**Report to Hartlepool Schools’ Forum 2 February 2021**

**From Penny Thompson – Head of Service: The Children’s Hub and Partnerships**

# Item 4: Dedicated Schools Grant – Early Years Block 2021/22

1. **Introduction**

1.1 The purpose of the report is to consult on the 2021/22 Early Years National Funding Formula (EYNFF) and funding of Providers.

1.2 Schools’ Forum has already approved the central element of spending at an earlier meeting on 24 September 2020.

1.3 This report presents a summary of the consultation responses for consideration by Schools’ Forum.

**2. Background**

2.1 The EYNFF sets the hourly funding rates that each local authority is paid to deliver the universal and additional entitlements for three and four year olds, along with entitlements for 2 year olds.

2.2 Local authorities are required to consult providers on proposed annual changes to local early year’s funding formulas, although the final decision rests with the local authority.

2.3 The government announced a £44m increase nationally for Early Years within the November 2020 spending review. The new hourly rate funding for Hartlepool was published on 17 December 2020 and is detailed in section 3.2 of this report.

2.4 Consultation with providers commenced on 22 December 2020.

**3. 2021/22 Block Funding**

3.1 The authority’s estimate of the 2021/22 initial funding allocation for the early years block is provided in the following table. The 2021/22 initial allocations for the early years block are based on those announced by government in the Dedicated Schools Grant (DSG) allocations table in December 2020. Final allocations will remain subject to census volume changes.

|  |  |  |
| --- | --- | --- |
| **Early Years Block** | **Rate** | **2021/22 Indicative Funding (£)** |
| 3/4 Year Old Funding  | £4.63 per hour | 4,872,993 |
| Disability Access Fund (DAF) | £615 per pupil | 27,675 |
| Pupil Premium | £0.53 per hour | 151,655 |
| Total 3/4 Funding  |   | 5,052,323 |
| 2 Year Old Funding | £5.36 per pupil | 1,312,514 |
| **Total Indicative Early Years Block** |   | **6,364,837** |

3.2 Hourly rate funding increases for 2021/22 have been announced and are included in the table above. The increases are from £4.57 to £4.63 (or 6p) for three to four year old provision and from £5.28 to £5.36 (or 8p) for two year old provision.

3.3 The funding increase for three to four year olds is subject to the 95% pass-through rate regulation so should be reflected in a revised hourly rate calculation for provider payments.

3.4 Provider payments relating to two year old provision are not subject to a pass-through rate requirement. This means that the 8p per hour increase does not necessarily have to be passed in full to providers.

**4. Proposed Hourly Rate Structure 2021/22 – Three to Four Year Old Provision**

4.1 Forum will recall that the funded hourly rate for three to four year-old provision increased to £4.57 within the 2020/21 EYNFF. This increased the base rate to providers from £4.21 per hour to £4.28 per hour. This decision was ratified by Children’s Services Committee.

4.2 The local authority is proposing to retain the current hourly rate funding structure for 2021/22 to apply the 6p increase.

4.3 The table below shows the proposed hourly rate structure for 2021/22, taking into account the increase of 6p for three to four year old provision.

|  |  |  |  |
| --- | --- | --- | --- |
| **Proposed three & four year old formula** | **Hourly Rate (£)** | **% Allocated** | **Total Funding (£)** |
| **DFE allocation** | **4.63** | **100.0%** | **4,872,993** |
| **Proposed Hartlepool Formula:** |  |  |  |
| Base Rate | 4.34 | 93.8% | 4,570,867 |
| Mandatory Deprivation Supplement | 0.01 | 0.2% | 9,746 |
| Contingency | 0.02 | 0.4% | 19,492 |
| SEN Inclusion Fund | 0.03 | 0.6% | 29,238 |
| **Pass- through rate to providers** | **4.40** | **95.0%** | **4,629,343** |
| **Centrally retained funding** | **0.23** | **5.0%** | **243,650** |
| **Total**  | **4.63** | **100.0%** | **4,872,993** |

4.4 Pass-through rate – 95%

 The pass-through rate includes the base rate, the funding of the deprivation supplement, the proposed contingency fund and an allocation for the SEN inclusion fund. These elements are described in more detail below.

4.5 Base rate– 93.8%

 The base rate proposed would represent an increase of 6p per hour from the existing base rate of £4.28. The base rate is payable to all providers of three to four year old provision.

4.6 Mandatory Deprivation Supplement – 0.2%

 Deprivation is a mandated supplement within the early year’s hourly rate. This is proposed at the same rate as 2020/21. Payments would continue to be allocated on the basis of those three to four year olds attracting pupil premium.

4.7 Contingency Fund – 0.4%

Although there is a duty to ensure that 95% of 3-4 year old funding is passed to providers, it is important to understand and manage the risk of exceeding the 95%, resulting in a new financial pressure on the early years block. A contingency fund of 0.4% is proposed in order to mitigate this risk. Such a risk could materialise through unexpected volatility in census volumes during the funding year. The contingency fund would provide for circa 7 full time places for a complete year and is considered a reasonable provision based on previous year census variations.

4.8 SEN Inclusion Fund – 0.6%

The SEN Inclusion Fund is proposed to be maintained at 0.6%. This £29k fund can be accessed by all providers in accordance with the agreed policy.

4.9 The pass-through rate position will continue to be carefully monitored in-year to assess any risk and respond appropriately.

