

# **Report to: Schools Forum**

**Date:** 06 January 2022

**Report of:** Lindsey Trivett, Head of Early Years and Childcare – Directorate for Education and Skills

**Title:** Early Years Rate Review 2022-23 (including projection for 23/24 and 24/25).

**Status:** For Information/Agreement

1. **Purpose of the Report**

This report details the findings of the Early Years Rates Review Group and recommends the amendments to be made to the Early Years DSG Funding for the 3-year financial period 2022-2023; 23-24; and 24-25. The review this year has been aligned to allocations within the Central Govt. Spending Review recently announced that covers the period of three years. The review and recommendations are to cover the whole 3-year period with an annual review.

1. **Background Context**

Within the framework for the Early Years block of the DSG there are several requirements for LAs which are intended to ensure that funding is fairly distributed to providers. These are: -

* A minimum amount of funding that must be passed through to providers (95%).
* A universal base rate for all types of provider.
* Supplementary funding for Maintained Nursery Schools (ringfenced to MNS only).
* A maximum cap of 10% on the amount of funding that can be used for the mandatory and discretionary supplements.
* A Disability Access Fund linked to children that access Disability Living Allowance.
* A requirement for a SEND inclusion fund (in Birmingham this is known as ISEY).

Birmingham City Council has a commitment to undertake an annual EY rates review of the current formula, with the intention of linking any large-scale changes to national changes usually agreed for a three-year period in line with the governments Comprehensive Spending Review (CSR) timetable.

HM Treasury has recently announced a three-year settlement for 2022 – 2025. Within this there is a commitment to additional Early Years funding over each of the next three years through the national formula. Nationally the additional investment in early years education has been confirmed as £160m in 2022/23; £180m in 2023/24; and £170m in 2024/25. This will mean an increase on the hourly per child rate in the national formula paid to the LA for two, three- and four-year olds.

The Early Years DSG Steering Group has not met over the last financial year. The purpose of the group is to review the delivery of services that are funded by the DSG and to provide some governance and challenge. This has been very challenging within the context of the Council’s response to the ongoing COVID-19 pandemic which has impacted on the council’s resources to maintain all levels of business as usual. There have been regular fortnightly meetings with the Head of Early Years which has provided an opportunity for the sector to input into the work activities of the central team, and to co-design the work programme throughout the year.

The Early Years Improvement and Outcomes Partnership, chaired by the Head of Early Years, has also been impacted. However, the priority focused work on Speech, Language and Communication has been driven forward with the resources provided from the central retained element of the Early Years DSG and the Innovate to Save funding.

The main focus of work this year has been:-

* Delivery of the WellComm project within the overall developing Speech and Language strategy for the city. This has now been rolled out across all 10 districts and changes are being made to the Impulse system to allow for the development of a baseline data collection at child level to enable progress tracking of a child’s journey of being ready for school.
* SEND –Early Years has (and continues to be) fully considered within the wider Council review of SEND.
* Focus on improving the take-up rates of 2-year-olds – Working with Children’s Centres and other professionals to encourage the take-up of the targeted 2-year-old offer.
* Annual Rates Review for 22/23 – This was delayed in order to be able to take account of the Comprehensive Spending Review which wasn’t announced until November. As in previous years a focus group was set-up as a consultative group with an open invitation sent to ALL early education funded settings in the City. The outcomes of the focus group were developed into the report for Early Years Forum.

This paper outlines the annual review undertaken and recommendations for the allocation of the Early Years funding block for the next 3-years associated to the CSR (2022/25).

1. **Annual Review Process 2022/2023**

The annual review has again considered the 3 different aspects that make up the Early Years Block:-

1. Centrally Retained Element (Maximum of 5%)
2. Deprivation / FSM Supplements
3. Rates to providers for 2, 3- and 4-year olds.

As set out during the review for 2021/22 this year’s process has considered that the LA does not currently retain the maximum 5% that is allowable within the framework and the intent to progressively increase the amount towards the full 5%. The LA funding outside of the DSG continues to be under considerable pressure due to the ongoing COVID-19 pandemic. The activity of the central teams that support the delivery of the early years education entitlement continue to be funded from the centrally retained EY DSG – with a high level of support being offered universally to all early years and childcare providers across the sector due to the ongoing COVID-19 pandemic.

The local increase for 2021/22 considered the increase of £44m national funding leading to an increase in the base rate of £0.08 for 2-year-olds, and £0.04 for 3- and 4-year olds. This was a 100% pass-through of the increased funding received for 2-year olds and 66% for 3- and 4-year olds. Deprivation rates were also increase in-line with inflation for the first time in 4 years.

There is not a prediction of an underspend on the budget for 2021/22.

The indicative allocated budget for the EY Block of the DSG for 2022/23 was confirmed during December. All work on the review has been undertaken using the indicative budget allocated for 2022/23. It is important to note that the starting point for the rates review was the ***underlying principles*** and using these to forecast forward for years 2 and 3. The modelling has then been used to inform the basis of the recommendations. The ***actual amounts may vary*** for 2023/24 and 2024/25 once the budget settlement is known for each year. An annual review will be required to confirm these years in future.

