

Item 5: Early Years Block National Funding Formula Review

1. Introduction

- 1.1 The purpose of the report is to prepare Forum Members for making recommendations on the 2022/23 hourly rate for Early Years providers in February 2022.
- 1.2 The report includes the latest update on the financial pressure relating to 2 Year Old (2YO) provision and seeks assistance from Schools' Forum in lobbying government for funding changes.

2. Background

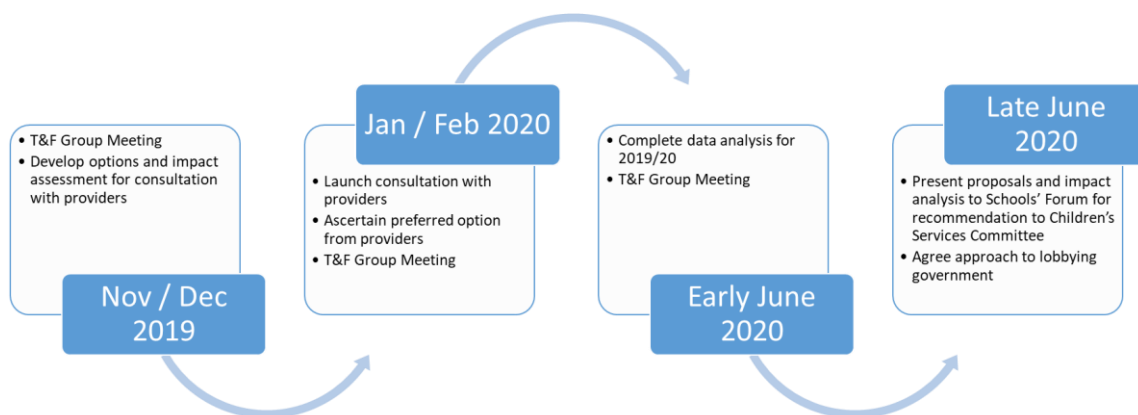
- 2.1 Government funding for Early Year's provision is on the basis of an hourly rate payable to providers. Headcount on census date is converted to a Part Time Equivalent (PTE) and multiplied by the government's hourly rate to calculate the block funding. There is a different hourly rate for 2YO provision and 3-4 Year Old (3-4YO) provision.
- 2.2 Since 2016/17, Hartlepool has suffered from a funding shortfall on 2YO provision. Until 2019/20, this shortfall was offset by underspending on 3-4YO provision. In 2019/20, the Early Years Block began to overspend overall and Dedicated Schools Grant reserves had to be used to fund the deficit.
- 2.3 Forum established a Task and Finish Group in summer 2019 to analyse and consider the 2YO funding shortfall in greater detail in order to propose options for tackling the deficit.
- 2.4 In line with the regulations, consultation takes place with Early Year's providers in December – January each year to seek views on the proposed funding of providers for the following financial year. The results of the consultation will be reported to Schools' Forum and subsequently to Children's Services Committee for decision.
- 2.5 Within the autumn spending review, government announced "We are investing additional funding for the early years entitlements worth £160m in 2022-23, £180m in 2023-24 and £170m in 2024-25. This is for local authorities to increase hourly rates paid to childcare providers for the government's free childcare entitlement offers and reflects the costs of inflation and national living wage increases".
- 2.6 In preparation for the annual consultation with providers and subsequent discussion at Schools' Forum, this report provides an update on expected Early Years Block spending, outlines the latest progress of the Task and Finish Group on review of 2YO provision, along with details of existing hourly rates paid to providers.

3. 2021/22 Early Years Block Spending Forecast

- 3.1 The latest forecast outturn for Early Years spending in 2021/22 is an overall estimated underspend of £0.033m. The underspend projected relates to 3-4YO provision. Spending to date against 2YO provision is projecting a break-even position in 2021/22.
- 3.2 The improved position on 2YO provision was not expected prior to COVID-19 and the government response to temporarily amend the funding process for Early Years. Instead of funding local authorities on the basis of two January census points (5/12ths January 2021 and 7/12ths January 2022), the funding in 2021/22 is based on the 3 school census points – January 2021, May 2021 and October 2021. This change in funding is expected to increase the 2YO block funding for Hartlepool. DfE have stated that this funding change is for one year only.

