

Cabinet – 16 March 2022

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

Portfolio: Councillor Towe, Education and Skills

Related portfolios: Councillor Bird, Leader of the Council

Service: Children's Services: Education

Wards: All

Key decision: Yes

Forward plan:

1. Aim

- 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. Summary

- 2.1 Central Government, in line with the commitment set out in its manifesto document, introduced an Early Years National Funding Formula (EYNFF) in April 2017 which was 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.
- 2.2 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.
- 2.3 In England all children aged 3 and 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.
- 2.4 A further element of the EYNFF is funding of free entitlement for disadvantaged 2 years olds. Unlike funding for 3 and 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.

- 2.5 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 early years services to a maximum of 5%.
- 2.6 As the early years local funding formula will result in the Local Authority allocating funds to individual schools, and those schools utilising this for expenditure which will be significant (greater than £250,000), the approval of the formula is a key decision

3. Recommendations

Subject to outcome of the discussion of Walsall's Schools Forum at its meeting on 8th March 2022:

- 3.1 That Cabinet approves the Early Years Funding Formula (**Appendix A**) recommended by Walsall's Schools Forum at its meeting on 8th March 2022.

4. Report detail - know

Context

- 4.1 For 2022/23 local authorities are be required to set a local Early Years Funding Formula for mainstream schools, nursery schools and private/voluntary early years providers.
- 4.2 The agreed Early Years Funding Formula rates will be used to determine a budget share for all early years providers for 2022/23.

Proposed Early Years Funding Formula

- 4.3 Operation 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.
- 4.4 Table 1 therefore sets out the proposed areas of the Early Years Funding Formula, 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

- 4.5 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

- 4.6 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.
- 4.7 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

- 4.8 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.

- 4.9 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 Supplement

- 4.10 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.
- 4.11 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)

- 4.12 The Early Years Pupil Premium (EYPP) gives early year providers additional funding to support disadvantaged 3 and 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.
- 4.13 Early years providers are responsible for identifying eligible children and, once eligibility has been checked by the authority, funding to providers is allocated using an hourly rate prescribed by the DfE.

Disability Access Fund (DAF)

- 4.14 The Disability Access Funds (DAF) was introduced to support disabled 3 and 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.
- 4.15 Early years providers are responsible for identifying eligible children and are encouraged to use the DfE's parent declaration template. Once eligibility is verified by the authority funding is allocated at an annual rate prescribed by the DfE.

Central Expenditure on Early Years Entitlement

- 4.16 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

- 4.17 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 all 3 and 4 year olds with SEN who are taking up free entitlement.
- 4.18 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.
- 4.19 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

- 4.20 Appendix A below confirms the proposed funding factors and their values for the 2022/23 Early Years Funding Formula.
- 4.21 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. Council Corporate Plan priorities

- 5.1 The early years funding formula is seen as equitable and is transparent to those who have been consulted with when setting the formula. The early years funding formula will not impact on the total amount of funding given to Walsall council within its Early Years block of the Dedicated Schools Grant.

6. Risk management

- 6.1 Individual Special schools may see movements in the actual funds that are paid to them where the numbers of pupils taking up entitlement, have changed. Schools would need to manage these changes within their overall early years delegated budget.

7. Financial implications

- 7.1 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.
- 7.2 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.

- 7.3 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.
- 7.4 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.
- 7.5 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.

8. Legal implications

- 8.1 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>

- 8.2 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 is bound to adhere to the rules issued by DfE, 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

9. Procurement Implications/Social Value

- 9.1 Schools are required to comply with the Council's procurement rules and policies in conducting their business.

10. Property implications

- 10.1 Unless any schools in Walsall were to close, there will be no property implications associated with this report.

11. Health and wellbeing implications

- 11.1 The content of this report has taken into account the Marmot objectives and it is confirmed that the proposals have been tested against the relevant considerations in this respect. As such there has been no indication that the proposed school funding formula would have any adverse impact on the health and wellbeing of staff and pupils based at Walsall schools.

12. Staffing implications

- 12.1 If individual providers see movement in the actual funding paid to them, due to movements in pupil numbers or changes in need, there is a risk that staff posts may also need to be reduced.

13. Reducing Inequalities

- 13.1 As part of the consultation on the implementation of an early years national funding formula the government undertook a full equality impact assessment, taking into account the relevant protected characteristics identified in the Equality Act 2010. A copy of the equality impact assessment is attached to this report.

14. Climate Change

- 14.1 There are no direct Climate Change implications arising from this report.

15. Consultation

- 15.1 Head teachers of all schools and academies are represented on the Schools Forum have been consulted.

16. Decide

- 16.1 That Cabinet approves the Early Years Funding Formula that was recommended by Walsall's Schools Forum at their meeting on 8th March 2022.

17. Respond

- 17.1 Indicative budget shares for all early years providers for 2022/23 will be distributed according to the approved early years funding formula.

18. Review

- 18.1 Schools will be expected to monitor and stay within their delegated budget. The local authority will continue to provide support to schools to ensure that robust financial monitoring is carried out. Walsall's Schools Forum will continue to receive financial performance reports to monitor usage of school's budgets
- 18.2 For private and voluntary providers regular support from the Early Years Team works to ensure continuity of provision.

Background papers

Schools forum Report 8 March 2022 – Proposed Early Years Funding Formula for two, three and four year olds 2022/23

ESFA – Early years entitlements: local authority funding of providers operational guide 2022/23

Cabinet 8 February 2017 – Early Years Funding Formula

Schools Forum report 5 December 2017 – Update on Early Years Funding Rates for 2018/19 and Progress of Special Schools Working Group

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