



Subject Heading:

Early Years Funding 2022-23 review of rates

Report Author:

Nick Carter – Principal Finance Officer (Schools)

Eligibility to vote:

All members

SUMMARY

This report provides an update on the use of brought forward balances in the Early Years Block of the Dedicated Schools Grant. It also examines funding rates over a period of time.

RECOMMENDATIONS

That the Schools Funding Forum

- (i) agrees the use of funding following feedback from the Early Years Provider Reference Group
- (ii) notes the changes in funding rates and how these compare to changes in the Minimum Wage / National Living Wage

REPORT DETAIL

Proposed use of balances brought forward

At the end of the 2021-22 financial year there were unspent sums allocated from the Early Years Block of the DSG as follows:

Provision for 2 year olds	<u>£65k</u>
Provision for 3&4 year olds	£100k
Provision for Early Inclusion Funding	<u>£53k</u>
Total for 3&4 year olds	£153k
Total 2, 3&4 year olds	£218k

In July 2022 the LA received notification from the DfE of the funding adjustment for 2021-22, which recalculated the allocation for autumn 2021 and spring 2022 using January 2022 census data. This year, unlike for 2020-21 there was an increase in funding as follows:

Funding for 2 year olds	£41k
Funding for 3&4 year olds	£299k
Total 2, 3&4 year olds	£340k

Taking the underspend and funding adjustments for 2021-22 there is £106k available for 2 year funding and £452k available for 3&4 year old funding.

Funding proposal

At the meeting held on 20th October 2022 the Schools Funding Forum were presented with two options for the use of the funds available which the LA intended to forward to members of the Early Years Provider Reference Group (EYPRG) for consideration. In the first option the whole sum available would be distributed through the hourly funding rate. In the second option part of the funding would be used to create a Sustainability Fund with the rest distributed through the hourly rate.

Following the October 2022 census the figures were recalculated and a more cautious estimate of hours for January 2023 used which resulted in a lower affordable hourly rate. In light of this, the fact that two third of the current financial year has now passed, and the result of the consultation on the creation of a Sustainability Fund held in January 2022, the LA proposed to EYPRG that all the available funding should be distributed via the hourly rate. The creation of a Sustainability and Sufficiency Fund can be revisited in the funding proposals for 2023-24.

A copy of the document sent to EYPRG is shown at Appendix A. The balance of £59k for 2 years olds forms a contingency against a change in the number of hours.

As the funding distributed comes from brought forward balances rather than additional new funding, the LA is proposing to distribute this as a supplementary hourly rate rather than as an increase in the base rates.

Change in funding rates 2017-18 to 2022-23

The National Day Nurseries Association (NDNA) recently released a document showing the increase in the Minimum Wage / National Living Wage between 2017-18 and 2023-24 and compared this to the rise in funding for 3&4 year olds in early years settings in five local authorities in the south of England. Whilst the Minimum Wage / National Living Wage has increased between 30.4% and 44.9% (50.9% for apprentices) the rise in funding was between 0.0% and 8.8% in the five LAs. The NDNA forecast that if the rate of closure amongst early years settings were to continue at 2022 rates, then there would be no settings left by 2025.

Funding rates for 2023-24 in Havering will be determined early in 2023 after the provisional funding allocation for 2023-24 has been released by the DfE later in December. The table below shows the changes in funding rates between 2017-18 and 2022-23.

Year	LBH funding to settings – basic hourly rate		DfE funding to LBH hourly rate	
	2 yr olds £	3&4 yr olds £	2 yr olds £	3&4 yr olds* £
2017-18	5.28	4.39	5.66	4.87
2018-19	5.60	4.53	5.66	5.28
2019-20	5.60	4.80	5.66	5.28
2020-21	5.68	5.00	5.74	5.36
2021-22	5.76	5.09	5.82	5.42
2022-23	6.07	5.29	6.03	5.59

* The hourly funding rate received from the DfE for 3&4 year olds is used to fund the basic hourly rate to providers and also funding distributed by the IDACI deprivation factor, the inclusion supplement and the central retention.

The increase in rates between 2017-18 and 2022-23 is as follows:

Age	LBH funding to settings – basic hourly rate		DfE funding to LBH hourly rate	
	£	%	£	%
2 yr olds	0.79	15.0	0.37	6.5
3&4 yr olds	0.90	20.5	0.72	14.8

The Minimum Wage / National Living Wage has increased over the time period as follows:

Age / category	2017-18	2022-23	Increase £	Increase %
Apprentice	3.50	4.81	1.31	37.4
Under 18	4.05	4.81	0.76	18.8
18-20	5.60	6.83	1.23	22.0
21-22	7.05	9.18	2.13	30.2
23 and over	7.50	9.50	2.00	26.7

The basic hourly funding rate for 3&4 year olds provided by Havering to settings has increased by more than the rate received by Havering from central government, 20.5% compared to 14.8%. One reason for this is that the central retention in Havering has increased by only 8.2% between 2017-18 and 2022-23.

