



EARLY YEARS FUNDING 2021-22

Consultation Paper

13 January – 20 January 2021

This is a consultation on the funding of early years providers and schools in Islington will receive for funded early education for 2, 3 and 4 year olds from April 2021.

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Please note: all funding shown in the consultation is illustrative pending DfE decisions on specific funding issues in relation to Islington.

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1. National context and requirements

National context

Since its introduction in April 2017, the EYNFF has set the hourly funding rates that each local authority is paid to deliver the universal and additional entitlements for 3 and 4-year-olds. There is a separate formula that sets the hourly funding rates for 2-year-olds.

The statutory funded free early education entitlement (FEEE) to 15 hours for all 3 and 4 year olds and the additional 15 hours for eligible families remains unchanged with some additional flexibility for families accessing 30 hours during the Covid period as per government guidelines during the first lockdown.

The funded early education entitlement to 15 hours for eligible 2 year olds also remains unchanged.

This consultation relates to the funding formulae for all these entitlements.

The DfE stipulate a number of conditions that all local authorities should adhere to when funding providers. These remain unchanged from 2020-21, the only changes for 2021-22 being as follows:

- the continuation of supplementary funding for MNS for financial year 2021-22
- For 2021 to 2022, part of the Maintained Nursery Schools (MNS) supplementary funding allocations are published as indicative, and part as conditional. The allocations for April 2021 to August 2021 are indicative and will be updated on the same basis as the universal entitlements (more information on funding arrangements in this period will follow). That is the only adjustment that will be made to those figures. However, the MNS supplementary funding allocations for September 2021 to March 2022 are conditional: they may be subject to change and therefore treat them as unconfirmed.

Local authorities are required to plan to pass-through 95% of their 3 and-4-year-old funding from the government to early years providers, with the exception of an agreed disapplication to the DfE. Early Years funding streams outside of the 95% pass through rate are:

- funding for the entitlement for disadvantaged two year olds
- the MNS supplementary funding allocation. Current funding levels are circa £125k per nursery school.
- the Disability Access Fund (DAF) – remains unchanged at £615 per year per eligible child
- the Early Years Pupil Premium (EYPP) – remains unchanged at £0.53 per eligible child

Central retention

Local authorities are able to centrally retain funding for central services to lead and support the system. Central retention remains capped at 5% and moving forward to future years this may mean that some centrally provided services/funding may need to end or be charged for.

It is expected that local authorities will still be able, in certain circumstances, to submit requests to disapply the funding regulations and although the DfE do not expect many LAs to request further disapplications, Ministers remain willing to consider individual requests whilst the early years funding reforms continue to bed in, in the following three areas:

- a disapplication is essential to avoid significant (greater than 100 children per authority) reduction in full-time places (or additional hours) offered under local eligibility criteria; or
- a disapplication is essential to avoid a significant overall reduction in the level of specialist early years SEND services free or on a subsidised basis; or
- a disapplication is essential for the local authority to meet its statutory early years duties, for example, delivering the entitlement for disadvantaged two year olds; and

Local authorities are required to gather views of providers on whether they would accept the funding rate if the disapplication is accepted.

SEN inclusion fund

Outside of the limits on central retention, the DfE continue to require all local authorities to hold a centrally managed SEN Inclusion Fund to provide additional funding to providers to improve outcomes for 3 and 4 year old children with special educational needs and disabilities using funding from both Early Years and High Needs Block DSG.

As with other elements of early years funding, SEN inclusion funds should apply to children attending settings in the relevant local authority area, regardless of where they live.

Local Early Years Single Funding Formula (EYSFF) for providers for 3 and 4 year olds

The DfE continues to require that the EYSFF is made up of a universal hourly base rate and funding supplements. The total value of supplements used in any authority is capped at 10% of the total value of planned funding to be passed through to providers.