4.10 Centrally Retained Funding

 In accordance with ESFA guidance, centrally retained funding of 5% of the EYNFF, is proposed to be retained. Schools’ Forum has already approved that the retention of 5% be recommended to Children’s and Joint Commissioning Committee for approval.

4.11 Other Specific Funding

 The local authority also receives specific funding for eligible three and four year olds relating to the Disability Access Fund (DAF) and Pupil Premium; this is passported to eligible providers. The rates per pupil for 2021/22 are DAF £615.00 per pupil and pupil premium of £0.53p per hour. These rates are unchanged from 2020/21.

**5. Proposed Hourly Rate 2021/22 – Two Year Old Provision**

5.1 Schools’ Forum will recall the agreement to retain the 2 year-old hourly rate at £5.20 in 2020/21 and not pass on the previous 8p increase to providers, pending the outcome of the Task and Finish Group from their review of two year old provision and the associated financial pressure within the early years block.

5.2 This decision was ratified by Children’s and Joint Commissioning Committee.

5.3 The 8p per hour is expected to reduce expenditure on two year-old provision by an estimated £20k in 2020/21.

5.4 The government has announced a further hourly rate increase of 8p for two year old funding in 2021/22.

5.5 With the further increase of 8p for two-year old provision, Schools’ Forum need to consider the following options to recommend to Children’s and Joint Commissioning Committee:

* Option 1: Continue to retain the 8p per hour increase from 2020/21 and retain the additional 8p for 2021/22;
* Option 2: Continue to retain the 8p per hour increase from 2020/21 but pass on the additional 8p to providers in 2021/22;
* Option 3: Pass on both increases for 2020/21 and 2021/22 to providers – a total increase with effect from April 2021 of 16p.

5.6 The 8p per hour increase could be retained to partially offset the current financial pressure against two year old provision whilst options for mitigation in future years are explored. This would result in a saving of circa £20k per annum. However, should we continue to retain the 8p per hour increase from 2020/21 and retain the additional 8p for 2021/22 we could recover a projected shortfall of circa £40k per annum.

5.7 As there is currently no agreed approach to deal with the known financial pressure relating to two year old provision, the local authority preferred option would be to retain the saving and not pass the 8p per hour increase on to providers in 2021/22 (i.e. Option 1 at paragraph 5.5).

**6. Two Year-Old Provision Shortfall - Update**

6.1 Forum Members will recall that analysis completed by the Task and Finish Group demonstrated a funding shortfall of £0.097m in 2017/18 and £0.105m in 2018/19. The funding shortfall in 2019/20 was confirmed at £0.150m.

6.2 Early Years funding is calculated of the basis of each January census. For example, in 2019/20, the authority received 5/12ths of funding based on January 2019 and 7/12ths based on the January 2020 census.

6.3 The Group concluded that the reason for the funding shortfall was that the number of two year-olds recorded on the January census was typically lower than the volume of two-year old provision during the rest of the year.

6.4 As both Private, Independent and Voluntary (PVI) providers and academies are funded on the basis of headcount, spending on two-year old provision exceeded the amount of funding received in the three financial years from 2017/18 to 2019/20.

6.5 Having reviewed the projected outturn position for two-year old provision in 2020/21, the provisional outlook appears more favourable. Latest projections expect a significantly lower shortfall of £0.034m.

6.6 The key reason for the improved projection is lower spending within the summer term of 2020. The reduced spend is clearly linked to the exceptional circumstances during the pandemic, particularly during the first national lockdown.

6.7 Although the 2020/21 outturn appears more favourable, it is extremely likely that this is a one year anomaly. However, the more favourable projection for 2020/21, along with the potential to hold back the full 16p per hour on two year old provision, means that we can expect the balance of DSG Early Years reserves to remain in a positive position for longer. Rather than looking to implement the findings of the Task and Finish Group by April 2022, it is now likely that this can be deferred until April 2023.

**7. Consultation Responses**

7.1 The consultation with providers ended on 8 January 2021. A summary of the responses is provided in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Early Years Consultation 2021/22 - Responses**  | **Yes** | **No** | **Not Sure** | **Total** | **% Agreed** |
| 1: Do you agree that the hourly rate for 3 to 4 year old provision is distributed using the current hourly rate structure as shown in the table at section 4.1 above? (table 4.1 is shown as 4.5 in this report) | 3 | 1 | 0 | 4 | 75% |
| 2: Do you agree that the 8p increase with effect from April 2021 for 2 year old funding is not passed to providers in 2021/22? | 2 | 1 | 1 | 4 | 50% |

7.2 The response rate is disappointing at 4%. However, Providers are clearly operating under extremely difficult circumstances at the current time and may not have capacity to respond.

**8. Recommendations**

a) To note the contents of the report and the consultation responses included;

b) To agree that the proposed three and four year old hourly rate formula shown at the table in paragraph 4.3 above should be recommended to Children’s and Joint Commissioning Committee for implementation from April 2021;

c) To recommend to Children’s and Joint Commissioning Committee that the hourly rate for two year old provision remains at £5.20 in 2021/22 without the further 8p funding increase being applied (Option 1).

d) To review the hourly rate for two year old provision for implementation from April 2023 upon completion of the work by the Early Years Task and Finish Group.

**A vote is required and ALL Schools’ Forum members are eligible to vote.**