

## Schools Funding Forum 10<sup>th</sup> February 2022

## ITEM 4

**Subject Heading:**

**Early Years Funding 2022-23**

**Report Author:**

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

**Eligibility to vote:**

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

### SUMMARY

This report provides details of the consultation with early years providers on funding for financial year 2022-23, the outcome of which will be reported at the meeting.

### RECOMMENDATIONS

The Schools Funding Forum agrees funding rates for 2022-23. Recommended rates will be determined following the closure of the funding consultation with providers and discussion of the outcome with the Early Years Provider Reference Group. To be agreed:

- 1 (i) The basic hourly rate for 2 year olds  
(ii) The level of the contingency held for 2 year old funding
- 2 (i) Whether an Early Years Providers Sustainability Fund is created  
(ii) The basic hourly rate for 3 and 4 year olds  
(iii) The total allocated to the Early Years Inclusion Fund and the hourly rate for eligible children
- 3 Whether 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 The level of the centrally retained budget for LA support

- 5 That the use of any underspend in the Early Years Block continues to be 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

### **Background**

Early years education is funded through the Early Years Block of the DSG. Funding rates were announced on 25<sup>th</sup> November 2021 and indicative allocations for 2022-23 were issued to local authorities on 16<sup>th</sup> December 2021 along with the final allocations for the other DSG blocks.

In the autumn spending review 2021 the Government announced an increase in early years entitlements worth £160m in 2022-23 compared to 2021-22. The hourly rates for all local authorities will be increased by 21p an hour for the 2 year old entitlement and by 17p an hour for the 3 and 4 year old entitlement.

The Local Authority produced proposals for 2022-23 funding rates for providers. These were discussed with the Early Years Provider Reference Group (EYPRG) on 10<sup>th</sup> January 2022 and the content of the funding consultation document decided.

### **Funding Consultation**

The consultation document is shown at Appendix A. This was sent to all private, voluntary and independent early years providers and to head teachers of schools with nurseries.

The consultation ran until 4<sup>th</sup> February 2022, so was still open when this agenda item was prepared. The intention was for the outcome of the consultation to be discussed with EYPRG and the proposed funding rates then forwarded to members of the Schools Funding Forum for discussion and approval at this meeting.



# **Consultation with Early Years Providers on Funding for Financial Year 2022-23**

## **Introduction**

This consultation document proposes options for the allocation of funding to early years providers for the financial year 2022-23. Providers are asked to consider the proposals and respond back to the Local Authority for further consideration by the Early Years Provider Reference Group (EYPRG) and Schools Funding Forum.

## **Process**

The consultation period will run until Friday 4<sup>th</sup> February 2022.

A summary of responses to the consultation will be reported to the meeting of the EYPRG on week commencing 7<sup>th</sup> February and final decisions taken by the Local Authority before funding statements are issued for the 2022-23 financial year.

## **Responding to the Consultation**

The online link to consultation is sent to all private, voluntary and independent early years providers and head teachers of schools with nurseries.

You can contribute your views to the consultation in the online link that was provided.

If you require clarification on any point please email:

Education Finance at: [education.finance@havering.gov.uk](mailto:education.finance@havering.gov.uk)

## **Early Years Funding 2022-23**

### **1. Additional Funding for Early Years 2022-23**

Early Years education is funded through the Early Years Block of the DSG. Funding rates were announced on 25th November 2021 and indicative allocations for 2022-23 were issued to local authorities on 16th December 2021 along with the final allocations for the other DSG blocks.

In the autumn spending review 2021 the Government announced an increase in early years entitlements worth £160m in 2022-23 compared to 2021-22. The hourly rates for all local authorities will be increased by 21p an hour for the 2 year old entitlement and by 17p an hour for the 3 and 4 year old entitlement.

Havering's increase is as follows:

	2 year olds	3-4 year olds
2021-22	£5.74	£5.42
2022-23	£6.03	£5.59
Increase	£0.21	£0.17

The autumn spending review covered three years. As well as the £160m rise in 2022-23 funding will be increased by £180m in 2023-24 and by £170m in 2024-25.

