposed to retain the level of funding for central support at £820,000. This equates to approximately 4.6% of the total allocation from the DfE.

The breakdown of services funded from this are as follows:

Service	Amount
Early Years Quality and Assurance Team	351,310
Early Years Admissions	196,049
Central Database Software – EYAM	80,000
CAD Support	79,094
Early Years Commissioning and Organisation	60,547
Finance	53,000
<b>Grand Total</b>	<b>820,000</b>

Q.4	<i>Do you agree that the central retained budget remains unchanged from the previous year?</i>
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The responses are as follows:

Summary	Question	Yes	No
4	Do you agree to the central retained budget to remain unchanged from the previous year?	79.0%	21.0%

There is a clear majority in support of the LA proposal for the funding for the central services, in support of Early Years, to remain at £820,000.

Proposed action based on consultation responses:

- 5) Early Years Central Support Services budget to remain unchanged at £820,000.

**Proposed Early Years Funding Rates 2021-22**

With numbers at 95% of 2020-21

	2 year old Cohort Total funding			3/4 year old Cohort Total funding			2 year olds % of overall funding/direct to provider	3/4 year olds % of overall funding % of direct to provider	
Funding Rate 2020-21	£5.74	569.26	1,862,505	£5.36	6,056.10	18,502,597			
Funding Rate 2021-22	£5.82	540.80	1,794,040	£5.42	5,753.30	17,774,230			
<b>Funding Change</b>	<b>£0.08</b>	<b>-28.463</b>	<b>-68,465</b>	<b>£0.06</b>	<b>-302.805</b>	<b>-728,367</b>			
<b>Central Services (maximum 5 % of 3/4 year old allocation)</b>			<b>0</b>			<b>820,000</b>	<b>0.0%</b>	<b>4.6%</b>	<b>n/a</b>
<b>Inclusion Fund (part of 95% pass-through to providers)</b>			<b>0</b>			<b>300,000</b>	<b>0.0%</b>	<b>1.7%</b>	<b>1.8%</b>
<b>Balance to fund Base Rate &amp; Supplements (IDACI) &amp; Contingency</b>			<b>1,794,040</b>			<b>16,654,230</b>			
<b>IDACI Supplement</b>			<b>0</b>			<b>362,000</b>	<b>0.0%</b>	<b>2.0%</b>	<b>2.1%</b>
<b>2020-21 Base Rates</b>	<b>£5.68</b>	540.80	<b>1,750,884</b>	<b>£4.90</b>	<b>5,753.30</b>	<b>16,068,953</b>	<b>97.6%</b>	<b>90.4%</b>	<b>94.8%</b>
Balance remaining for Contingency / Base Rate increase			43,156			223,277			
<b>2020-21 Augmented Base Rates</b>	<b>£5.68</b>	540.80	<b>1,750,884</b>	<b>£5.00</b>	<b>5,753.30</b>	<b>16,396,891</b>	<b>97.6%</b>	<b>92.3%</b>	<b>96.7%</b>
Balance remaining			43,156			-104,661			
<b>2021-22 Proposed Base Rates</b>	<b>£5.76</b>	540.80	<b>1,775,545</b>	<b>£5.02</b>	<b>5,753.30</b>	<b>16,462,478</b>	<b>99.0%</b>	<b>92.6%</b>	<b>97.1%</b>
Balance remaining			18,495			-170,249			
<b>Balance brought forward</b>						<b>700,768</b>			
Balance remaining for increase in numbers summer term, Sustainability Fund and rate review			18,495			530,519			