

Early Years Funding Review

Purpose of the Report

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1. This report provides the Schools Forum with findings from the detailed review of the current childcare funding arrangements for two, three and four year olds. It suggests an in-year solution to provide a temporary increase to the base hourly rate for 2015/16, with proposals for a review of the Early Years Single Funding Formula (EYSFF) to be included in the schools local funding formula consultation for 2016/17.

Background

2. The previous report submitted to Schools Forum on 5th February 2015 highlighted a number of key issues affecting the provision of two, three and four year old funded childcare places in Nottinghamshire.
3. Taking into account deprivation levels across the county, the provision of places for vulnerable children is having an impact on Private Voluntary and Independent (PVI) settings and schools.
4. The EYSFF has not been reviewed since 2009. The average hourly rate paid to **all** providers in Nottinghamshire is below the group average paid by statistical neighbours, regional and national local authorities¹.
5. The Schools Forum agreed to a detailed review of the current funding arrangements, which would seek to increase the hourly rate for two, three and four year olds and to consider the possibility of backdating any agreed amendments from April 2015

National

6. Central Government have not given any inflationary increase to the per child amount since the introduction of the reformed funding arrangements in 2013/14.
7. When the EYSFF was set six years ago, the Nottinghamshire hourly rate (£3.77 for PVI and £3.67 for maintained schools) was sufficient to meet delivery costs. However, increases in costs to both the maintained and PVI sector due to national minimum wage increase, pension contributions and the general increase in running costs have meant that the rate paid is less than the cost of delivery. PVI providers can only cover this shortfall by increasing the cost of non LA funded childcare hours to parents.

8. The average hourly cost of childcare in Nottinghamshire has risen from £3.50 in 2009 to £5.08 in March 2015².
9. There is substantial evidence that supports the need for good quality childcare in the early years and the potential future cost that can be avoided if young children have a positive early education experience.

Findings of the review

10. The early years funding review working group comprising of representatives from schools, PVI providers, schools finance and Nottinghamshire Early Childhood and Early Help Locality Services conducted a detailed review of the 2015/16 Early Years Block of the DSG. Some savings were identified from expenditure on centrally retained items. The group also looked at national benchmarking data available from the DfE Early Years Benchmarking Toolkit, to compare rates in Nottinghamshire with both regional and statistical neighbours.
11. The working group identified that the Schools Forum had not formally approved the flexible use of carried forward two year olds trajectory funding to continue to fund the increase in hourly rate paid for two year olds above the government funding level of £4.88 per hour. This would maintain the hourly rate at £5.09 to match the recommended national average for 2015/16 only. This paper will recommend that the Schools Forum formally approve this increase for 2015/16. Information about the base rate for two year olds from 2016/17 is included below.
12. Discussion with the Education Funding Agency has clarified that any changes to the EYSFF for 2016/17 must be included in the schools local funding formula consultation, which will commence in September 2015. The consultation will include modelling data and show the impact on individual schools of increasing the base hourly rate for three and four year olds. The elements to be consulted on for early years funding will therefore include;
 - the base hourly rate for three and four year olds;
 - the base hourly rate for two year olds;
 - the criteria for and value of the deprivation supplement included in the EYSFF;
 - the meal allowance for children attracting the deprivation supplement and attending a session which spans the lunch period; and
 - the sustainability supplement for schools whose nursery unit/foundation unit was historically less than 20 places.
13. Nottinghamshire County Council has an excellent working relationship with maintained schools, academies, and PVI providers. NCC needs this mixed market of high quality provision across the sector in order to satisfy the statutory duty of delivering sufficient early years places for every eligible child.
14. To maintain this position, the review proposes that £1.5m of the underspend on two year olds places, carried forward from 2014/15 be used to make an additional payment for 2015/16 only to all schools and PVI providers with three and four year olds accessing their free 15 hours. This will be the equivalent of paying a base hourly rate of £4.00 matching the regional average hourly rate for all settings. This will address the historical underfunding situation for a time limited period to enable proposals for 2016/17 to be

included in the full schools funding consultation. In return, the Early Childhood and Early Help Locality Service will monitor the use of this temporary increase to measure the impact on the quality of provision, the improvement of the school readiness of children graduating from their free entitlement to full time school and on closing the attainment gap.

15. If the Schools Forum agrees in principle to any additional in-year payments to schools and PVI providers in 2015/16, then Nottinghamshire County Council will need to apply to the Education Funding Agency for approval of a disapplication of the Schools and Early Years Finance Regulations 2014 for any such payments to be made. This is because a retrospective change to the EYSFF is not permissible under the regulations.
16. The review also considered the implications of the Government's intention to increase the free entitlement for three and four year olds of working parents to 30 hours, which has been brought forward to September 2016. National lobbying is working to ensure Government is aware of the funding gap created by not having any inflationary increase in early years funding for a lengthy period. Government announced on 1st June 2015 that a review of the national funding rates will be conducted during summer 2015.

Conclusions of the Review

17. The review concluded that Nottinghamshire has a good level of take up of free early education for two, three and four year olds, with around 50% of three and four year olds accessing early years provision in maintained schools..
18. The review also acknowledges that 79% of PVI early years providers are rated as good or outstanding by Ofsted.
19. The lack of review built into the EYSFF has meant that the cost of delivering good quality places has overtaken the rate NCC pays for this provision. This cost is currently passed on indirectly to parents accessing additional hours of childcare.
20. The review also recognised that investing in high quality early years provision saves potential future costs in meeting the educational and pastoral needs of children and families.
21. As more children access early years provision and with schools now able to lower their admissions age to two, it is essential that these early experiences are properly resourced.
22. Reviewing the EYSFF must fit with the school budget consultation timetable. However, with an existing carried forward underspend from two year old trajectory and two year old places funding from 2014/15, it is possible to support a temporary rise in the rates, backdated from April 2015 to March 2016 only for eligible schools and PVI providers, to enable the full consultation on schools' and early years funding to be completed. This is subject to approval in principle by the Schools Forum and the EFA per paragraph 15. above.

RECOMMENDATIONS

That the Schools Forum:

- Notes the content of the report;
- Subject to EFA agreement approves, in principle the use of underspend on two year old places to make an additional goodwill payment to schools and PVI providers for 2015/16 only. This will temporarily increase the hourly rate for funded three and four year olds to £4.00 for PVIS and £3.90 for maintained schools backdated to April 2015 at a cost of £1.5m;
- Approves the use of underspend on two year old trajectory funding to maintain the hourly rate for two year olds at £5.09 for 2015/16 only at a cost of £430k;
- Approves the inclusion of the EYSFF in the Schools local funding formula consultation for 2016/17, specifically;
- the base funding rate for three and four year olds
- the base funding rate for two year olds
- the criteria for and value of the deprivation supplement included in the EYSFF
- the meal allowance for children attracting the deprivation supplement and attending a session which spans the lunch period
- the sustainability supplement for schools whose nursery unit/foundation unit was historically less than 20 places;

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