### **2. Indicative DfE funding of Havering's Early Years Block funding 2022-23**

Local authorities receive an initial allocation of Early Years funding for financial year 2022-23 based on the latest data available which was from the January 2021 Census.

Based on January 2021 data, Havering's initial allocation for 2022-23 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	
483.87	£6.03	£1,663,110	5,619.72	£5.59	£17,906,114	£19,569,224

This will be updated from the January 2022 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.

### 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, with any underspend/overspend to this element of funding carry-forward to the next financial year planning for the Early Years block.

#### Proposal

- (i) It is proposed to pass all of the central government increase of 21p to the base rate, increasing the hourly rate from £5.76 to £5.97.
- (ii) It is proposed to set a contingency of £53,000 for a 3% growth in provision to be funded (an additional 15 PTE children above the projected numbers).

Q.1	<p><i>Do you agree that for 2 year olds:</i></p> <ul style="list-style-type: none"><li>(i) <i>all of the 2022-23 central government two year old funding rate increase to the LA is passed to the hourly base rate, increasing the rate from £5.76 to £5.97</i></li><li>(ii) <i>a contingency is set at 3% of the number of places on which the LA is funded</i></li></ul>
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## 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 £5.02 at the start of the financial year 2021-22. Following an in-year review, using in-year providers' termly claims and updated projections for the remainder of the financial year, the 3 & 4 year old base rate was increased by 7p an hour to £5.09 an hour. The 7p increase included the use of Early Years Block previous years carry-forward, and could not be guaranteed as sustainable for 2022-23. This was dependent on central government's level of increase of the hourly rate that the LA was to receive for 2022-23.

### Local Authority projected numbers used for Funding Options for 2022-23

The cohort size used in projections has been calculated by taking numbers currently shown in Synergy for the spring term, and where a provider has not yet supplied figures, adding the autumn term numbers for that provider. This means the final January 2022 figure, which will be used by the DfE to determine funding, is unlikely to be lower than the one used in projections, but may be higher. Based on the funding projections, there is anticipated to be a small sum available as a contingency. Should there be higher numbers, above the LA projected numbers, then this would lead to an increase from the additional funding available.

Numbers for the summer term 2022, autumn term 2022 and spring term 2023 have been calculated by looking at the average change in numbers from the January base, in the five years prior to the pandemic.

### Funding Options

Following discussions with EYPRG, we are consulting on two options. The first option directs all the available funds to the base and SENIF rate, and the second option includes a Sustainability Fund.

- **Option A - Base Rate and SENIF Rate increased to £5.19, and no Early Years Providers Sustainability Fund**

It is proposed that the funding rate for 3 & 4 year olds and the SENIF Rate is increased to £5.19, in line with the agreement to match fund the two rates going forward.

Option A proposal is as follows:

Proposed Base Rate	Increase in base rate	SEN Inclusion Fund	Hourly rate for SEN support	Early Years Providers Sustainability Fund
£5.19	10p	£408,000	£5.19	n/a

- **Option B – Base Rate and SENIF Rate increased to £5.16, and a budget of £100,000 for the Early Years Providers Sustainability Fund**

From the 95% to be allocated to providers, following feedback from the sector and in order to provide the LA with the means to support providers, the LA is offering the option of a budget of £100,000 for the Early Years Sustainability Fund.

The primary purpose of a sustainability fund is to provide financial support during a temporary period of threatened business viability. These would usually be regarded as being resolved within 12 months unless there are particular reasons why this should be over a longer timescale. Specific criteria would need to be met to attract funding and conditions would be applied to that funding, please see Appendix A.

In order to fund the Early Years Providers Sustainability Fund with a budget of £100,000, the 3/4 year old base rate and SENIF rate will both have to be reduced from £5.19 as per Option A to £5.16.

Any amount of Early Years funding that is directed to create an Early Years Providers Sustainability Fund, will lead to a reduction in the funding that can be directed through the base rate.

The Early Years Providers Sustainability Fund is part of the minimum of 95% of Early Years Block that is earmarked to fund providers direct, and any underspend/overspend will be relayed as per normal reporting for the overall funding at year end.

