

School Forum

9th March 2022

Proposed Early Years Funding Formula for two, three & four years olds - 2022/23

1. Purpose of report

- 1.1 The Early Years funding formula is the local process that is utilised (informed by national early years funding guidance) to allocate the Early Years block of the Dedicated Schools Grant (DSG) funding that the Council receives to the early years providers in Walsall.

2. Recommendations

- 2.1 That Schools Forum note the work undertaken by officers and approves and recommends the Early Years Funding Formula that is proposed for 2022/23 to Cabinet.
- 2.2 Schools Forum are asked to note that this recommendation will then be reported to Cabinet on 16th March 2022 to seek their approval.

3. Background

- 3.1 The Early Years National Funding Formula (EYNFF) was introduced in April 2017 to deliver affordable, flexible and high quality childcare for all parents and children via a funding system which is fair for providers and local authorities.
- 3.2 Early Years Block of the Dedicated Schools Grant (DSG) is paid over to local authorities, who have a statutory duty to ensure sufficient early years places are available to meet the requirements in their area, and this funding is then paid by the local authority to providers based on the actual number of hours of funded childcare that is delivered.
- 3.3 In England all children aged 3 & 4 are currently entitled to 570 hours of funded childcare per year (normally provided as 15 hours per week over the 38 week school year). Additionally the 2017 funding reforms expanded provision for 3 and 4 year old to include a 30 hour entitlement for working parents.
- 3.4 A further element of the EYNFF is funding of free entitlement for disadvantaged 2 years olds. Unlike funding for 3 & 4 year olds, which must be allocated via a local early years funding formula, local authorities are encouraged to fund providers on the basis of a flat hourly rate.
- 3.5 Early Years Funding operational guidance sets out the funding factors permitted within the local funding formula for early years and the requirement of a 95% pass-through of funding to early years providers, thereby limiting the amount of funding that can be retained by the local authority to fund central expenditure on early years entitlement to a maximum of 5%.

4. Proposed Early Years Funding Formula

- 4.1 Operational guidance sets out the funding factors that are permitted within the early years local funding formula, these include a universal hourly base rate, a mandatory deprivation factor, discretionary supplements and additional funding in respect of maintained nursery schools.
- 4.2 Table 1 therefore sets out the proposed areas of the Early Years Funding Formula (EYFF), highlighting the estimated cost of each area to be funded from the allocation of £20.835m of Early Years Block Funding of the DSG that will be received in 2022/23, with a narrative describing each area set out below the table.

Table 1 – Proposed Early Years Expenditure	
Provision	Estimated Cost against Early Years Block of DSG for 2022/23 (£m)
Universal and additional hours for 3 and 4 year olds	15.194
Deprivation Supplement	0.136
Entitlement hours for 2 year olds	3.105
Maintained Nursery Schools Supplement (MNSS)	1.399
Early Years Pupil Premium (EYPP)	0.287
Disability Access Fund (DAF)	0.124
SEN Inclusion Fund (SENIF) 3&4 years olds	0.070
SEN Inclusion Fund (SENIF) 2 years olds	0.020
Central expenditure on early years entitlement	0.500
Total	20.835

Universal and additional hours for 3 and 4 year olds

- 4.3 The operational guidance includes a requirement to pay a universal hourly base rate to all early years' providers for the provision of free entitlement hours for 3 & 4 year olds. The universal hourly base rate must, in all cases, be multiplied by the hours of attendance of children at each setting – up to a maximum of 570 hours of funded childcare per year (or a maximum of 1140 hours for those children eligible for the additional offer for working parents).

Deprivation Supplement

- 4.4 Deprivation is a mandatory supplement local authorities must use in their Early Years Funding Formula to recognise deprivation in their area. Operational guidance does not set out how funding for deprivation is to be allocated and this is determined locally.
- 4.5 Currently the EYFF allocates deprivation funding on the basis of the proportion of children recorded on January census and headcount, whose postcode falls within band A of the Income Deprivation Affecting Children Index (IDACI). The calculated proportion is applied to each terms estimated nursery pupil numbers to arrive at a notional number of disadvantaged part time equivalent pupils for each provider.

