



## Schools Funding Forum 9<sup>th</sup> February 2023

## ITEM 4

**Subject Heading:**

**Early Years Funding 2023-24**

**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 2023-24, the outcome of which will be reported at the meeting.

### RECOMMENDATIONS

The Schools Funding Forum agrees funding rates for 2023-24. Recommended rates will be determined following the closure of the funding consultation with providers. 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) The basic hourly rate for 3 and 4 year olds  
(ii) The hourly rate for inclusion funding  
(iii) The level of a quality supplement to allocate funds to school in place of the teachers' pay and pension grants (TPPG)
- 3 Whether deprivation is retained as the only other 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. Indicative allocations for 2023-24 were issued to local authorities on 17<sup>th</sup> December 2022 along with the final allocations for the other DSG blocks.

Following a funding consultation held in 2022, the Department for Education (DfE) has moved back to determining funding rates for local authorities funding via a formula. The formula will use the most recently available dataset. A new +1% year to year protection was introduced, together with a +4.9% gains cap.

The DfE has also implemented the proposal contained in the consultation to incorporate the teachers' pay and teachers' pension grants (TPPG) for early years into the funding formula. These were previously paid separately to maintained schools with nurseries.

The hourly funding rates for Havering for 2023-24 are:

- 2 year olds – increased by 49p from £6.03 to £6.52
- 3&4 year olds – increased by 7p from £5.59 to £5.66 for the inclusion of TPPG, then by a further 6p to £5.72

The Local Authority produced proposals for 2023-24 funding rates for providers. This included two options for the allocation of funds in place of TPPG for schools, each with a different funding rates for 3&4 year olds. The proposals were discussed with the Early Years Provider Reference Group (EYPRG) on 10<sup>th</sup> January 2023 and the Schools Funding Forum on 12th January 2023.

### Funding Consultation

The consultation was held on-line with details sent to all private, voluntary and independent early years providers, and to schools with nurseries. The contents of the consultation are shown at Appendix A.

The consultation ran until 7<sup>th</sup> February 2023, so was still open when this agenda item was prepared. The intention was for the outcome of the consultation to be shared with EYPRG and the proposed funding rates then forwarded to members of the Schools Funding Forum for discussion and approval at this meeting.



**Havering**  
LONDON BOROUGH

**Consultation with Early Years  
Providers on  
Funding for Financial Year  
2023-24**

## **Introduction**

This consultation document proposes options for the allocation of funding to early years providers for the financial year 2023-24. 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 Tuesday 7th February 2023.

A summary of responses to the consultation will be reported to EYPRG and the Schools Funding Forum in week commencing 6th February 2023 and final decisions taken by the Local Authority before funding statements are issued for the 2023-24 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 below:

<https://consultation.havering.gov.uk/education/fa4082fb>

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 2023-24

### 1. Early Years Funding 2023-24

Early Years education is funded through the Early Years Block of the DSG. As part of the DfE consultation, indicative funding rates were announced on 4th July 2022, which have remained unchanged as confirmed by the DfE in the indicative allocations for 2023-24, that was issued to local authorities on 16th December 2022, along with the final allocations for the other DSG blocks.

As part of the Autumn Spending Review 2021, funding for early years provision was increased by a further £180m. In the Autumn Spending Review 2022, for financial year 2023-24, central government announced an additional £20m in Early Years funding. This is applied via a year-to-year protections of 1%, and a gains cap for 3/4 year olds of 4.9%, and a gains cap for 2 year olds of 10.0%.

For 2023-24, Havering's rate for the 2 year old entitlement has increased by 8.1%, which is an increase of 49p in comparison to the 2022-23 rate. For the 3/4 year old entitlement, the increase is 1.1%, which is an increase of 6p.

The hourly rate for 3/4 year olds has been increased by an additional 7p following the rolling in of the teachers' pay and pension grants (TPPG) previously paid separately to school based nurseries. This has resulted in a total increase in the hourly rate for 3/4 year olds of 13p. Further details are given in Section 2.