Option B proposal is as follows:

Proposed Base Rate	Increase in base rate	SEN Inclusion Fund	Hourly rate for SEN support	Early Years Providers Sustainability Fund
£5.16	7p	£406,00	£5.16	£100,000

Q.2	For 3/4 year olds, which option do you favour?
	<b>Option A</b> – Base & SENIF rates increased to £5.19 and no Early Years Providers Sustainability Fund
	<b>Option B</b> – Base & SENIF rates increased to £5.16 and a budget of £100,000 for Early Years Providers Sustainability Fund

### 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), and
- 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 2022-23. A further review will be carried out for 2023-24.

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 2022-23, funding rates would be as follows:

Band	Hourly rate		Annual rate (38 weeks x 15 hours)		% change
	2021-22	2022-23	2021-22	2022-23	
A	£0.71	£0.73	£404.70	£416.10	2.82%
B	£0.54	£0.56	£307.80	£319.20	3.70%
C	£0.51	£0.52	£290.70	£296.40	1.96%
D	£0.47	£0.48	£267.90	£273.60	2.13%
E	£0.30	£0.31	£171.00	£176.70	3.33%
F	£0.25	£0.25	£142.50	£142.50	0.00%
G	£0.00	£0.00	£0.00	£0.00	0.0%

Using the revised rates and methodology with October 2021 pupil data, the required budget for 2022-23 would be £410,227.

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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#### **4. Central Retention**

Local authorities are able to centrally retain funding to lead and support the Early Years sector to deliver excellent quality provision, and to administer the distribution of Early Years Funded Entitlement and related supplements system.

The centrally retained funding supports the Local Authority to deliver their various statutory duties relating to early years, and to ensure sufficient, sustainable, high quality, accessible early education and childcare.

Any reductions to the central retention which funds a range of services, may result in an increase in the cost of traded services to the sector, and a reduction in the range and amount of advice and support (including financial support) to providers. It is through these central services that we are able to take actions to mitigate any changes brought about by the DfE.

The centrally retained funding is used to fund a number of services and activities across all sectors including mainstream, private, voluntary, independent sectors, and childminders to promote quality and improve outcomes for children in Havering, including;

- Provide support and advice to settings in relation to quality of early education and childcare, Ofsted and statutory requirements, with a focus on settings at requires improvement or inadequate, as well as providing targeted support around work with vulnerable groups.
- Transition as part of the COVID-19 recovery programme.
- Support and advice to settings in relation to support for children with SEND, with a particular focus on inclusion, quality and early identification of need.
- Meeting the Council's statutory duties to ensure a sufficiency of places for funded 2, 3 and 4 year olds across Havering.
- Monitoring and delivering sufficiency.
- Providing support, advice and to promote business sustainability.
- Individual commissioning of provision for the most disadvantaged families.
- Delivering census, compliance with DfE statutory guidance and requirements.
- Brokerage of places for vulnerable children and children identified as disadvantaged.
- Managing the funded entitlement by advising providers, processing, administering and making payments, including support for the Provider Portal.
- Delivering census.
- Maintenance and development of the Provider Portal and linked systems.
- Supporting communications and publicity, including promotional activities to support take-up of funded places, 30 hours, EYPP, Inclusion Fund, and DAF uptake.
- Implement a number of eligibility assessments, including the eligibility for free school meals of a pupil who is being provided with early years provision, the eligibility of a child for prescribed early years provision, or the eligibility of a child for the early years pupil premium.
- Strategic and operational leadership and management of the early years system and its finances.

The distribution set by the DfE for central retention means that an LA can only use a maximum of 5% for central support, and the remaining 95% is paid direct to providers. Havering actually retains less than the 5% maximum allowed by the DfE in order to make the most amount of funding available to providers.

The Local Authority is proposing a reduction of £30k in the centrally retained budget, reducing it from the current year budget of £820k to £790k. This represents 4.47% of funding, well below the permitted 5%. The reduction relates to an expected fall in the cost of central database software with reduced training and implementation costs.

