

**School Funding Reform:  
Review of the Early Years block funding arrangements****Purpose of the Report**

Government continues to fund early year's provision through the introduction of an Early Years Block of the Dedicated Schools Grant. This report highlights the need for the Schools Forum to undertake a review of the Early Years Single Funding Formula (EYSFF), including the hourly rate and the deprivation supplement paid to maintained schools and Private Voluntary and Independent (PVI) providers for three and four year olds and the hourly rate for two year olds accessing their free early education place.

**Background and Context**

1. **Three and four year olds.** The EYSFF was introduced by the Department for Education (DfE) across England from April 2010 with the key aim of ensuring that the formula supported a **mixed market**, funded on the basis of participation not places and on a fair and transparent basis. The amount paid by Government to local authorities via the Early Years Funding Block is adjusted in year, based on the results of the January census. Local authorities had freedom to set their own rates of funding using the EYSFF. The Nottinghamshire hourly rate for three and four year olds was jointly set between the LA and the PVI providers at £3.77 and has remained at that level without review. On average in 2014, there were almost 12,000 three and four year olds accessing an early years place each term. There has been no review of the rate since 2009/10.
2. **Deprivation supplement.** A deprivation supplement was also required by regulation to be part of the EYSFF. It is only paid for 3 and 4 year olds, as two year old funding is already targeted at disadvantaged children and attracts a higher hourly rate. Again it was for local authorities to determine both the criteria and rate paid for the deprivation factor. Nottinghamshire agreed on £0.55 per hour for children whose families met the free school meals criteria and an additional £1.53 if the child attended a session that spanned a lunch period to provide a meal. At that time, very few families applied for the deprivation supplement and even less claimed the funding for the meal. The deprivation supplement is paid to both schools and PVI providers.
3. **Two year olds.** The free entitlement to early education was extended to the 20% **most disadvantaged** two year olds from September 2013 and further extended to around 40% of two year olds in September 2014. The majority of these children are accessing PVI provision for their 15 hours, though increasingly schools are considering attaining daycare registration or lowering their admissions age in order to offer places to these young children. A number of schools have/are benefitting from two year old capital funding investment to expand their offer, particularly in

communities where no PVI provision is available. When Government allocated funding to local authorities the national average hourly rate was £5.09 per hour. This reflects the higher costs related to provision for two year olds, due to different staff to child ratios. Nottinghamshire's allocation equated to £4.88 per hour; below the national average. However, as Nottinghamshire was awarded additional trajectory funding to "grow" its offer for two year olds, and received funding for the whole potential cohort rather than just those attending, it was agreed that Nottinghamshire could temporarily match the national hourly rate of £5.09 per hour for 2014/15.

#### 4. Review Findings

##### 5.1 EYSFF Base Rate.

It is well documented that high quality early years provision has a significant impact on a child's school readiness and their attainment at the end of the early years foundation stage. Better qualified staff makes the biggest difference to the quality of the provision, but cost significantly more. Though staffing costs per person in schools are higher, due to employing qualified teachers, some PVI providers also employ qualified teachers, however those who do not employ a teacher need more staff to meet staff:child ratios for Ofsted registration requirements.

A sub group of the Early Years Consultation Group has reviewed the EYSFF and the data produced by the DfE Early Years Benchmarking Toolkit. At the time of calculating the initial funding rate in 2009, the actual cost of delivering the free hours was calculated, looking predominantly at staffing, building and average childcare costs. In 2009 the national minimum wage was £5.83 p/h, in 2014 it was £6.50p/h. Nottinghamshire's Childcare Sufficiency Assessment Report surveyed PVI settings and found the average hourly rate for childcare across both Maintained and PVI was £3.50 in 2009 and £4.08 in 2014, however in some settings will be higher. The cost of delivering the free entitlement in 2009 was £3.77 p/h. With overheads in both schools and PVI rising steadily, the base rate has remained the same at £3.77 per hour which was agreed by Schools Forum in 2010. Many providers report that it costs more to deliver early years places than they receive from NCC due to the vulnerability and additional needs of individual children. The 2014 NDNA survey showed on average nurseries lost £929 per year for each 3 & 4 year old place provided.

