National Day Nurseries Association

*Brighter thinking for early years

Early Years Funding 2021/22: Local Authority Underspends, Overspends and Adjustments

National Day Nurseries Association (NDNA) is the national charity representing private, voluntary and independent (PVI) children's nurseries across the UK. We are the voice of the 24,000-strong nursery sector, an integral part of the lives of more than a million young children and their families.

NDNA and our members want all children and families to flourish through excellent early years education and care. The current challenges of delivering early education and childcare against an existing backdrop of chronic underfunding within early years means the availability, affordability and quality of childcare is under extreme pressure.

Headline Findings:

- 149 out of 150 (99%) Local Education Authorities (LEAs) responded to our Freedom of Information (FOI) request about early years spending
- 62% of LEAS (92) who responded reported an underspend **totalling £45.8million**
- Over the four years NDNA has been conducting this research we have found almost **£229 million** of underspends
- 15 LEAs underspent by **at least £1 million** each – four of these also had £1m plus underspends in two previous years since 2018
- When asked about use of underspend budget only 11 (12%) of LEAs reported that some or all of their underspends will be passed to providers
- 30 LEAs put their unspent money (£15m) into their Dedicated Schools Grant (DSG) reserves (33% of respondents with underspends)
- 72 LEAs said they had money "clawed-back" or "adjusted" by DfE in-year and a further 24 reported a negative adjustment post-year: total net adjustment was minus £59.3m
- 11 LEAs who responded said they had balanced their books exactly or replied that it was not applicable to them
- Over the four years of investigation, 43 LEAs (37% of all LEAs who gave responses each year) reported an underspend every year. These alone have amounted to **£110.9m** over four years.

Overview

From 2019 to 2022, National Day Nurseries Association (NDNA) discovered that large amounts of funding, earmarked for children's early education and care, was left unspent in LEA schools budgets. Some was reported as being channelled into other areas of education spending. The investigation focused on funding for early entitlement places for three and four-year-olds including the 15 universal hours and the additional 15 hours for eligible children of working parents. This year we looked at funding for 2021/22 in the early years block overall and asked about adjustments made to early years budgets by the Department for Education (DfE).

Background

Currently in England all three and four-year-olds are entitled to **15 hours of funded early education and childcare** from the term following their third birthday during school term time; 38 weeks a year.

In addition, any three and four-year-olds who have two parents in work - or one parent if a lone parent family – each earning between 16 hours a week minimum wage and £100,000 a year are entitled to an **additional 15 hours** per week. This takes their potential entitlement to **30 hours of funded childcare** for 38 weeks of the year.

From April 2024, the Government has announced that two-year-old children of working families will be eligible for **15 hours of funded childcare**. This will be extended to children from nine months old in September 2024, and by September 2025 the Government estimates **640,000 more children** in working families will be entitled to 30 hours of funded childcare. This will be a 47.5% increase on the 1.35 million children currently receiving funded hours.

Funding for these places is provided by the DfE to Local Education Authorities (LEAs) through the Dedicated Schools Grant (DSG) which is made up of the Schools Block, High Needs Block and Early Years Block. The DSG is scrutinised and monitored at LEA level by the council's Schools Forum whose size and membership is determined locally. These will generally comprise of representatives from schools and non-school members. In most areas there is only one representative from Private, Voluntary or Independently (PVI) run nursery providers but in some areas there is no PVI rep, resulting in a lack of voice for the sector.

The early years funding for each LEA is set by the DfE using the Early Years National Funding Formula (EYNFF), which provides each council with an hourly rate of funding per child. Budgets are then set based on the expected number of children entitled to access funded childcare through census data. Local authorities must decide how to allocate this funding to early years providers through an hourly 'base rate' with additional hourly supplements for local priorities. This could take account of accessibility, Special Educational Needs and Disability (SEND), children from areas of deprivation or the quality of provision, all taken from this one hourly rate.

LEAs need to show that once all supplements and the base rates are factored in, early years providers receive **95%** of the total early years funding for children within that area. This means up to **5%** of the budget can be retained for central administration of the scheme and other early years priorities for the LEA.