The breakdown of services funded from this are as follows:

<b>Service</b>	<b>Amount (£,000)</b>
Early Years Quality and Assurance Team	351
Early Years Admissions	196
CAD Support	79
Early Years Commissioning and Organisation	61
Finance	53
Central Database Software – EYAM	50
<b>Grand Total</b>	<b>790</b>

<b>Q.4</b>	<i>Do you agree that the central retained budget for LA support be set at the reduced level of £790k?</i>
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## **Appendix A – Early Years Sustainability Fund** ***(subject to legal ratification)***

### **Stage one**

The Local Authority provides a dedicated page for Early Years Providers in order to support the viability of their business. The link to the website is as follow [https://www.havering.gov.uk/info/20006/schools\\_and\\_education/445/delivering\\_education/4](https://www.havering.gov.uk/info/20006/schools_and_education/445/delivering_education/4).

Further information is also available on the Havering Education Service Portal ([www.hes.org.uk](http://www.hes.org.uk)) on the **Early Years** Resource Page, Planning and Organisation - Business Support section. On behalf of the DfE, for the Early Years Sector, Hemsall have provided a useful guide called **The Hemsall's Business Change and COVID-19 Response Tool** which you may wish to refer to for assistance in the portal.

Examples and templates of the required documents (mandatory for stage two) is available via this link <https://www.princes-trust.org.uk/help-for-young-people/tools-resources/business-tools/business-plans>

Local publications which should be referred to as part of your review are as follows:

- The London Borough of Havering's updated **Childcare Sufficiency Report 2019 – 2021** is available at the following link [https://www.havering.gov.uk/download/downloads/id/5319/childcare\\_sufficiency\\_report\\_2019-2021.pdf](https://www.havering.gov.uk/download/downloads/id/5319/childcare_sufficiency_report_2019-2021.pdf)
- In order to assist with your future forecast please refer to the following link <https://drive.google.com/file/d/1os65qsbhlaB2wKCzhUyTcKS5DwMGXGrM/view> for Early Years projections for 2 year olds and 3 & 4 year olds projections within Havering

The expectation from providers prior to the local authority being able to support providers is that all tools and guidance is used in order to support you in running your business. Any issues identified following the stage one review and action, then please refer to stage two of the process.

### **Stage two**

Following stage one highlighting issues, in order to apply for Early Years Sustainability Grant we need to carry out a pre-assessment review to establish what stage your business is at present and if your business is likely to be a going concern (provider is financially stable enough to meet its obligations and continue its business for the foreseeable future).

The information below outlines the expectation we require from providers who wish to apply for this process, please provide the following documents which you may have carried out in the previous process:

- Business plan with 3 year projections
- Business plan financial tables
- Strengths, weaknesses, opportunities, and threats (SWOT) analysis

Please ensure all documents are sent to us in one email with the subject heading "Early Years Sustainability Grant – Pre-Assessment Review – **PROVISION NAME**". Once we have received all the above documentation, we will then carry out the pre-assessment review, and advise you whether we require further information or whether you have reached the next stage of the Early Years Sustainability Grant process (Stage three).

## **Stage three**

### **Early Years Sustainability Grant Procedure**

Sustainability Support Grants are available for Early Years Providers who are experiencing sustainability problems. This guidance outlines the criteria and requirements for allocating the funds available.

#### **Purpose**

The primary purpose is to provide financial support during a temporary period of threatened business viability. Will usually be regarded as being resolved within 12 months unless there are particular reasons why this should be a longer timescale.

#### **Funding Criteria**

##### **C1 – Directory and Funding Agreement**

- (i) C1A - Providers must have an active Directory and Funding Agreement
- (ii) C1B - Providers must have had the Directory and Funding Agreements for at least three consecutive years.

##### **C2 - Provisions**

Eligible provision includes all of the following at present:-

- Day Nurseries
- Childminders
- Independent Schools
- Mainstream Schools
- Pre Schools

##### **C3 - Finance**

- Sustainability funding will not be approved when:
  - (i) C3A - Reserves are available.