Rates payable to the Local Authority in 2023-24 are shown in the table below:

	2 year olds	3/4 year olds
2022-23	£6.03	£5.59
2023-24	£6.52	£5.72*
Increase	£0.49	£0.13*

\* Please note that the proposed rate for 2023-24 includes 7p for the Teachers Pension and Pay Grants (TPPG) previously paid exclusively for mainstream schools with nurseries. The additional funding is therefore 6p.

As part of the original three year commitment in the Autumn Spending Review of 2021, there is a further £170m of additional funding due to the Early Years Block in 2024-25.

Early years providers in the private, voluntary and independent sector, and schools, continue to face considerable cost pressures. The National Living Wage rose by 6.6% in 2022 and is set to rise by a further 9.7% in April, whilst pay for most support staff in schools rose by 9.8% in the current financial year. The rise in energy costs are well documented but providers have also seen the cost of resources rising at unprecedented levels.

Against this background, a rise of just 1.1% in the funding rate received from central government is extremely disappointing. The local authority will continue to make representations to the Department for Education on the level of funding for early years at every opportunity.

## **2. Teachers Pay and Pension Grants (TPPG) transfer to Early Years Block**

Following a higher than anticipated pay rise for teachers in September 2018 and an increase of 7.2% in the employers' contribution rate for teachers' pensions in September 2019, the DfE introduced a pay and a pension grant to support schools with the additional costs.

These were calculated on a per pupil basis with nursery pupil numbers included. In the 2021-22 financial year, funding for Year R – Year 11 was rolled into the national funding formula basic per pupil rate. Funding for nursery aged pupils, however, continued to be funded as separate grants paid to maintained schools with nursery classes.

For 2023-24 the pay and pension grant funding allocated for nursery pupils has been rolled (transferred) into the overall 3/4 year old entitlement allocated to the LA, identified separately in the initial allocations. If the additional funding resulting from this rolling-in is distributed as part of the basic hourly rate then all providers would receive a proportion, rather than just the maintained schools that formerly received the separate grants.

The operational guide for early years released by the DfE on December 2022 states the following:

***“We encourage local authorities to use the quality supplement [one of the supplements to funding LA are allowed to include in local formulas] to distribute the additional funding they will receive because of the mainstreaming of the teachers' pay and pension grants.”***

***“As with all other supplements it is for local authorities to determine the appropriate metric for allocating funding.....However, we would encourage local authorities to consider the purpose for which the grants were originally introduced when designing their approach. They could continue to target the funding to take account of additional pressures that some providers might face, from, for example the need to pay employer contributions to the Teachers' Pension Scheme.”***

In the indicative allocations for 2023-24, the additional funding received as a result of the rolling in of the pay and pension grants is £239,515. The sum received for 2022-23 via the teachers' pay and pension grants is £231,406.

### **3. Indicative DfE funding of Havering's Early Years Block funding 2023-24**

Local authorities receive an initial allocation of Early Years funding for financial year 2023-24 based on the latest data available which was from the January 2022 Census.

Based on January 2022 data, Havering's initial allocation for 2023-24 is as below.

2 Year Olds			3/4 Year Olds			Total Funding for distribution
Cohort (PTE)	Unit of funding	Allocation	Cohort (PTE)	Unit of funding	Allocation	
533.34	£6.52	£1,982,105	6,002.89	£5.72	£19,571,824	£21,553,929

This will be updated from the January 2023 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.

### **4. Funding Supplement 2022-23**

At the start of the 2022-23 financial year the funding rates for providers were set at £5.97 for 2 year olds and £5.19 for 3/4 year olds. Following an in-year review, using in-year providers' termly claims and updated projections for the remainder of the financial year, a supplement was introduced to allocate the underspend on the Early Years Block brought forward from the previous year. This took the form of an additional 10p on the hourly rate for 2 year olds and 3/4 year olds.