Since the **30-hour** funded childcare policy was introduced in September 2017, NDNA has been clear in highlighting the challenges nurseries face because, for the majority of providers, the funding rate given to them by the DfE and LEAs does not cover their delivery costs. Following work with our members to look at the discrepancies between funding rates received and the published rates for local authority areas we wanted to understand where those differences arose.

While costs have risen due to minimum wage rises, which went up by around 10% in April, business rates increases (these were revalued in 2021, with the average bill from April 2023 being **£21,034** per nursery), pension and National Insurance contribution increases, energy costs rising and inflation currently over 10% with food inflation double this rate, these funding rates have not kept pace. For 2023/24 the lowest hourly rate has gone from **£4.61 to £4.87**, an increase of **3.4% which is well below inflation and wage rises**. Rates are due to rise in September following an announcement in the Spring Budget.

For the last four years NDNA has conducted research into how LEAs are using the Early Years Block, how it reaches the providers who are delivering the funded hours and what is happening to any unspent funding or how overspends were being managed. Those reports found that the majority of councils reported an underspend at the end of 2018/19, 2019/20 and 2020/21. For this report we have looked at whether local authorities are underspending overall in their early years block, and whether they have had their funding adjusted either in-year or after the end of the financial year by the DfE.

LEAs have to report their planned budgets and end of year outturn reports to the DfE via Section 251 returns. These include data collected on demand for **15** and **30** hour funded places, base rates and supplements, central expenditure and contingency funds.

The Freedom of Information (FOI) questions

Under the FOI act, NDNA asked five questions to **150** LEAs in England relating to funding for the free childcare entitlement in the financial year 2021/22. We did not ask City of London or Isles of Scilly due to size and funding arrangements of these authorities. The requests were sent in November 2022 to allow time for final reporting to have taken place.

The aim was to follow the funding through an annual cycle from planned budgets to actual expenditure and back into the planning process again. The questions therefore included whether they reported an underspend or overspend in their total Early Years budget, how they had distributed or planned to distribute any unspent budget, and whether their funding had been adjusted by the DfE.

The full text of the FOI questions is available in Appendix A.

Analysis of FOI responses:

A total of **149** LEAs, out of 150, responded to the FOI request by 21 March. Only Hartlepool did not provide a response.

Of those who responded, **92** said they had an underspend in their early years funding for 2021-22; **46** had an overspend and **two** said they had balanced the early years budget. **Six** LEAs said they had neither an overspend nor an underspend and **three** said the question was not applicable to them because any surplus was returned to the DfE.

Underspends within their early years budgets

A total of **92** LEAs (62%) reported an underspend, totalling **£45.8 million** at the end of the financial year 2021/22.

A third of this unspent money - **£15.1m** from **30** LEAs went into their reserves. This included three councils Barking and Dagenham, Middlesbrough and Cumbria who underspent by more than **£1m**.

A further **34** LEAs (37% of those who responded) used their unspent money to offset deficits within their DSG budget totalling **£14.7m**. This amounts to **32%** of the overall unspent money reported to NDNA. Of these, **16** LEAs said they had used the money to offset deficits within their High Needs Block **(£5.2m**).

Case Study – North Somerset: This LEA told us they achieved an underspend of **£1.2m** at the end of the funding year. They used this money to "offset spend in the high needs block". Although high needs spending is for children and young people up to the age of 25, North Somerset added that the spend "in the main related to early years".

A further **16** councils either had not decided what to do with this money yet or did not give us any details – totalling **£7.6m**.

Only **eleven** LEAs gave all or some of their unspent funding back to providers from a total pot of **£7.8m**. In many cases, LEAs did not use all their underspent money to support providers but were not clear about how much they actually redistributed directly to providers or used for other activities.

Case study – Kirklees: Kirklees Council reported having an underspend of just over **£500k**. They used this money to provide a "temporary uplift" to the permanent base rates for the two-year-old funding rate and three and four-year-old rates. Providers received this for the following year 2022/23. Members of NDNA's Kirklees network reported that they had received a 10p uplift to all their funding rates and added that they felt well supported by their local authority.

Break-even or balanced

Two LEAs reported that they had spent their budgets exactly with no over or underspends within their overall early years budget. These were **Bury** and **Southampton**.

