

**Item 3: Early Years Block Update**

**1. Introduction**

- 1.1 The purpose of the report is to prepare Forum Members for making recommendations to Childrens Services Committee on the 2023/24 hourly rate for Early Years providers in March 2023.
- 1.2 The report includes the latest update on the historic financial pressure relating to 2 Year Old (2YO) provision.

**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 2021 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. 2022/23 Early Years Block Spending Forecast – 2YO Provision**

3.1 The table below lists the annual final outturn position on 2YO provision.

Financial Year	Final Outturn £'000	
2016/17	91	OVERSPEND
2017/18	75	OVERSPEND
2018/19	102	OVERSPEND
2019/20	149	OVERSPEND
2020/21	34	OVERSPEND
2021/22	100	UNDERSPEND

3.2 From 2016/17 to 2020/21, payments to providers for 2YO provision exceeded the funding from government, resulting in overspending.

3.3 The overspend in 2020/21 was significantly reduced because of changes in attendance linked to the pandemic, along with government intervention.

3.4 In 2021/22, government introduced a one-off change to funding that was based upon 3 census points – May, October and January – as opposed to January census points only. Our calculations show that this funding change benefited the 2YO position by £0.140m. The financial benefit is demonstrated in an unprecedented underspend of £0.100m for 2021/22.

3.5 Although the funding basis has reverted to the usual January census in 2022/23, we are seeing changes in spending versus funding and are currently projecting an underspend position. Projections suggest underspending in the region of £0.100m.

3.6 Forum Members will recall that 16p of the funded hourly rate for 2YO provision is being held back to address the historic financial position. Calculations show that this equates to a saving of circa £0.041m. Other reasons for the underspend projection could be linked to:

- work with providers to ensure that attendance for January census is strong;
- ongoing changes linked to the pandemic that are not fully understood as yet;
- “reversal of fortunes” – there can be winners and losers with the EY funding system. It is possible that 2022/23 is a non-typical year for Hartlepool.

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

4.1 The Task and Finish Group met on 17 November 2022 to review and discuss the changed position projected for 2022/23.

4.2 The Task and Finish Group fully shared the view of Council Officers that the reasons for the change in position were uncertain so further time was needed to understand whether the change was temporary.

- 4.3 In response to the improved position in 2021/22, Schools' Forum agreed to pause the work of the Task and Finish Group until the December 2022 consultation window.
- 4.4 Owing to the predicted underspend position for 2022/23, the Task and Finish Group propose a further pause until the December 2023 consultation window.
- 4.5 Consultation with providers will explain the change in position and outline the uncertainty involved. Council Officers, with support from the Task and Finish Group, recommend that the 16p continues to be withheld but that any increase in government funding for 2023/24 be passed to providers.

4.6 2 YO Provision Hourly Rate

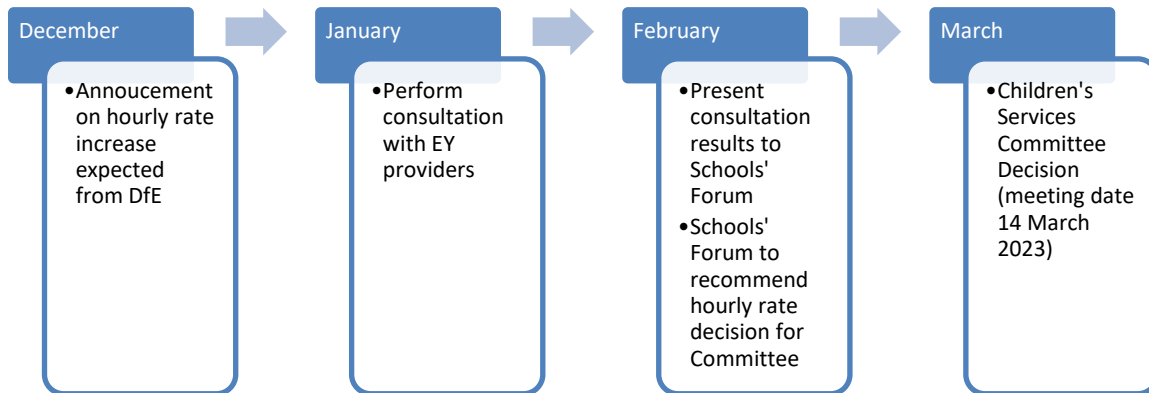
- For 2022/23, the government funded rate for 2YO provision is £5.57.
- The approved hourly rate payment to providers is £5.41, the 16p per hour difference is currently being held back to offset some of the funding shortfall
- The 16p per hour equates to a saving of circa £0.041m
- In December 2021, the government announced additional funding for early years entitlements worth £160m in 2022/23, £180m in 2023/24 and £170m in 2024/25. At this stage, it is uncertain whether the £180m investment for 2023/24 will be upheld.
- An estimate of the hourly rate increase for 2YO provision (based on previous estimates) would be 22p per hour.

**5. 2022/23 Early Years Block Spending Forecast – 3-4YO Provision**

- 5.1 At this stage, 3-4YO provision is expected to underspend by £0.112m. There are also limited claims for the Disability Access Fund to date, with underspending of £0.33m projected at year-end, giving a total projected underspend of £0.145m on 3-4YO provision.
- 5.2 In comparison to 2YO provision, the hourly rate structure for 3-4YO provision is more complex and includes contingency for example, making underspending more typical. However, Forum will recall that local authorities are obliged within the regulations to pass through at least 95% of funding to providers. Underspending carries a risk that this measure is not fully met. The pass through rate is being closely monitored in year.

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 2023 is shown in the diagram below.



7. **Recommendations**

7.1 Forum is asked to note the contents of the report.

Please note that a vote from Schools’ Forum on hourly rates to providers will not be requested until 1 February 2023