

**Report to Hartlepool Schools' Forum 15 February 2023**  
**From Penny Thompson – Head of Service**

**Item 6: Dedicated Schools Grant – Early Years Block 2023/24**

**1. Introduction**

- 1.1 The purpose of the report is to consult on the 2023/24 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 19 October 2022.
- 1.3 Schools' Forum received an update on Early Year's spending for 2022/23 at their meeting of 6 December 2022 in preparation for decisions relating to the hourly rates to be set from April 2023.
- 1.4 This report presents a summary of the consultation responses for consideration by Schools' Forum.
- 1.5 Changes to the former Teacher's Pay Grant (TPG) and Teacher's Pension Employer Contribution Grant (TPECG) for early year's settings in schools are outlined in the report.

**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 Consultation with providers was open between the 10 January and 17 January 2023.
- 2.4 There is a key change to the EYNFF from 2023/24 onwards. Since 2019, school settings have received a separate government grant to help fund the costs of teacher pay and pension contribution increases introduced in September 2019. This separate grant has been mainstreamed into the funded hourly rate for 3 to 4 year old provision from April 2023.

**3. 2022/23 Financial Position**

- 3.1 Outturn projections are prepared on a quarterly basis for early year's provision. Owing to the volatility in attendance during the year and in recognition that final funding is not confirmed until after the latest January census is published, a range of scenarios are considered for projected outturns.

3.2 The table below shows the range of outturn projections for 3 to 4 year old provision.

Scenario	Best Case £m	Mid Case £m	Worse Case £m
Budget	4.448	4.448	4.448
Spend Estimate	4.237	4.487	4.537
Overspend (+) / Underspend (-) Projection	(0.211)	0.039	0.089
High Level Assumptions - Funding	Funding based on 5 months of January 2022 census and 7 months January 2023 census estimate from EY Team		
High Level Assumptions – Expenditure	Year to date spend plus estimates for remaining autumn term and spring term from EY Team	Summer term actual spend plus assumed autumn 2022 spend is equal to autumn 2021 and spring 2023 spend is equal to spring 2022	Summer term actual spend plus assumed estimated January 2023 census headcount is the basis of spend for autumn 2022 and spring 2023

3.3 The latest outturn projection for 3 to 4 year provision is in the range of £0.211m underspend (best case) to £0.089m overspend (worse case). This compares to an underspend of £0.224m in 2021/22. The regulations place an obligation on the local authority to pass through at least 95% of funding for 3 to 4 year old provision to providers. In 2021/22 the pass through rate fell slightly short at 94.28%. Should the best-case underspend materialise in 2022/23, the pass through rate is at risk again.

3.4 The table below shows the range of outturn projections for 2 year old provision.

Scenario	Best Case £m	Mid Case £m	Worse Case £m
Budget	1.373	1.373	1.373
Spend Estimate	1.295	1.297	1.401
Overspend (+) / Underspend (-) Projection	(0.078)	(0.076)	0.028
High Level Assumptions - Funding	Funding based on 5 months of January 2022 census and 7 months January 2023 census estimate from EY Team		
High Level Assumptions – Expenditure	Year to date spend plus estimates for remaining autumn term and spring term from EY Team	Summer term actual spend plus assumed autumn 2022 spend is equal to autumn 2021 and spring 2023 spend is equal to spring 2022	Summer term actual spend plus assumed estimated January 2023 census headcount is the basis of spend for autumn 2022 and spring 2023

- 3.5 The latest outturn projection for 2 year old provision is in the range of £0.078m underspend (best case) to £0.028m overspend (worse case). This compares to an underspend of £0.069m in 2021/22. Forum will recall that although the funding basis has reverted to the usual January census points in 2022/23, we are seeing unexpected changes in spending versus funding.
- 3.6 To help ease the pressure on reserves and pending the outcome of the Task and Finish Group proposals, the authority retained a total 16p increase in funding from government (8p increase from April 2020 and a further 8p increase from April 2021). This approach reduced the 2021/22 funding shortfall by an estimated £0.040m. For April 2022, the full increase of 21p was passed to providers via the 2 year old provision hourly rate, with the 16p continuing to be withheld.
- 3.7 The balance of DSG reserves relating to Early Years currently stands at £0.536m.

#### 4. **2023/24 Block Funding**

- 4.1 The table below summarises the indicative early year's funding position for 2023/24 published on 16 December 2022.