The DfE recognises that it is reasonable for local authorities to hold back contingency funds for in-year demographic growth outside of the central retention limits. Islington current levels are at 2.75%. The maintenance of a contingency is of particular importance in light of the pandemic. The DfE confirmed in the provisional settlement in December 2020 that they will revert to funding the spring term and summer terms 2021 based on the January 2021 headcount. The DfE have recognised that the headcount is likely to be reduced as a result of the pandemic but have said settings will be required to absorb the first 15% reduction (£978k per term across the borough) but will protect after that if the headcount subsequently recovers in the spring term. Each 10% reduction that doesn't recover would cost and estimated (£651k per term). The contingency will allow us to provide settings with some protection against this. We are lobbying the DfE to base funding on pre-pandemic levels.

Funding from the DfE for the autumn term 2021 and spring term 2022 will be provisionally based on the January 2021 headcount and then adjusted by the DfE to reflect the January 2022 headcount.

Local authorities must calculate and notify providers of initial budgets by 31 March. These should use an estimate of the number of hours for the financial year. Early years budgets should be updated during the course of the year as the estimated hours are replaced by actual counts, following the three termly headcounts.

In recognition of additional costs incurred by maintained nursery schools, which are not covered via a EYNFF, the DfE have committed to continuing with the Maintained Nursery Supplement at the current rate; £375k. This remains outside of the EYSFF and is paid to each of the three nursery schools as a lump sum at £125k / school.

3 and 4 year old funding

The funding rate from the DfE for Islington remains protected at £7.81 per hour before allowing for central retention to lead and support the system, SEND and disapplication's. Although the national rate has increased by 6p per hour the protection currently received by Islington is greater than this therefore showing no year on year increase in the DfE rate.

2 year old funding

The funding rate from the DfE for all local authorities has increased by £0.08 per hour. The Islington rate increases to £6.66 per hour in 2021-22 before allowing for central retention to lead and support the system and SEND.

2. Continued impact of the EYNFF in Islington

The impact of the DfE's funding changes for early years in Islington

The DfE's funding changes have had wide-ranging implications for Islington children and settings. The loss in funding since 2015-16 when the changes were introduced is significant, particularly for settings which take the poorest children, is high and Local Authorities with high levels of deprivation, like Islington, which historically prioritised funding for early education, are the hardest hit from these changes.

Some of the key concerns continue to be as follows:

- 1) Many of the most disadvantaged children are excluded by the changes from accessing more than 15 hours early education. Although we are still able to support children who meet Priority Early Learning criteria with an additional 15 hours, there will still be hundreds of children who are FSM eligible or from very low income working families only accessing 15 hours, and therefore likely to fall further behind their better off peers and arrive in reception classes less ready to learn.
- 2) The government's equalisation of funding across sectors results in a switch in funding for 3 and 4 year olds between sectors. In Islington, and nationally, this means less funding going to the maintained early years sector (nursery schools and children's centre nurseries) and more funding going to other providers, particularly private settings.
- 3) The profile of children attending the range of providers in Islington is not similar, with the large majority of the most deprived children who are ineligible for the additional 15 hours attending maintained settings. However, this has impacted on providers in all sectors and there are still a substantial number of empty 3 and 4 year old places resulting in an oversupply of places and concerns about sustainability from a number of providers.
- 4) While a range of strategies has been employed to improve take up of early education entitlements and there has been an increase in the percentage of eligible 2 year olds taking up a funded place, take up rates of both funded 2 year old and universal 3 and 4 year old entitlements are lower than national take-up rates. Take up of the additional 15 hours for 3 and 4 years olds has also fallen in the last year over the course of the pandemic, despite increased flexibility from the government on the income eligibility criteria.
- 5) In the past, the flexibility to fund all age ranges and centrally retain a higher percentage meant there was sufficient resource to administer the funding and fully support the 2 year old offer. With the need to retain 5% of the 2 year old funding centrally, and without the disapplication the 2 year rate will decrease and be lower than the rate for 3 and 4 year olds. With the disapplication, we can retain the current funding rate for 2 year olds, but remain concerned about the differential between the two rates. It is important to encourage providers to retain places for eligible 2 year olds and not switch to offering only places for 3 and 4 year olds and that they maintain staffing with higher level qualifications to work with 2 year olds.
- 6) Islington currently pays a higher rate for funded 2 year olds where the provision is led by an Early Years Teacher or someone with an appropriate early childhood degree. The most recent outcomes data has demonstrated the difference that good quality provision from the age of 2 can make to children's outcomes at age 5 and beyond, particularly for children with SEND.
- 7) Any reductions to the central retention which funds a range of services and grants may result in an increase in the cost of traded services to the sector and a reduction in the range and amount of advice and support (including financial support) to providers in difficulties.