4. 2YO Provision Review – Task and Finish Group Update

- 4.1 The Task and Finish Group have prepared a summary analysis attached at appendix A to this report which Forum Members may find useful.
- 4.2 The original timeline the Task and Finish Group were working to is shown in the diagram below. The options being considered were to reduce the hourly rate for 2 YO provision in the range of 18p to 49p per hour.
- 4.3 Subject to approval, the original timeline would have resulted in new hourly rate reductions with effect from 1 April 2021. However, the work of the Task and Finish Group was paused during the pandemic whilst early year’s providers faced wider operational and sustainability issues.



- 4.4 The Task and Finish Group reconvened during summer 2021. The Group considered new information available as outlined in the paragraphs that follow.

4.5 2020/21 Outturn

- The final outturn in 2020/21 for 2YO provision was an overspend of £0.034m. This was projected to be in the region of £0.150m prior to the pandemic.
- Other than the approved use of reserves for sustainability grants to providers costing £0.010m, reserves were not required to fund a deficit in 2020/21.
- The significantly reduced budget shortfall for 2YO provision in 2020/21 was linked to a benefit from an in-year funding change by government (greater weighting on January 2020 census), along with lower expenditure in summer term. Both of these changes were as a result of the pandemic.

4.6 2021/22 Outlook

- For one year only, government is funding local authorities on the basis of the 3 census points as opposed to the 2 January census points. This is a further response to the pandemic.
- The January census count for 2YO provision is consistently lower than headcount in summer and autumn terms. Therefore, a move to funding based on 3 census points is expected to be of financial benefit. Projections for 2021/22 spending are likely therefore to be positive and a significant deficit is not expected.

4.7 2 YO Provision Hourly Rate

- For 2021/22, the government funded rate for 2YO provision is £5.36.
- The approved hourly rate payment to providers is £5.20, the 16p per hour difference is currently being held back to offset some of the funding shortfall
- The 16p per hour equates to a saving of circa £0.040m
- Since the last Task and Finish Group meeting, the government has announced additional funding for early years entitlements worth £160m in 2022/23, £180m in 2023/24 and £170m in 2024/25. This is very likely to result in a further hourly rate funding increase for financial year 2022/23.
- An estimate of the hourly rate increase for 2YO provision (based on previous estimates) would be 29p per hour.

4.8 A meeting was held between members of the Task and Finish Group and DfE representatives on 11 October 2021. Ahead of the meeting, analysis was completed to show the financial benefit in previous financial years, should 2YO funding have been calculated on the basis of the 3 census points as opposed to the 2 January census points. For 2018/19, the funding shortfall would have reduced from £0.102m to £0.073m. For 2019/20, the funding shortfall would have reduced from £0.149m to £0.093m.

4.9 The meeting provided an opportunity to brief DfE colleagues on the funding shortfall for 2YO provision, along with the stark reality of options under consideration to reduce hourly rate payments to providers.

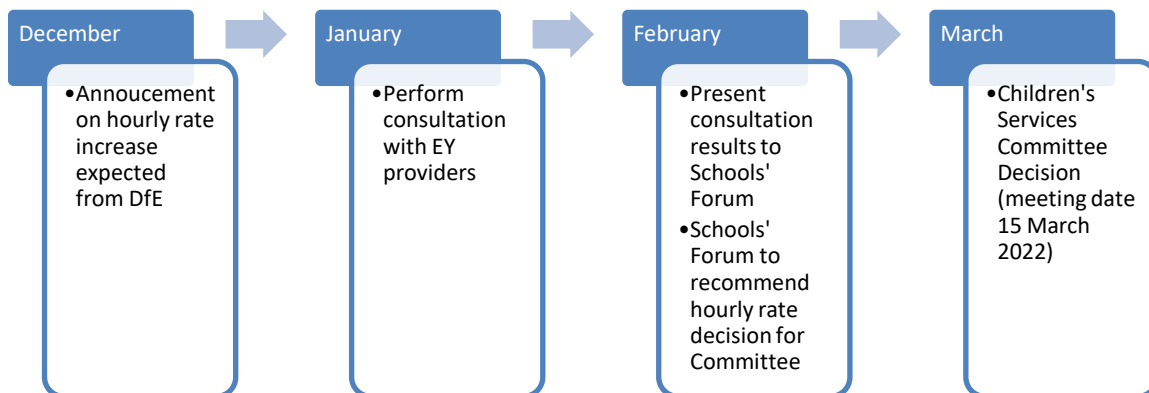
- 4.10 DfE colleagues are keen to continue a dialogue. They reported that other local authorities had reported funding increases if 2YO provision moved permanently to the 3 census points instead of the 2 January census points. However, some local authorities had predicted reduced funding for 3-4YO provision.
- 4.11 Having performed the same analysis for 2018/19 and 2019/20 on 3-4YO funding, Hartlepool would have seen a financial benefit from moving to 3 census points.