<b>Early Years Block</b>	<b>Rate</b>	<b>2023/24 Estimated Funding (£)</b>
3/4 Year Old Funding	£5.09 per hour	5,268,123
Disability Access Fund (DAF)		51,336
Pupil Premium		178,369
<b>Total 3/4 Funding</b>		<b>5,497,828</b>
2 Year Old Funding	£5.63 per pupil	1,410,400
<b>Total Estimated Early Years Block</b>		<b>6,908,228</b>

- 4.2 The funded rate for 3 to 4 year old provision increases from £4.80 to £5.09; the funded rate for 2 year old provision increases from £5.57 to £5.63. This hourly rate from government includes the funds both to deliver the scheme and the maximum payment for providers for each eligible child.
- 4.3 The 29p increase for 3 to 4 year old provision includes 24p to fund the previously separate Teacher's Pay Grant (TPG) and Teachers Pension Employer Contribution Grant (TPECG). Therefore, without the grant, the actual increase for 3 to 4 year old provision is 5p per hour.

## 5. Proposed Hourly Rate Structure 2023/24 – Three to Four Year Old Provision

5.1 The table below shows the proposed hourly rate structure for 2023/24. The following changes are proposed:

- Apply the increase of 5p per hour, with 4p of the increase being applied to the base rate and 1p to centrally retained budgets;
- Create a new supplement for payment of the 24p TPG / TPECG to relevant settings;
- Remove the 2p contingency and transfer the 2p to the base rate. This will result in a total 6p per hour increase to the base rate for 3 to 4 year old provision in line with the government's 6p per hour increase for 2 year old provision. It will also assist in achieving the 95% pass through rate as outlined in paragraph 3.2.

<b>Proposed three &amp; four year old formula</b>	<b>Current Hourly Rate (£)</b>	<b>Proposed New Hourly Rate (£)</b>	<b>% Allocated</b>
<b>DFE allocation</b>	<b>4.80</b>	<b>5.09</b>	<b>100.0%</b>
<b>Proposed Hartlepool Formula:</b>			
Base Rate	4.50	4.56	89.5%
Mandatory Deprivation Supplement	0.01	0.01	0.2%
TPG / TPECG Supplement	0.00	0.24	4.7%
Contingency	0.02	0.00	0.0%
SEN Inclusion Fund	0.03	0.03	0.6%
<b>Pass- through rate to providers</b>	<b>4.56</b>	<b>4.84</b>	<b>95.0%</b>
<b>Centrally retained funding</b>	<b>0.24</b>	<b>0.25</b>	<b>5.0%</b>
<b>Total</b>	<b>4.80</b>	<b>5.09</b>	<b>100.0%</b>

### 5.2 Pass-through rate – 95%

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

### 5.3 Base rate– 89.5%

The base rate proposed would represent an increase of 6p per hour from the existing base rate of £4.50. The base rate is payable to all providers of three to four year old provision.

### 5.4 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 2022/23. Payments would continue to be allocated on the basis of those three to four year olds attracting pupil premium.

### 5.5 TPG / TPECG Supplement – 4.7%

From 2019/20, school settings received a grant to cover the significant teacher pay and pension increases effective from September 2019. Rather than continue to pay as a separate grant, DfE have increased the 3 to 4 year old provision funded hourly rate. For

Hartlepool, the DfE increase is 24p. As the supplement will not affect all settings, the actual payment per hour will be greater than 24p. Section 6 of this report outlines proposals for distribution of the new supplement.

#### 5.6 Contingency Fund – 0.0%

Historically, 2p of the hourly rate has been set aside as contingency in case the 95% pass through rate is exceeded because of unexpected volatility in census volumes. As the contingency has not been required in recent years, and to assist with reaching the 95% pass through rate, the contingency is proposed to be removed in 2023/24. This position will be considered again ahead of setting hourly rates in 2024/25.

#### 5.7 SEN Inclusion Fund – 0.6%

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

5.8 The pass-through rate position will continue to be carefully monitored in-year to assess any risk and respond appropriately. The response could prompt an hourly rate change from April 2024, or if significant, consideration of an in-year change to hourly rates.

#### 5.9 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 recommended the retention of 5% for approval by Children's Services Committee.

#### 5.10 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 national funding rate for EYPP will increase by 2 pence, from 60 pence to 62 pence per eligible child per hour. The national funding rate for DAF will increase by £28, from £800 to £828 per eligible child per year.

## 6. TPG / TPECG Supplement Proposals

6.1 Mainstream schools and academies with an early year's setting currently receive a grant payment from DfE to help fund the cost of significant increases in teacher's pay and pension contribution rates that became effective from September 2019. The grant was established in financial year 2019/20 using a rate per pupil multiplied by the latest census numbers for the setting. This grant is being mainstreamed into the 3 to 4 year old provision hourly rate from April 2023.

6.2 The current total TPG / TPECG grant amount has been divided by the total funded part time equivalents for 3 to 4 year old provision by DfE to establish a funded hourly rate of 24p.

6.3 The grant eligibility was restricted to school settings. However, in mainstreaming the former grant into the 3 to 4 year old provision hourly rate, DfE have suggested that local authorities may wish to reconsider the basis for distributing the funding, whilst continuing to adhere to the reason and rationale for the original TPG / TPECG grant.