A further **six** LEAs (**Hillingdon**, **Hounslow**, **Southwark**, **Cheshire East**, **Somerset** and **Salford**) answered No to both questions about having either an underspend or an overspend, so we have assumed these have balanced their accounts too.

Three LEAs (**Camden**, **Croydon** and **Newham**) said that the underspend/overspend questions were not applicable because any surplus is "clawed back" by DfE.

Overspends

46 LEAs (30% of responses) told us they had overspent on their early years budget overall totalling **£23.2m**. Of these, **35** LEAs were being given a low Government funding rate of less than **£5** and **14** were on the lowest funding rate possible of **£4.44**. This link with funding rates to LEAs could indicate they were not receiving sufficient resources to be able to deliver the service required at the local level.

A total of **six** LEAs (**Leicestershire, East Riding, Bath and NE Somerset, Bromley, Newcastle upon Tyne and Wakefield)** overspent their early years budget by more than **£1m** for 2021/22. The previous year only **one** local authority had overspent by this amount. Three of these were on the lowest funding rate of **£4.44**. Bromley received only **£5.05**, the lowest hourly rate for a London Borough.

Case study – Leicestershire: Leicestershire reported an overspend of **£4.2m**, which is the highest amount since NDNA's investigations began four years ago. Providers there have been notified that their local authority will need to reduce their funding rate going forward in order to try to make up this deficit.

High underspends

A total of **15** LEAs reported an underspend of more than a **£1m** in 2021/22. Of these, **five** had also underspent their funding budgets by more than **£1m** in two of the previous three years, and Islington has made this list every year since 2018/19. **Three** of these LEAs have also underspent by **£1m** or more in one of the previous three years. Only **four** of these £1m plus LEAs gave any of the surplus back to providers; **eight** put the money into reserves or offset deficits and **three** gave no answers or had not yet agreed what to do with the money.

Underspends totalling more than £1 million 2021/22		
Local Education Authority	Total underspend £	Agreed LEA actions relating to underspend
Wiltshire	£1,881,000	No actions agreed/no response given
Cumbria	£1,862,130	DSG reserves/carried forward
Islington#	£1,461,000	Offset previous deficits
Birmingham**	£1,400,000	No actions agreed/no response given
Leeds**	£1,394,000	All or some to providers
Hampshire*	£1,389,311	Used to offset deficits in DSG
Cambridgeshire**	£1,360,000	Used to offset deficits in DSG
Essex	£1,357,601	All or some to providers
Middlesbrough	£1,239,915	DSG reserves/carried forward
Liverpool	£1,230,000	All or some to providers
North Somerset	£1,200,000	Offset high needs block deficits
Lewisham	£1,194,000	Offset high needs block deficits
Nottinghamshire*	£1,149,000	All or some to providers
Barking and Dagenham**	£1,118,000	DSG reserves/carried forward
Lancashire*	£1,000,000	No actions agreed/no response given

**these LEAs reported underspends of over £1m in one previous year*

*** these LEAs reported underspends of over £1m in two previous years*

#this LEA reported underspends of over £1m every year since 2018

Case Study – Leeds City Council: Leeds told NDNA that after listening to observations made by the Schools Forum, they increased the base rate they paid to providers the following year 2022/23 for three and four-year-olds by **8p** per hour. This resulted in providers receiving **£5.20** when Leeds received funding of **£5.12**. Although this supports providers, those children who the funding was aimed at could have moved on and it may not benefit them.

Case Study – Islington: Islington reported underspends of more than **£1m** every year since NDNA began investigating council overspends and underspends. For 2021/22, they reported the smallest underspend since 2018/19. Islington reported using the **£1.46m** to offset the in-year and “clawbacks” from previous years by the DfE. In total, Islington told us the DfE “clawed-back” **£2,326,990** from their 2021/22 allocation. In previous years, Islington has either rolled the underspend forwards or given providers a retrospective uplift.

Cumulative underspends

Looking back over our research, **43 LEAs** have reported an underspend every year since 2018/19. A total of **115** LEAs have given us a reportable response for all four years, so that means that **37%** of total responses over the four-year investigation have consistently reported underspends.

Looking at these consistent underspenders, half of these rolled on their underspends or gave us no information about what they did with the money. A further **15** LEAs used this money earmarked for early years places to offset other deficits within their DSG budget.