- 8) We would encourage a consistent approach across Islington providers to avoid an inconsistent offer of early education and childcare to families which causes further turbulence in the system and instability amongst providers.

Steps Islington is taking in mitigation

We are continuing to take a number of actions to mitigate the negative impact of these changes and minimise the disruption that has been caused to children and families and to providers:

- 1) Islington has submitted the following disapplication request to the DfE for 2021-22
 - (a) to retain the 20-21 base rate for eligible 2 year olds and to provide a small increase in the quality factor in order to secure sustainability and maintain favourable staffing qualification levels
- 2) We will continue to encourage and support all providers to register for tax free childcare and for parents to take up the opportunity it provides to reclaim 20% of their childcare costs
- 3) We will work with partners to support parents who are not entitled to the 30 hours to take up training opportunities and seek work as soon as they are able.
- 4) We will continue to work with primary schools to offer a localised charging policy to allow parents of non-eligible children to access more hours in the school nursery if that is what they wish.
- 5) We provide workshops for providers from all sectors to raise awareness of the changes, encourage them to offer the extended as well as universal entitlements; explore sustainable business models and flexible delivery; and develop innovative partnerships
- 6) We continue to ensure families are better informed about the universal and targeted early education entitlements, utilising parent champions and Bright Start early childhood services, as well as direct mail-outs, promotions etc. We will continue to work with schools and other providers across the maintained sector to ensure a consistent offer of early education and childcare for parents.

3. Underlying principles of Islington's early years strategy and funding proposals

- **Prioritisation of funding for early education and childcare** – a growing body of evidence demonstrates a wide range of benefits to society, including better child well-being, more equitable child outcomes, a reduction in child poverty, increased intergenerational social mobility, more women participating in the labour market and better social and economic development.
- **The benefits to children of high quality childcare and early education from the age of two are exponential:** research shows an increasing positive impact on outcomes throughout the child's school career.
- **Early identification of need and early intervention** afforded through high quality early years services has further benefits to society in that it reduces the need to spend on specialist services later on.
- **A strong emphasis on support for high quality provision** – having provided training and advice to all parts of the sector for twenty years and until recently substantial funding to improve workforce qualifications, Ofsted outcomes in all areas (nursery schools, children's centres, early years group settings and childminders) are higher than national averages and the percentages of outstanding early years providers in Islington is above that of statistical neighbours.
- **Supporting the retention of high quality staff to lead provision for the most disadvantaged children** – in Islington, disadvantaged children are predominantly accessing graduate- or teacher-led early education provision in the maintained sector. Evidence shows qualified teachers have a demonstrable impact on children's outcomes, particularly in communication, literacy, mathematics and science, and that disadvantaged children make most gains from their starting points in high quality settings where staff have higher levels of qualification and adult-child ratios are better.
- **Making good quality childcare more affordable for working parents, particularly those on low incomes.** Islington currently subsidises about 1,500 childcare places for children under five in children's centre nurseries and some community nurseries. Charges are based on a sliding scale in inverse proportion to family income. Circa 30% of families receiving a subsidised place in a children's centre nursery earn less than £30,000 per year.
- **All providers within the maintained sector, as well as partners in the voluntary and private sector, are key to the delivery of universal and targeted early education and childcare in the borough.**

4. Funding proposals and consultation questions

The provider rates and other financial assumptions included in this section are based on Islington obtaining approval for the planned disapplication request submitted to the DfE for consideration by Ministers.

Provider rates

For 2021-22 we intend to **increase provider rates for 2, 3 and 4 year olds**. We will increase rates for 2 year olds through the ESFA increase, the disapplication process and the trajectory fund balance held.

The proposed base rate for all 3 and 4 year olds is **£5.90 per hour, a 2% increase on the 2020-21 hourly rate**.

We are proposing for the deprivation rate for EYPP eligible children to remain at £1.51 per hour.