Sufficient “free reserves (profit) / contingency / planned future expenditure” are held and available for the whole business or provision, that would adequately cover the short term problem e.g. £5000 held put aside to pay for future building maintenance, renewal of equipment or furnishings, new equipment, etc.

- (ii) C3B - Short term cash flow issue.

1 term projected loss of below 25% of the previous term claim, following which service returns to operating in surplus.

##### **C4 - Quality**

- C4A - Providers must have an Ofsted rating or equivalent of Good or above Inspection Judgement for Early Years
- C4B - Providers not meeting criteria C4A will have their application referred to the Early Years Quality and Assurance Team to review and provide recommendations. They will consider issues, such as quality in that area. We will also consider the sufficiency around your area.

Prior to Early Years Quality and Assurance Team providing recommendations, they will require providers with a below Good or no Ofsted Inspection Judgement to agree an action plan to attain a Good or above Inspection Judgement within a reasonable timescale for the support of this grant. As a prerequisite, the Early Years Quality and Assurance Team will be monitoring the progress of the action plan that has been agreed and will conduct at a minimum termly reviews.

### **Use of Support Grants and General Funding Points**

- Sustainability of provision can be assisted through support of appropriate expenditure including staff costs, rent, heating and lighting etc.

This funding is not intended as a source for capital expenditure and will not provide for toys, equipment, furniture, fixtures & fittings, unless these are as a result of emergency Health & Safety issues raised by Ofsted, which if not remedied would result in closure of the setting. Early Years Organisation will need to be advised and all records pertaining to those works must be provided within two weeks of the expenditure.

- The maximum amount available for the grant is [£t.b.c.](#)

The Early Years Planning & Organisation Lead & Education Finance Team will assess applications, supporting documentation and financial budgets in order to determine what level of support is appropriate.

- Applicants must provide and retain for inspection an income & expenditure statement, showing where the funding is required to meet the shortfall in income. The grant cannot be used to maintain profit margins. Applicants must provide the last full set of accounts which has been independently audited or verified, e.g. by their accountant. In addition, a statement of income & expenditure for the current financial year to date, together with projections of income & expenditure for the rest of the financial year, plus a current bank statement for the last 3 months.
- Early years provider must also provide a business/financial plan showing how the support forms part of a progressive move towards viability. Providers should submit an actual business plan/3 year financial projections to show them getting over the short term difficulty.
- Private sector providers may receive the grant but must meet all conditions. This includes providing a balance sheet showing that they do not have reasonable funds in reserve to meet the position and statements to show that (a) they are running temporarily at a loss and therefore face the real possibility of closure and (b) the grant funding will not result in them making a profit beyond reasonable wage costs.

If funds are transferred to another holding account then the same information is required as per your main account as above. This will also include any private income that is used in conjunction with local authority funding in order to run your business. This will ensure that a true reflection of the position of the business is portrayed.

- Assess what funding from other sources has already been provided, these may be checked before allocation is released, to avoid any duplication.
- Applications must relate to expenditure to be incurred in the same financial year, 1<sup>st</sup> April to 31<sup>st</sup> March.

## **Additional Requirements**

- An explanation of how the financial difficulty has arisen and the action they are taking to ensure future sustainability; plus, a check list of the items they need to supply as per Stage 2.
- You should note that successful applicants will invariably be required, as a condition of support, to provide on-going regular financial information by way of budgets and budget monitoring. Other conditions of support, as considered appropriate, may also be imposed.
- Applications will not be considered for any provider if they have failed to provide the required monitoring information or to carry out any other condition of support from a previous application.
- Any funds provided must only be used for the purpose approved and evidence will be sought, including invoices and time sheets where appropriate, to show how it has been utilised.
- Must meet Ofsted registration standards where appropriate, and achieve acceptable quality of service.

## **Definitions**

Ofsted - the Office for Standards in Education, Children's Services and Skills. They conduct inspections to services providing education and skills for learners of all ages, and they also inspect and regulate services that care for children and young people.

Providers - Pre Schools, Day Nurseries, Mainstream Schools, Independent Schools, Childminders.