- 6.4 As the original grant was restricted to school settings only, one option would be to continue this practice and apply the TPG / TPECG supplement to maintained schools and academies only. This proposal would result in an hourly rate supplement of 31p as school and academy settings make up 76% of 3 to 4 year old provision funded hours. With this option, school settings would receive an amount broadly comparable to the funding received under the separate grant, although exact amounts would vary because the method of distribution differs.
- 6.5 Another option would be to extend the supplement to any settings that employ a qualified teacher. This currently affects 5 non-school settings across Hartlepool. This option would result in an hourly rate supplement of 29p as settings would make up 81% of 3 to 4 year old provision funded hours. With this option, school settings would see a reduction in funding compared to the previous grant income, although the estimated reduction would equate to only £14k across all school settings.
- 6.6 With either option, it is not possible to predict the exact amount of TPG / TPECG supplement that will be payable as the amount is dependent on actual hours paid. Clearly, hours paid can fluctuate from funded hours which are on the basis of the two January census points.
- 6.7 Owing to the unpredictability and, in recognition of 2023/24 being the first year of operating the TPG / TPECG supplement, Schools' Forum may wish to consider holding back a small amount of the supplement as a contingency. As an example, one regional authority is proposing to withhold 2p (or 10%) of their supplement. However, it should be noted that the TPG / TPECG supplement is included within the 95% pass through requirement so any unallocated amounts not passed to providers will place risk on meeting the 95% obligation.

## **7. Proposed Hourly Rate 2023/24 – Two Year Old Provision**

- 7.1 Schools' Forum will recall previous decisions in 2020/21 and 2021/22 to withhold 16p (2 x 8p) of the 2 year old funding to support the ongoing risks associated with the funding deficit in this early years budget area. This decision reduces the two year old deficit by approximately £0.040m. This was ratified by Children's Services Committee.
- 7.2 The Task and Finish Group met in November 2022 to review the latest position on 2 year old provision expenditure, particularly the projected underspend for 2022/23. Owing to the uncertainty, the Group supported proposals from Council Officers to continue to withhold the 16p per hour but to pass on any new hourly rate increase for 2023/24.
- 7.3 Following notification of the minimal 2 year old hourly rate increase of 6p on 16 December 2022, further review of continuing to hold back the full 16p was considered appropriate. Although there is a risk that hourly rate reductions may need to be proposed by the Task and Finish Group in future, this risk must be considered against the current financial climate and the sustainability risk for providers.
- 7.4 Although there is uncertainty surrounding both the reasons and the longevity for any projected underspend in 2022/23, the authority proposes that 2p of the total 16p being

withheld is passed to providers from April 2023. This position will be reviewed before setting hourly rates for April 2024.

7.5 Therefore, the new hourly rates for two year old provision in 2023/24 would increase by the 2p per hour outlined at paragraph 7.2, along with the 6p per hour increase from government.

## 8. Consultation Responses

8.1 The consultation with providers ended on 17 January 2023. A summary of the responses is provided in the table below.

<b>Early Years Consultation 2023/24 - Responses</b>	<b>Yes</b>	<b>No</b>	<b>Not Sure</b>	<b>Total</b>	<b>% Agreed</b>
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 5.1 above?)	11	0	0	11	100%
2: Do you agree that 2p of the historic 16p increase for 2 year old funding is passed to providers in 2023/24, despite the risk that the hourly rate may need to be reduced in future years?	5	2	4	11	45%
3: Do you agree that the 2023/24 hourly rate increase of 6p from government for 2 year old funding is passed to providers in 2024/24?	6	0	5	11	54%

8.2 Although the number of responses to the consultation was disappointing, they were from a mix of settings – 2 childminders, 3 private nurseries and 6 schools with early year’s provision.

## 9. Recommendations

9.1 To note the contents of the report and the consultation responses included.

9.2 To agree the preferred option from the table below for recommendation to Children’s Services Committee for payment of the new TPG / TPECG supplement.

Option 1	Restrict the TPG / TPECG supplement to school settings and do not set aside a contingency	Hourly rate of 31p
Option 2	As option 1 but set aside a contingency of 2p	Hourly rate of 29p
Option 3	Extend the TPG / TPECG supplement to all settings with a qualified teacher and do not set aside a contingency	Hourly rate of 29p
Option 4	As option 3 but set aside a contingency of 2p	Hourly rate of 27p

- 9.3 To agree that the proposed three and four year old hourly rate structure shown at the table in paragraph 5.1 above should be recommended to Children's Services Committee for Implementation from April 2023. This equates to £4.56 per hour (base rate) for eligible 3 and 4 year olds, noting the TPG/TPECG Supplement will be as per recommendation at 9.2 above.
- 9.4 To recommend to Children's Services Committee that the hourly rate for two year old provision increases from £5.41 to £5.49 from April 2023.

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