The 20.5% increase for Havering providers, although higher than the increase received by Havering, and considerably higher than the increase in the five LAs referred to in the NADM document, still falls below the rise in the Minimum Wage / National Living Wage for all bar one age group.

Early Years funding 2022-23 – use of brought forward balances**Background**

At the end of the 2021-22 financial year there were unspent sums allocated from the Early Years Block of the DSG as follows:

Provision for 2 year olds	<u>£65k</u>
Provision for 3&4 year olds	£100k
Provision for Early Inclusion Funding	<u>£53k</u>
Total for 3&4 year olds	£153k
Total 2, 3&4 year olds	£218k

In July 2022 the LA received notification from the DfE of the funding adjustment for 2021-22, which recalculated the allocation for autumn 2021 and spring 2022 using January 2022 census data. This year, unlike for 2020-21 there was an increase in funding as follows:

Funding for 2 year olds	£41k
Funding for 3&4 year olds	£299k
Total 2, 3&4 year olds	£340k

The LA and Schools Funding Forum have previously agreed that balances should remain within Early Years. Therefore, taking the underspend and funding adjustments for 2021-22 together, there is £106k available for 2 year funding and £452k available for 3&4 year old funding.

Allocation of balances

Appendix A shows the impact of allocating the total funding available in the form of a supplementary rate per hour. The hours shown for summer 2022 and autumn 2022 are taken from the termly censuses. Spring 2022 hours have been used as a guide for the estimate for spring 2023.

A supplement of 10p per hour for 2 and for 3&4 years olds can be made together with a 10p per hour rise in inclusion funding.

When looking at how the balances could be distributed the LA considered whether to ask EYPRG for their views on the creation of a Sustainability and Sufficiency Fund, to support Early Years providers, using some of the brought forward money. As there are now only four months of the financial year remaining, the LA felt that this was best deferred until funding for 2023-24 is discussed. The LA is therefore proposing to allocate the funding in the form of a supplement to hourly rates.

As the funding being allocated is made up from brought forward balances and the previous year adjustment, the additional 10p hourly rate does not form part of the base rate; it is a supplement for 2022-23 only.

Timescale

Having sought the views of EYPRG, the LA will report back to the Schools Funding Forum at the next meeting on 1 December 2022 for ratification, so we would appreciate your comments before 29 November 2022.

Payment to providers

If EYPRG support the proposals and ratification is obtained at the meeting of the Schools Funding Forum on 1 December 2022, the funding supplement will be paid as follows:

- supplement for the summer and autumn terms paid in the scheduled December 2022 payment run
- supplement for the spring term paid in the scheduled March 2023 payment run

Data from providers' claims via EYAM Actual and Adjustment hours will be used to calculate the supplement payments.

Using this approach should make it clearer to providers that this funding is a separate supplement and does not form part of their base rate funding.

	Two year old	Three/Four Year Old
Original rate 22-23	£5.97	£5.19
Increase of funding via Supplement Rate	£0.10	£0.10

2022-23 estimated funding from DfE

	Funding rate	Cohort	Weeks	Total LA funding	Funding rate	Cohort	Weeks	Total LA funding	Retention
Total estimated funding	6.03	533.34	38	1,730,304 *	5.59	6002.89	38	19,127,008 *	
Previous year (21-22) adj (Jul-22)		71.99		41,036				299,934	
Previous year cfwd (21-22)		114.67		65,364				152,901	
Central retention (funded from Estimated funding)								-790,000	4.13%
Available to distribute				1,836,703				18,789,844	

2022-23 estimated funds distributed to providers

	Funding rate	Cohort	Weeks	Total to providers	Funding rate	Cohort	Weeks	Total to providers
Base rate funding								
Summer term	5.97	500.36	13	582,492 ^v	5.19	6956.77	13	7,040,595 ^v
Autumn term	5.97	550.91	14	690,678 ^v	5.19	5000.26	14	5,449,785 ^v
Spring term	5.97	482.05	11	474,841 [^]	5.19	6002.89	11	5,140,575 [^]
Total				1,748,011				17,630,955
Supplement funding								
Summer term	0.10	500.36	13	9,757	0.10	6956.77	13	135,657
Autumn term	0.10	550.91	14	11,569	0.10	5000.26	14	105,005
Spring term	0.10	482.05	11	7,954	0.10	6002.89	11	99,048
Total				29,280				339,710
Inclusion Fund					5.19	138	38	408,245
Inclusion Fund Supplement					0.10	138	38	7,866
IDACI								401,227
Sustainability Fund								0
Total estimated payments				1,777,291				18,788,004
In year balance 2022-23				59,412				1,840

* These figures includes an estimate of the retrospective funding adjustment for 2022-23 that will be release by the DfE in July 2023

^v The cohort is based on final data from EYAM for Summer term and updated data for Autumn term

[^] The cohort is based on indicative number eligible for two year olds and previous year January Census (Jan-22) for three/four year olds