Entitlement hours for 2 year olds

- 4.6 As with 3 & 4 year old funding, the funding for disadvantaged 2 year olds is paid on the basis of a flat hourly base rate.
- 4.7 Unlike the funding requirements for 3 & 4 year olds, there is no regulatory pass through rate in respect of early years block funding for 2 year olds and similarly there are no requirements in respect of mandatory or discretionary supplements.

Maintained Nursery Schools Supplement

- 4.8 This represents an element of additional funding for maintained nursery schools, known as the Maintained Nursery Schools Supplement (MNSS). The funding is allocated within the Early Years block of the DSG to be paid as a variable lump sum, based on the capacity of each maintained nursery school. The supplement provides some funding protection to nursery schools following the introduction of the universal hourly base rate, which had the effect of reducing the hourly rate of funding nursery schools previously attracted.
- 4.9 Currently the MNSS is a transitional supplement which was expected to be withdrawn at the end of the 2019/20 academic year, however the withdrawal date has been extended on a number of occasions and has recently been deferred again to March 2023.

Early Years Pupil Premium (EYPP)

- 4.10 The Early Years Pupil Premium (EYPP) gives early year providers additional funding to support disadvantaged 3 & 4 year old pupils who are in receipt of the universal 15 hours entitlement and are in receipt of any one of the benefits criteria detailed in Early Years Operational Guidance.

Disability Access Fund (DAF)

- 4.11 The Disability Access Funds (DAF) was introduced to support disabled 3 & 4 year old children accessing their early years free entitlement. DAF funds can be used, for example, to support providers in making reasonable adjustments to their settings.

Central Expenditure on Early Years Entitlement

- 4.12 As set out in 3.5, the maximum amount of funding that can be retained centrally is 5% of the early years block. The £500k retained budget, equating to 2.4% was approved by Schools Forum at their meeting on 18th January 2022 and reflects the cost of providing central services in support of the early years entitlement for 2, 3 and 4 year olds.

Special Education Needs Inclusion Fund

- 4.13 In addition to the funding areas shown in table 1, there is a requirement for local authorities to operate a Special Educational Needs Inclusion Fund (SENIF) for 3 & 4 year olds with SEN who are taking up free entitlement.
- 4.14 SENIF for 2 year olds is not a funding requirement, however local authorities can choose to establish a fund as part of their provision should they wish to do so and an agreement to fund SENIF for eligible 2 year olds as part of Walsall's early years provision is in place.
- 4.15 SENIF is to be used to target children with lower or emerging SEN. Children with more complex needs and those in receipt of an education, health and care plan will continue to be funded via the high needs block of the DSG.

Detailed Funding Factor Values

- 4.17 Appendix A below confirms the proposed funding factors and their values for the 2023/23 Early Years Funding Formula.
- 4.18 It should be noted that the early years guidance also permits a number of additional discretionary supplements including rurality; quality; flexibility and English as a second language, however none of these permitted discretionary supplements feature in the proposed Early Years Funding Formula.

5. Financial implications

- 5.1 The exact financial impact on individual providers cannot be predicted at this time as this will be dependent on actual hours of funded childcare that are delivered during 2022/23.
- 5.2 Current financial modelling indicates that the proposed financial arrangements set out in table 1 would be affordable within the Early Years Block funding provided within the Dedicated Schools Grant for 2022/23. It should be noted that, as the January census data is not yet available, prior year data has been used in the funding model to estimate affordability, however updated modelling will be undertaken once the January 2022 census data is available – but it should be noted that any risk associated with this is minimal as if the January census shows a significant increase in the number of hours provided then this would attract additional funding to the authority to then pass on to providers.
- 5.3 A universal base hourly rate of £4.64 per hour for 3 & 4 year olds would equate to an increase of 8 pence per hour to 2021/22 rates, the flat base rate for disadvantaged 2 year olds of £5.45 per hour is an increase of 5 pence per hour from 2021/22.
- 5.4 Historically the £500K contribution to central early years expenditure, as detailed in paragraph 4.12 of the report, has been funded in its entirety from the 3 & 4 year old hourly rate, however the central costs incurred do support the early years entitlement for 2, 3 & 4 year olds. An adjustment has therefore been made to the proposed rates for 2022/23 to take account of this historic anomaly with the introduction of a proportionate split in the funding formulae to fund these central costs. For 2022/23 this has therefore resulted in a smaller