For 2021-22, we are therefore proposing for the maximum funding rate for PEL providers to be £7.41 per hour. The factor applies to all children that meet the following criteria:

- Meet the Priority Early Learning criteria for admission via a multi agency panel meeting
- Funding is limited to 30 hours term time only including government entitlement.
- Funding per child is as per government entitlement criteria, (base rate plus deprivation EYPP factor as eligible)*

We are proposing to increase the flexibility rate for childminders to £1.07 per hour, providing them also with a 2% increase. This will increase the childminder hourly rate to £6.97

The proposed base rate for eligible 2 year olds, assuming a successful disapplication for 2021-22, is **£6.00 per hour**, unchanged from last year's rate. We intend to **increase the quality supplement to £1.05**, an increase of £0.13 from last year. These changes would provide a 2% increase on last year's funding rate overall.

If the proposed rates are accepted, the funded 2 year old (2YO) rate will be lower than the 3 and 4 year old (3&4YO) base rate + the EYPP deprivation supplement. While the council must account for the 2YO funding separately to the 3&4YO funding, we would urge providers to use the money flexibly across their early years provision.

The rest of this section sets out how these rates are arrived at, following calculations for SEN Inclusion Fund, central retention and the planned disapplication, and invites providers to comment.

SEN Inclusion Fund

We propose that the SEN Inclusion Fund will continue to provide additional SEN funding for providers to improve outcomes for 3 and 4 year old children with special educational needs and disabilities and to fund EYPR places for 3 and 4 year olds within children centres.

The total value of the fund for 2021-22 will increase to £1,264k in line with increased levels of need. The funding will support additional needs payments to providers. Access to this funding is through the termly PEL SEND funding panel and PEL panel.

Question 1: Do you agree that we should provide an SEN Inclusion Fund at the level as set out above to support pupils with SEND? Y / N / Comments

Central retention

In line with the DfE's guidance we will centrally retain 5% of Early Years Block DSG funding for 3 and 4 year olds to fund central services.

Central services include the strategic and operational leadership and management of the early years system and its finances. It is through these central services that we are able to take actions to mitigate any changes brought about by the DfE.

We are proposing to hold a 2.75% contingency for demographic growth for providers in year. This should create a contingency of £472k. This will be used to fund increasing numbers of 3 and 4 year olds in the summer term and new provision. It also provides a buffer against any in-year funding reductions from the DfE. This is of particular importance for 2021/22 as it will allow us to provide some protection against funding losses due to a reduced January 2021 headcount as a result of the pandemic.

Question 2: Do you have any comments about central retention? Comments

Question 3: Do you have any comments about retaining 2.75% contingency for demographic growth and supporting any claw back of EY funding from the DfE due to a reduced January 2021 headcount as a result of the pandemic? Comments

SEND funding in the High Needs Block

We are not proposing to make any changes to the level of High Needs Block funding for Early Years in 2021-22. The High Needs Block will continue to fund the 36 Priority Early Learning SEND places in children's centres for children with severe and complex needs, top-up funding for under 3s (as this cannot come from the SEN Inclusion Fund under the DfE's operational guidance), Area SEN Co-ordinators, and the Priority Early Learning team. The High Needs block also funds a contribution to Speech and Language Therapy and CAMHS services for children under 5.

Question 4: Do you have any comments about SEND funding for early years in the High Needs block? Comments

Disapplication proposals

We intend to disapply the restriction on the central retention of 3 and 4 year old funding in order to support providers to meet the needs of the most disadvantaged children who are entitled to 2 year old provision.

We are required to pass through 95% of the 3 and 4 funding to providers. Should Islington be successful in their disapplication process this will reduce the pass-through rate by 1.32% to 93.68%. Although the pass through rate is reduced this disapplication is not for central spend items. It allows funding to be directed to providers who have to meet the higher child/adult ratios for 2 year olds.

A successful disapplication will enable us to:

- maintain the current (2020-21) hourly base rate for providers taking eligible 2 year olds and provide a small increase in the quality supplement. This will allow us to maintain a differential between the 2 year old rate which requires a 1:4 ratio and the 3 and 4 year old rate which requires a 1:8 or 1:13 ratio

Question 5: Do you agree that funding for 2 year olds should better reflect the staffing ratios required? Y / N Comments

3 and 4 year old EYNFF

After allowing for central retention at 5% in 2020-21, a contingency budget of 2.75%, our proposals in relation to the SEN Inclusion Fund and disapplications, the proposed universal base rate for all 3 and 4 year olds for 2021/22 will be **£5.90** per hour, a **2% increase on the 2020-21 hourly rate**.