Only **six** LEAs (14%) gave some of this funding back to providers in the form of an increased funding rate, one-off payment or setting up a hardship fund.

Looking at the cumulative underspends of these LEAs over the four years, the highest figure was reported by Surrey who told us about more than **£10.4m** in underspends since 2018/19. Only **eight** LEAs reported a cumulative underspend figure of less than **£1m** over the four years. **Four** councils reported cumulative underspends of more than **£6m** – in addition to Surrey there was Islington **(£7.6m**), Hertfordshire **(£6.8m**) and Leeds **(£6.4m**). The **43** consistently underspending LEAs between them reported underspending **£110.9m** in total since 2018/19.

DfE funding adjustments as reported by LEAs

Over the course of the financial year, LEAs make an estimation of headcount and therefore budget for the start of the academic year. This estimate is updated in the middle of the academic year when an early years census is taken in January. This can lead to LEAs having more or fewer eligible children taking up places than originally budgeted for, this can lead to an in-year adjustment in the funding they receive for the final summer term to correct for any differences. At the end of the academic year the final returns are compared with the updated budgets and final corrections or adjustments are made.

NDNA asked LEAs whether their early years budget had received an 'in-year' adjustment. Meaning that they received a lower or higher amount for their final term funding to take account of changes in the number of children in-year. We also asked if they had received a 'post-year' adjustment, or that budget figures had been changed after the final year returns. We also asked LEAs if the adjustments were positive, their budget was increased, or negative, the budget was reduced.

Looking at the 'in-year' adjustments, **72** LEAs reported a negative adjustment totalling **£89.1m** while **12** reported a positive adjustment, totalling just over **£7m**. This meant a net adjustment of **-£82.1m** was made during the 2021/22 year.

Asking LEAs about 'post-year' adjustments, **24** LEAs reported a negative adjustment after the end of the year. These adjustments totalled **£7.9m**. At the same time, **98** LEAs reported a positive adjustment at the end of the year, totalling **£30.7m**. This made the net post-year adjustments **£22.8m**.

Over the course of 2021/22 and in finalising budgets at the end of the year, this meant a net reduction in spend on early years of **-£59.3m** compared with the planned spend at the start of the year.

If we combine the amount of underspends in LEA budgets **(£45.8m**) with the net adjustment figures to budgets **(-£59.3m**) we see that **£105.1m** that was earmarked to spend on children in the early years during the 2021/22 year has not been spent on these funded places.

This unspent money amounts to **2.94%** of the overall **£3.57 billion** budget that was allocated to early years in 2021/22.

Conclusion

Over the four years of conducting this research we have tracked underspends of nearly **£229m**. This breaks down into: **£64m** in 2018/19, **£64m** in 2019/20, **£55m** in 2020/21 and now **£45.8m** in 2021/22.

While the underspends are reducing year on year, suggesting that LEAs are doing more to ensure they are allocating their budgets more accurately, there is still a significant amount of money allocated to pay for children's funded early years places which is not reaching providers on the frontline. These are the people who are delivering high quality early education and care services to children and working families, under extremely challenging circumstances.

The proportions of LEAs with underspends has remained high at **62%**. This underspend should be seen alongside the net reductions in early years budgets. Following reports of funding being 'clawed back' in previous reports, this year we have looked at 'in-year' and 'post-year' adjustments. The net figure of these, taking into account positive and negative adjustments, is a **further £59.3m** being returned to the DfE relating to the 2021/22 year. In addition, analysis of the Tax Free Childcare (TFC) scheme has showed that it was underspent by **£2.4 billion** over four years as a result of low take-up.

The period covered in this report was still badly affected by the Covid-19 pandemic. While the main lockdowns took place in 2020/21, settings were still closing rooms or entire settings due to staff absences with positive cases or self-isolation requirements and take up of places was still recovering. Since the end of 2021/22, providers have faced a number of challenges in operating sustainably. Inflation has reached 10% and research with providers has shown that the average staffing bill has increased by 14%. Ofsted data on joiners and leavers of the early years register has shown a net loss of nurseries and pre-schools, while NDNA's own analysis of closure data has shown increased rates of nursery closures, with closures 87% higher for April – December 2022 compared with the previous year. Settings in areas of deprivation, where hourly rates are among the lowest levels, have been the most affected.