The following requirements from the focus group have been modelled, calculated or identified and used in the preparation of this report:

* The increase in the National Minimum/Living Wage will have a significant financial impact on all early year’s providers. There has also been an increase in SEND needs for 2-year-olds since COVID. Priority for the 2-year-old funding is to maintain the 100% pass-through.
* As the deprivation rates is linked to child's home postcode it is not always targeted to those most in need. The rate should be maintained at current level and prioritise an increase on the base rate instead.
* SEND is still a top priority. If the budget for ISEY was higher there could be the introduction of tiers and criteria for more emerging needs. An increase in ISEY funding modelled over the three years with 2 different options.
* Maximise the increase in the base rate of Early Years funding for 3- and 4-year olds.
* Increase central retained up to 5%. Model this increase over the 3 years to identify the impact on base rate.

There will continue to be a separate element of Protection Funding for Maintained Nursery Schools. The DFE have now confirmed funding for the whole of the three-year CSR period 2022/25 and this will be lifted by 3.5% against the rates paid in 21/22.

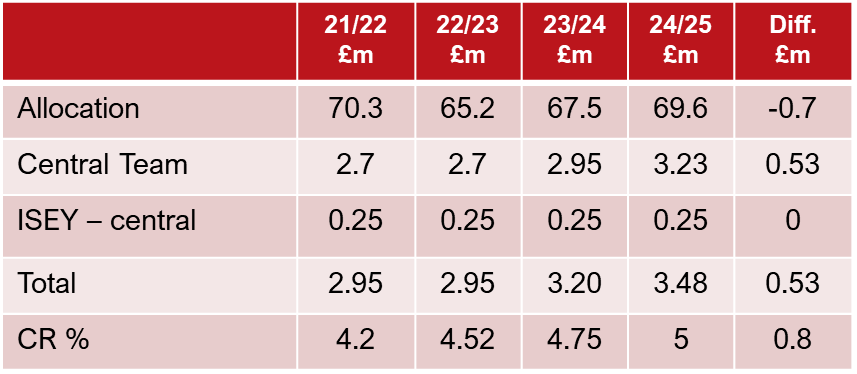
1. **Centrally Retained Funding**

The LA can retain a maximum of 5% of the EY block to support central functions. In the report to Schools Forum in January for the 2021/22 budget, it was confirmed that the LA would look to incrementally increase the central retained percentage towards 5% with a view to reaching the full 5% in future years. Any increases in the formula rate would therefore be spilt with increasing the rate to providers. The centrally retained amount in 21/22 is forecast to be 4.2%, with £2.95m (the full 5% would be £3.51m).

This funding covers the costs of the EYCC central team; Early Years Inclusion and Early Years QI and networks. ISEY funding that is paid out to settings is included in the pass-through 95% and NOT included in the 5% centrally retained as it is actually paid out to providers.

The overall allocation of DSG for 22/23 will be less than 21/22 as a result of falling numbers of children in the age cohort. The actual amount of funding that will be retained centrally in 2022/23 will remain at the same level in £’s as 2021/22. However, this will be 4.52% of the EY DSG which is an increase from 4.2% in 21/22 due to the forecast reduction in the child population. The proportion (and amount in £’s) will then be increased over the following 2 years to the maximum of 5% in 2024/25. (See Table 1.) This enables maintenance of the current centrally retained element and maximises the base rate BUT does not increase the centrally retained element to the maximum allowed.

Table 1: Maximum amount of Centrally Retained



ISEY has previously all been accounted for within the central retention when £0.75m of it is passed through to providers. Since 21/22 the £0.75m has been shown/included in the pass-through element.

1. **Rates to Providers**
   1. ***Supplements – Deprivation and Free School Meals.***

Two supplements are offered within the formula and these relate to deprivation and free school meals. The recommendation is to maintain both.

Deprivation rates were uplifted last year in line with inflation (using the Consumer Price Index) over the last 4 years (Total increase of 4.8%).

The deprivation supplement is added to the base rate when a child lives within an identified postcode according to the Index of Multiple Deprivation as follows: -

* 0-5% SOA - £0.61
* 5-10% SOA - £0.29
* 10-20% SOA - £0.08

It is proposed that these are maintained at the same levels as set out above. As the deprivation supplement is linked to child's home postcode it is not always targeted to those most in need, therefore the priority is to maximise the increase on the base rate.

* 1. ***Inclusion Funding – ISEY***

Currently there is £1.0m of the EY DSG block allocated to ISEY. The allocation to ISEY from the EY block is matched by the High Needs Block (HNB). This means the total ISEY funding in Birmingham is £2m and £1.75m of this is paid to providers to support children with SEND to access their education entitlement.

The review this year has again confirmed that this area has a very high and increasing demand. Whilst felt it is important – there was also a view that the ISEY pot can only sustain a small number of children in comparison to the whole eligible cohort. At the current funding rates for ISEY, only 166 children can benefit from an increase to the ISEY fund of £0.5m. This has had to be weighed off against the fact that all children would benefit with an increased base rate (an additional increase of 4p per hour/child is possible if ISEY is not increased).