As this supplement was funded using the previous year's balance, the additional funding could not be guaranteed for 2023-24. Rates for 2023-24 would be dependent on the increase in the hourly rate received from central government.

## 5. Distribution to Providers

### 5.1 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 any in year increase in hours not funded by the Government.

#### Proposal

- (i) It is proposed to pass on in full the central government increase of 49p, increasing the hourly rate for providers from £5.97 to £6.46.
- (ii) It is proposed to set a contingency of £77,673 that would enable a 4% growth in provision to be funded (an additional 21 PTE children above the projected numbers).

Q.1	<i>Do you agree for 2 year olds that the 49p increase in the hourly funding rate received from central government is passed on in full, increasing the rate paid to providers from £5.97 to £6.46?</i>
-----	--

Q.2	<i>Do you agree for 2 year olds that a contingency is set that would enable a 4% increase in the number of hours to be funded?</i>
-----	--

### 5.2 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 88% of the funding must be distributed through a basic hourly rate with up to 12% through supplementary factors

#### **Local Authority projected numbers used for Funding Options for 2023-24**

The cohort size used in projections has been calculated by taking numbers currently shown in Synergy for the spring term. Where a provider has not yet supplied figures the autumn term numbers for that provider have been added. This means the final January 2023 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.

Numbers for the summer term 2023, autumn term 2023 and spring term 2024 have been calculated by looking at the average change in numbers from the January base in previous years.



## Funding Options

The hourly funding rate is dependent on the approach taken in addressing the consolidation of the teachers' pay and pension grants into the Early Years block in 2023-24.

In line with the steer from the DfE, shown in section 2 of this document, the LA is proposing to introduce a quality supplement to distribute the additional funding. This would serve as protection (transition) for maintained schools who are losing the separate grant funding. When grant funding is removed it is usual to have a period of transition.

Two options for the allocation of funding have been considered, and we are seeking your views on them.

The first option directs all of the sum transferred from the mainstream schools TPPG (£239,515) back to eligible schools via a Quality Supplement. The base rate for 3/4 year olds and the rate for inclusion (SENIF) would increase by 12p an hour from £5.19 to £5.31.

The second option directs 60% (£141,280) of the transfer of the mainstream schools' TPPG back to those eligible schools via the Quality Supplement. This more closely matches the additional costs incurred by schools that the grants are intended to meet. The 3/4 year olds base rate and SENIF rate will both increase by 15p an hour, from £5.19 to £5.34.

### Further details on the options are as follows:

- **Option A - Base Rate and SENIF Rate increased to £5.31, and transfer of all of the TPPG grant to mainstream schools via the introduction of a Quality factor**

It is proposed that the funding rate for 3/4 year olds and the SENIF Rate is increased to £5.31, in line with the agreement to match fund the two rates going forward, and all of the transfer of the TPPG be allocated via the Quality factor for those eligible schools.

Option A proposal is as follows:

Proposed Base Rate	Increase in base rate	SEN Inclusion Fund	Hourly rate for SEN support	Quality factor (TPPG)
£5.31	12p	£417,685	£5.31	£239,515

- **Option B – Base Rate and SENIF Rate increased to £5.34, and transfer of £141,280 of the TPPG grant to mainstream schools via the introduction of a Quality factor**

In Option B, funding is allocated to more closely match the additional costs incurred by schools that the grants are intended to meet.

Using a teacher in the nursery who is paid on point 3 of the Upper Pay Spine and has a TLR of £4,892 (TLR2b), the additional costs that the TPPG is intended to meet, come to £5,504. Working on the basis that a 30 place nursery that has 28 children in the morning session and 28 children in the afternoon session should receive £5,504, an additional payment to all schools with nurseries can be calculated.

Using this methodology, £141,280 is required for the Quality factor to support the transition of this grant into the Early Years block.

The hourly rate for 3/4 year olds and SENIF could then rise to £5.34, an increase of 15p an hour in comparison to 22-23 base rate.