increase in the 2 year old hourly rate than the increase proposed for 3 & 4 year old providers. However this is a one off impact to ensure the funding formula is more equitable, and as set out above the 2 year old hourly rate proposed does still represents an increase year on year from 2021/22.

- 5.5 Indicative budget shares are proposed to be issued to all providers in March 2022, the local authority will utilise the January census data to calculate the initial indicative budget. These will just be indicative summaries at this point, and any actual payments made to providers throughout the financial year of 2022/23 will however be made based upon actual hours delivered at settings.

6. Legal Implications

- 6.1 The DfE has prescribed the way in which early years providers should be financed for the 2022/23 financial year. These guidelines are set out in the Early Years Entitlement 2022 to 2023 operational guide, and can be found at the following link:

<https://www.gov.uk/government/publications/early-years-funding-2022-to-2023/early-years-entitlements-local-authority-funding-of-providers-operational-guide-2022-to-2023>

- 6.2 The purpose of these arrangements is to help secure greater consistency in the way in which funding is distributed to early years providers. The Council must follow the rules issued by DfE within The School and Early Years Finance (England) Regulations, and the proposed Walsall local early years funding formula sets out how funding will be allocated to early years providers in Walsall within the prescribed arrangements
- 6.3 Following the meeting of Schools Forum the proposed financial arrangements will be reported to Cabinet for decision on 16th March 2022, with the outcome communicated with all early years providers in Walsall.

7. School Improvement

- 7.1 As part of making any decisions regarding possible changes to the funding formula, the potential impact on the desired outcomes of the Walsall school improvement programme should be considered.

8. Members eligible to vote

- 8.1 All elected members with voting rights are eligible to vote on this matter.

Appendix A

Proposed Early Years Funding Formula 2022/23

Funding Factor	Unit / Description	2021/22 Rate / Value	2022/23 Rate / Value
Early Years Entitlement for Disadvantaged 2 year olds	Per Hour	£5.40	£5.45
3 & 4 year olds - Universal Hourly Base rate	Per Hour	£4.56	£4.64
Deprivation Supplement – mandatory	Fixed annual sum per notional disadvantaged child – derived from numbers recorded on January 2021 census & mapped by postcode to IDACI band A.	£570 pa p/p	£570 pa p/p
Maintained Nursery Schools Supplement for 3 & 4 YO provision (transitional factor)	Variable lump sum per nursery school based on published capacity of nursery school.	Range: £137.6k to £174.4k	Range: £146.9k to £186.7k

Other Early Years Funding

Funding	Description	2021/22 Prescribed Rate	2022/23 Prescribed Rate
Early Years Pupil Premium (EYPP)	Additional funding to support disadvantaged 3 & 4 year-old children who meet the prescribed criteria	0.53 per hour of universal free entitlement	0.60 per hour of universal free entitlement
Disability Access Fund (DAF)	For children in receipt of disability living allowance – support access to free entitlement for 3 & 4 year-olds.	£615 pa lump sum	£800 pa lump sum

Special Education Needs Inclusion Fund (SENIF)

Funding	Description	2021/22 Rate	2022/23 Rate
Special Education Needs Inclusion Fund (SENIF) for 3 & 4 year olds - mandatory	SENIF is targeted funding for children with lower or emerging SEN needs who are attracting 3 & 4 year old free entitlement	£640 per term	£640 per term

Special Education Needs Inclusion Fund (SENIF) for 2 year olds – optional local factor	SENIF is targeted funding for children with lower or emerging SEN needs who are attracting 2 year old free entitlement	£640 per term	£640 per term
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