Another factor considered is that the HNB cannot be guaranteed to match-fund any increase from the EY block whilst the SEND review is ongoing. An alternative option of increasing ISEY by £250k was considered for 22/23 BUT without match funding this would not be significant enough to make a difference and would limit the increase in base rate by 2p.

As the EY DSG has been confirmed as a three-year allocation, with the largest increases in year 2 and 3, this gives the option to increase the ISEY fund over the 3 years. This will also enable the SEND review to be completed with an ask that the HNB can again match the committed increase over the same 3-year period.

ISEY will therefore be increased by £0.75m from the EY block as follows: -

| Financial Year | EY Block ISEY (centrally retained) £ | EY Block ISEY Allocation £ | Increase £ |
| --- | --- | --- | --- |
| 2022 - 2023 | 0.25m | 0.75m | 0 |
| 2023 - 2024 | 0.25m | 1.25m | 0.5m |
| 2024 - 2025 | 0.25m | 1.5m | 0.25m |

This will increase the ISEY funding by £0.75m over the 3 years and would enable the maximum increase in hourly base rates over the same 3 years given that the budget increase as part of the CSR is greatest in Y2 and 3.

This will need to be reviewed on an annual basis as part of the annual rates review process to ensure that it is affordable within the allocation once this is confirmed each year by the DfE.

* 1. ***Base Rates for 3 and 4 Year Olds for Providers.***

The 95% pass through amount also must take account of the funding allocated to ISEY, deprivation and Free School Meals.

There will be a national increase to the rate that is allocated to the Council by the DfE as part of the additional funding of £160m for 2022/23, £180m in 2023/24 and £170m in 2024/25. The increase will be split to increase the proportion of funding retained centrally (see 4.0 for detail) with the remainder used to increase the base rate, and in years 2 and 3, to increase ISEY.

|  | Maintained Nursery Schools | Schools with Nursery Classes | PVIs |
| --- | --- | --- | --- |
| 2016/17 | 6.20 +lump sum | 4.84 | 4.03 |
| 2017/18 | 4.24 + protection | 4.26 | 4.23 |
| 2018/19 | 4.29 + protection | 4.29 | 4.29 |
| 2019/20 | 4.29 + protection | 4.29 | 4.29 |
| 2020/21 | 4.37 + protection | 4.37 | 4.37 |
| 2021/22 | 4.41 + protection | 4.41 | 4.41 |
| 2022/23 | 4.52 + protection | 4.52 | 4.52 |
| 2023/24\* | 4.63 + protection | 4.63 | 4.63 |
| 2024/25\* | 4.76 + protection | 4.76 | 4.76 |

\*IMPORTANT: The amounts for these two years will be subject to confirmation following an annual rate review each year and are indicative only based on the known increase to the national allocation.

* 1. ***Rates for 2-year old’s – Straight in/out for all providers.***

This is based on a straight in/out basis to all providers. The decision to not “top-slice” the 2 year old rate to contribute to the centrally retained amount has been taken in recognition that it is financially more challenging to provide places for 2 year olds, and as a result of COVID more 2 year olds are presenting to settings with higher levels of needs due to social isolation. In addition, the take-up rate for 2-year olds continues to be lower than the national average in the City so it is important not to jeopardise the availability of places whilst many providers are financially challenged in the current pandemic.

|  | All Settings | Increase |
| --- | --- | --- |
| 2016/17 | 5.24 | - |
| 2017/18 | 5.24 | - |
| 2018/19 | 5.24 | - |
| 2019/20 | 5.24 | - |
| 2020/21 | 5.32 | 0.08 |
| 2021/22 | 5.40 | 0.08 |
| 2022/23 | 5.61 | 0.21 |
| 2023/24\* | 5.82 | 0.21 |
| 2024/25\* | 6.03 | 0.21 |

\*The rate for two-year olds will increase with the allocation of the national formula. This is estimated only at the current time and will be confirmed following an annual rate review each year and once the DfE announce the national formula.

1. **Recommendations**

That Schools Forum agrees to the recommendations from Early Years Forum to:-

1. Note that the current level (£2.95m) of funding will be retained centrally to support the Councils delivery of the Statutory Duties for early years, incrementally increasing over the next 3 years to the 5% the LA is able to retain (as set out in section 4).
2. Maintain the current level of Deprivation and FSM supplements as set out in section 5.1.
3. Increase the amount allocated to ISEY over the next 3 years, maintaining the current level of £1m (noting that £0.25m is held within the centrally retained element), increasing to £1.5m in 23/24 and 1.75m in 24/25 as set out in section 5.2. To also note the request for the increase to be matched over the 3-year period from the High Needs Block.
4. Agree the funding rates to be applied to providers as set out for the next year in sections 5.3 and 5.4.
5. Note the requirement for all rates to be confirmed as part of an annual review in line with the Early Years block allocation from the DfE.