This option splits the additional funding received for TPPG between direct funding for TPPG costs and an increase in the basic hourly rate. It also means that the protection/transition for schools in 2023/24 is tapered.

The impact on individual schools is shown, anonymously, at Appendix A.

Option B proposal is as follows:

Proposed Base Rate	Increase in base rate	SEN Inclusion Fund	Hourly rate for SEN support	Quality factor (TPPG)
£5.34	15p	£420,044	£5.34	£141,280

Q.3	<i>For 3/4 year olds, which option do you favour?</i>
	<b><i>Option A – Base Rate and SENIF Rate increased to £5.31, and transfer of all of the TPPG grant to mainstream schools via the introduction of a Quality factor</i></b>
	<b><i>Option B – Base Rate and SENIF Rate increased to £5.34, and transfer of £141,280 of the TPPG grant to mainstream schools via the introduction of a Quality factor</i></b>

### 5.3 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 and recommends, with the exception of a supplement for TPPG, that they are not adopted in 2023-24. A further review will be carried out for 2024-25.

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 2023-24, funding rates would be as follows:

Band	Hourly rate		Annual rate (38 weeks x 15 hours)		% change
	2022-23	2023-24	2022-23	2023-24	
A	£0.73	£0.77	£416.10	£438.90	5.5%
B	£0.56	£0.58	£319.20	£330.60	3.6%
C	£0.52	£0.55	£296.40	£313.50	5.8%
D	£0.48	£0.50	£273.60	£285.00	4.2%
E	£0.31	£0.32	£176.70	£182.40	3.2%
F	£0.25	£0.26	£142.50	£148.20	4.0%
G	£0.00	£0.00	£0.00	£0.00	0.0%

Using the revised rates and methodology with October 2022 pupil data, the required budget for 2023-24 would be £435,825.

Q.4	<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>
-----	---

## **6. 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 that require 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.

For the current financial year, 2022-23, the central retention in Havering was reduced from £820k to £790k. The Local Authority is proposing at keeping the centrally retained budget at the current year budget of £790k for financial year 2023-24. This represents 4.04% of funding, well below the permitted 5%.

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>

Q.5	<i>Do you agree that the central retained budget for LA support remains unchanged at £790k?</i>
-----	---

## APPENDIX A - Impact on schools of proposed allocation of funding for TPPG 2023-24

School	2023-24 Sum received	2023-24 Sum received			Difference
	OPTION A	OPTION B			
	£	TPPG allocation £	Additional in base hourly funding £	Total £	
School 1	6,844	4,264	752	5,016	-1,828
School 2	10,156	5,620	992	6,612	-3,544
School 3	8,610	4,942	872	5,814	-2,796
School 4	7,992	4,322	763	5,084	-2,908
School 5	8,144	4,961	876	5,837	-2,307
School 6	8,831	4,554	804	5,358	-3,473
School 7	13,026	7,946	1,402	9,348	-3,678
School 8	17,220	9,729	1,717	11,446	-5,775
School 9	14,527	8,392	1,481	9,872	-4,655
School 10	8,698	5,155	910	6,065	-2,634
School 11	10,156	7,171	1,265	8,436	-1,720
School 12	9,449	5,601	988	6,589	-2,860
School 13	14,571	8,915	1,573	10,488	-4,083
School 14	10,553	5,504	971	6,475	-4,078
School 15	7,506	4,554	804	5,358	-2,148
School 16	17,441	10,078	1,778	11,856	-5,585
School 17	8,831	5,330	941	6,270	-2,561
School 18	10,818	5,426	958	6,384	-4,434
School 19	9,935	5,969	1,053	7,022	-2,912
School 20	14,130	7,655	1,351	9,006	-5,124
School 21	13,026	8,508	1,501	10,009	-3,016
School 22	9,052	6,686	1,180	7,866	-1,186
<b>Total</b>	<b>239,515</b>	<b>141,280</b>	<b>24,932</b>	<b>166,212</b>	<b>-73,303</b>

-----End of Document-----