We propose to continue to use the mandatory deprivation factor and flexibility factor which will account for 10% of funding, the maximum amount allowed under the DfE’s operational guidance. We have sufficient funding to continue to fund the deprivation factor to £1.51 per hour, enabling more funding to be targeted at children with the greatest need. The creation of the PEL deprivation factor enables more use of the unspent 10% for supplements and again targets funding to the most children with the greatest need.

Our measure of deprivation is Early Years Pupil Premium eligibility as this includes children that are or have been looked after, but is reliant on providers submitting full, accurate and timely data to enable it to be used. Calculations for EYPP are carried out using the January 2021 census data.

Where the deprivation supplement applies, the proposed maximum funding rate for providers will be **£7.41** per hour, an increase on the base rate of £0.12 per hour (2%) and an overall increase of 1.6% on the maximum funding rate

For childminders we propose to increase the flexibility factor, to £1.07 per hour. This will take the total provider rate for childminders up to £6.97 per hour, an increase of £0.14 per hour (2%).

Question 6: Do you agree with the supplementary funding factors as prescribed above are used in the formula? Y/N/Comments

Question 7: Do you agree we should continue to use EYPP as the measure of deprivation? Y/N/Comments

The following table sets out the current and proposed EYSFF rates for 3 and 4 year olds:

Setting	2020-21		2021-22 Proposed	
Nursery schools, primary schools, children’s centres and PVI settings	Base rate	£5.78	Base rate	£5.90
	Deprivation factor	£1.51	Deprivation factor	£1.51
	Total	£7.29	Total	£7.41
Priority Early Learning			Maximum	£7.41
Childminders	Base rate	£5.78	Base rate	£5.90
	Flexibility	£1.05	Flexibility	£1.07
	Total	£6.83	Total	£6.97

2 year old EYSFF

The funding rate for inner London authorities (including Islington) increases by £0.08 to £6.66 per hour in 2021-22 without allowing for any central retention for SEND and to lead and support the system.

We do not propose increasing the hourly base rate for two year olds but we are proposing a small increase to the quality supplement from £0.92 to £1.05 in 2021-22 as a reflection of our local commitment to providing high quality provision for our most disadvantaged children. This increases the overall funding rate for 2 year olds by 2%.

It is proposed to maintain the current structure to funding rates: a base rate and quality factor for nursery schools, primary schools, children’s centres and PVI settings; and a base rate and small setting factor for childminders.

It is proposed that childminder funding increases in line with the 2021-22 proposed 3&4 year old rate.

The following table sets out the current and proposed EYSFF rate for funded 2 year olds clearly showing the protection is applied to the factors and not the base rate:

Setting	Factor	2020-21	2021-22 (Proposed)
Nursery schools, primary schools, children’s centres and PVI settings	Base rate	£6.00	£6.00
	Quality factor	£0.25	£0.33
	Quality Factor Protection *	£0.67	£0.72
	Total	£6.92	£7.05
Childminders	Base rate	£6.00	£6.00
	Small Setting	£0.25	£0.33
	Small Setting Protection *	£0.58	£0.64
	Total	£6.83	£6.97

* Protection is dependent on a successful disapplication and/or a sufficient balance of 2 year old trajectory funding.

Question 8: Do you agree that we continue to use a quality factor in the 2 year old funding formula for nursery schools, primary schools, children’s centres and PVI settings?
Y/N/Comments

Question 9: Do you agree that we continue to use a small setting factor in the funding formula for childminders? Y/N/Comments

Question 10: Do you agree with protecting the 2 year old funding rate to providers during 2021-22? Y/N/Comments

Additional questions

Question 11: Given all the information above, will you continue to provide funded early education for 2, 3 and 4 year olds (as appropriate to your setting) at the proposed rates set out above?

Question 12: Do you have any additional comments on our proposals? Comments