



# Early years entitlements: local authority funding of providers

## Extract: Operational guide 2021-22

### 5.2 95% pass-through requirement

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. This pass-through requirement ensures that the vast majority of government funding reaches providers so that they can deliver the government's free entitlements. This means that local authorities, in planning their budget allocations for the forthcoming financial year, need to allocate at least 95% of their EYNFF hourly rate to providers.

#### 5.2.1 What is included within 95% pass-through

The '95%' includes the following budget lines:

- base rate funding for all providers
- supplements for all providers
- lump sum funding for MNS (please note any funding from the DfE's MNS supplementary allocation will be excluded—see below)
- the top-up grant element of SENIFs paid to providers
- contingency funding

Please note that the 95% is calculated with reference to the EYNFF hourly funding rate and therefore does not take account of any MNS supplementary funding allocation a local authority receives from the government. As such, the MNS lump sum funding referred to above only applies to any further funding for MNS paid from a local authority's EYNFF allocation.

#### 5.2.2 Remaining 5% expenditure

The remaining 5% of expenditure could include the following:

- centrally retained funding (for central services or services in-kind, including special educational needs and disability (SEND) services)
- transfer of any funding to 2-year-olds
- any extra hours that local authorities choose to fund in addition to the government's entitlement hours for 3 and 4-year-olds
- any funding movement out of the early years block

#### 5.2.3 What is not included within pass-through

The following DSG early years block funding streams are not included in the 95% pass-through calculation:

- funding for the entitlement for disadvantaged 2-year-olds
- payments to MNS from DfE's MNS supplementary funding allocation
- the disability access fund (DAF)
- the early years pupil premium (EYPP)

### 5.3 Monitoring compliance with the 95% pass-through requirement

We will monitor compliance with the 95% pass-through requirement via the early years proforma in the annual section 251 budget returns. We may consider the future use of section 251 outturn data to monitor compliance with the pass-through.

The calculation to determine compliance is made using the following steps:

**Step 1**, calculating an equivalent average rate to providers:

$$[A - B] \div C = D$$

Where:

- 'A' is anticipated budget quantum for 3 and 4-year-olds (as reported in the section 251 budget early years proforma) for:
  - base rate (including funding to MNS)
  - MNS lump sums
  - all supplements (including funding to MNS)
  - SENIF top up grants
  - contingency fund
- 'B' is DfE initial quantum allocated to local authority for MNS supplementary funding
- 'C' is planned base rate hours for universal 15 and additional 15 hours for 3 and 4-year-olds (including hours through MNS), as reported in s251 budget early years proforma
- 'D' is equivalent average rate to providers

**Step 2**, calculating the pass-through rate:

$$[D \div E] \times 100 = F$$

Where:

- 'E' is the local authority EYNFF hourly rate for 3 and 4-year-olds (EYNFF hourly rates for 2021 to 2022 were published in December 2020)
- 'F' is the pass-through rate

A local authority will be considered to be meeting the requirement if 'F' is more than or equal to 95%:

While MNS supplementary funding is not considered in the determination of the high pass-through, we expect local authorities to use this to maintain MNS stability. 12

To be compliant, the calculated pass-through rate must be at least  $\geq 95.0\%$ . Rounding up 94.9% will not be considered as meeting the requirement.