5. **Proposed Revised Timeline for Task and Finish Group Proposals**

- 5.1 The Task and Finish Group are proposing to delay any proposals for implementation of a reduced hourly rate for 2YO provision until April **2023** at the earliest.
- 5.2 The rationale for the delay includes:
- The significantly improved outturn position in 2020/21 (actual overspend of £0.034m compared to original projection of £0.150m);
 - The move to 3 census point funding in 2021/22 that is expected to avoid a deficit in-year;
 - The balance of Early Year's DSG reserves currently stands at £0.243m. These reserves are available to cover a deficit position should they be required.

6. **Proposed Timeline for Hourly Rate Consultation with Providers and Proposals to Committee**

- 6.1 The proposed timeline to reach a decision from Children's Services Committee on the hourly rate to providers effective from 1 April 2022 is shown in the diagram below.



7. **Recommendations**

- 7.1 Forum is recommended to:
- a) note the contents of the report;

- b) agree next steps for lobbying of government to move permanently to funding on the basis of 3 census points as opposed to the 2 January census points;
- c) agree the revised timeline proposed at section 5 of this report.

Please note that a vote from Schools' Forum on hourly rates to providers will not be requested until February 2022.

Appendix A

EY 2YO PROVISION: SUMMARY ON A PAGE FOR MEETING WITH DfE OCTOBER 2021

FY	2 YO OUTTURN POSITION £k	
2016/17	91	OVERSPEND
2017/18	75	OVERSPEND
2018/19	102	OVERSPEND
2019/20	149	OVERSPEND
2020/21	34	OVERSPEND

NOTE 1

FY	Funded Hours	Funded £k	Exp Hours	Exp £k	Diff Hours	Diff £	
2017/18	260,490	1,354,548	274,903	1,429,493	14,413	74,945	(or 25 PTE)
2018/19	254,600	1,323,920	274,263	1,426,168	19,663	102,248	(or 34 PTE)
2019/20	248,529	1,292,353	277,123	1,441,039	28,593	148,686	(or 50 PTE)
2020/21	237,382	1,253,378	247,649	1,287,776	10,267	34,398	(or 11 PTE)

NOTES

- (1) Outturn position benefitted from 9/12ths and 3/12th funding change (plus summer term exp lower compared to prev years)
- (2) For 2021/22, Councils are being funded on the 3 census points (Jan, May and Oct) instead of Jan only
- (3) DfE state that the change in funding using 3 census points is a 1 year change only
- (4) The 2YO funded hourly rate in Hartlepool is £5.36
- (5) 16p of the hourly rate is currently being held - an annual saving of circa £40k

OPTIONS PREPARED PREVIOUSLY

- 1 Pay all providers on the 3 census points
- 2 Continue to pay PVIs and Academies on attendance and reduce the 2 year old hourly rate
- 3 Pay all providers based on attendance and reduce the 2 year old hourly rate
- 4 Pay all providers on the 3 census points and increase the 2 year old hourly rate

IMPACT

- Academies and PVIs paid on reduced headcount (ave loss £3k; max loss £22k)
- Hourly rate reduces by 36p (ave loss £2k; max loss £10k)
- Hourly rate reduces by 49p (ave loss £2k; max loss £13k)
- Hourly rate increase by 18p but paid on reduced headcount (ave loss £2k; max loss £20k)

FUTURE FINANCIAL OUTLOOK - QUESTIONS

- 1 FY 2021/22 is likely to be positive because of the census funding point change
- 2 Will there be pressure on DfE to fund on 3 census points beyond this financial year?
- 3 Has there been an increase in data accuracy following EYES implementation?
- 4 Could there be a further hourly rate increase in 2022/23 with a potential to hold back?