All budgets set aside for early years must be ring-fenced so they can only be spent for that purpose, especially when settings are closing at an increasing rate, parents are struggling with the costs of childcare and the Government plans to increase the number of eligible children with funded childcare from nine months old.

The plans to expand the funded childcare offer make the issue more pressing. By increasing the volumes of children in the system by almost 50%, the Government will be putting more money through a complicated system which requires estimates and adjustments for local authorities and a lot of administrative work for settings. The existing funding rates are only to cover the hours of childcare provided by settings and do not include any administrative work done to claim the funding for children who take up places.

The Government has announced additional funding of **£204m** to increase the hourly rates for 2023/24 from September 2023. However, this investigation has revealed **£105m** has been underspent or returned to the Department at the end of 2021/22. While neither amount is enough to address the years of chronic underfunding of early years places, ensuring that money set aside for early years and childcare reaches providers should be a priority.

We are still seeing funding pressures on SEND and the High Needs Block and these should be addressed. It is vital that children with identified additional needs in early years can access the support that will make a life-changing difference to them at this crucial stage of their development.

Despite previous years of reporting on underspends in early years budgets, this year's research shows a shockingly similar picture with **tens of millions** still not finding its way to the frontline. This is funding intended to support children's early education and development but it is not reaching those children.

As a matter of urgency, the Government must address this situation and set out plans to radically reform and overhaul the way childcare support is funded, ensuring funding follows the child to support their development in their crucial early years. This should be done as part of the work to roll out the expanded childcare offer, otherwise the challenges in the current system will be baked into the new policy. If the funding system leads to more settings closing and places becoming harder to find, this will fail children, providers and in the long-term the working families who are supposed to be supported back to work.

Any funding approach must also support the sustainability of providers, adapting rapidly to their rising costs, so they are available and able to provide the high-quality early education and childcare that families and children need.

Urgent recommendations

- The Department for Education (DfE) should bring forward a comprehensive review of how early education and childcare is funded. This must:
    - Ensure all funding follows the child it is intended to support
    - Reduce the administrative burdens on LEAs and providers to ensure time and funding is spent on education and care for children
    - Annually review the true delivery costs of high quality care and education and ensure that the funding rate reflects these
    - Maximise the understanding and uptake of childcare and early education support among parents
- The underspends and budget adjustments/claw-back reported must be investigated and any underspends must be invested in high-quality early education and care
- The DfE should ring-fence all early years block funding to ensure it is only spent on children's early education and care. All additional funding for early years should be ring-fenced to ensure it is passed through to providers
- To support the educational outcomes of children from disadvantaged backgrounds the Early Years Pupil Premium should be brought in line with the rate paid to primary schools
- The DfE must ensure there are adequate resources in the High Needs block of the DSG to fully support all children with additional needs
- The DfE should bring forward a requirement for local authorities with an underspend in their early years block to consult with providers on how that can be used to support children
- The Government should reverse the decision to reimpose business rates on childcare businesses to reflect the fact that all childcare rooms will now contain funded children
- The structure and representation on Schools Forums must be reviewed to ensure equal representation for early years providers in local decision making.

Appendix A – Text of FOI Question

FOI request – Local Authority funding for free entitlement for two, three and four-year-olds

Financial year 2021/22

1. Did you have an **underspend** in the early years block for funded places in 2021/22? *Yes/no.*

Please give amount.

OR:

2. Did you have an **overspend** in the early years block for funded places in 2021/22? *Yes/no.*

Please give amount.

3. What actions, if any, were agreed relating to this underspend or overspend?

For example, we used our underspend to offset a deficit in the high needs block

4. Has your early years block been subject to an in-year adjustment by the Department for Education? If so, by how much?

For example, the DfE adjusted our underspend by £200,000 which left us with an overspend of £20,000 overall

Does your answer to Q1 or 2 above include any adjustment?

5. Has your 2021/22 early years block been subject to an adjustment by the Department for Education since 1 April 2022 and now? If so, by how much?

For example, the DfE adjusted our underspend by £200,000 which left us with an overspend of £20,000 overall

Does your answer to Q1 or 2 above include any adjustment?