Data extracted from DfE Early Years Benchmarking Toolkit December 2014

<b>3 &amp; 4 YEAR OLD HOURLY FUNDING RATE</b>	<b>£</b>
England Average	4.21
Statistical Neighbours Average	4.09
East Midlands Average	4.01
East Midlands Highest (Derby)	4.48
East Midlands Lowest ( Leicester/shire)	3.56
<b>Nottinghamshire ( next lowest)</b>	<b>3.77</b>

It is reasonable to expect funding levels to be consistent with the national average and to agree a process for achieving this via a detailed review. The funding comes from the Early Years Block of the Dedicated Schools Grant.

NB. This calculation is based on children accessing a place in spring, summer and autumn 2014, in both schools and pvi provision, this will be verified following headcount data following the January census.

	Source of rate	Hourly Rate	Total Cost	Additional required
		£	£	£
a	Nottinghamshire	3.77	25,294,476	
b	East Mids. Average	4.01	26,904,734	1,610,258
c	Stat_Neighbours Average	4.09	27,441,487	2,147,011
d	England Average	4.21	28,246,616	2,952,140

## 5.2 Deprivation Supplement

The EYSFF requires Nottinghamshire to identify both its base rate and deprivation supplement to be paid to schools and PVI providers for three and 4 year olds. In 2009/10, Nottinghamshire recognised that children from low income families were not achieving as well as their peers, so the deprivation supplement was targeted at these children in their early years, with the aim of closing the attainment gap. The criteria used to identify these children were equivalent to the Free School Meal (FSM) indicators. However, as parents had to apply to NCC for their provider (school or PVI) to receive the deprivation supplement, many did not take up this offer. Between 30 and 50 children claimed the additional funding each term. Other LA's used different criteria, such as paying a higher hourly rate if the child lived in a recognised disadvantaged area (often based on IDACI scores), or if the provider had a higher quality rating from Ofsted, (outstanding and good providers attracted a small supplement).

As the free entitlement for two year olds was initially targeted to children satisfying the FSM criteria, we have had a steady increase in the number of children graduating from a funded two year old place and claiming the deprivation supplement. This has seen the amount spent on the deprivation supplement increase from £26k in 2013/14 to £59k in just two terms of 2014/15.

From April 2015, DfE is introducing the Early Years Pupil Premium (EYPP) for all three and four year olds, who meet the FSM criteria. This is set at £300 per eligible child and will become part of the Early Years Block in the DSG. If Nottinghamshire continues with the same deprivation supplement criteria, we will in effect be double funding these children. DfE estimate 2,117 three and four year olds will be eligible, which at current rates will cost in excess of an additional £660k per year.

The deprivation supplement criteria and rate will need to be revised in light of recent changes outlined above to ensure the most disadvantaged children are appropriately supported.

## 5.3 Hourly Rate for two year olds

In 2014/15, the funding allocated by Government to Nottinghamshire for the two year olds early education was £4.88 per hour. It was agreed via the Two Year Olds Steering Group that the trajectory funding should be used to temporarily enhance the hourly rate to match the national average for England at £5.09 per hour. The funding allocated by Government to Nottinghamshire for two year olds in 2015/16 is again £4.88 per hour.

Trajectory funding for the programme will end in March 2015 and the programme will then be funded based on participation funding, which is allocated on actual numbers of 2 year olds accessing places in 2015/16.

### **Conclusion**

This report has highlighted a number of key issues affecting the provision of the 2, 3 and 4 year old funded places for consideration by the Schools Forum. Taking into account deprivation levels across the county the provision of places for vulnerable children is having an impact on PVI settings and schools. The rate the settings are being paid has not been reviewed since 2009 and is below the average of statistical neighbours, the regional and national providers. There is growing 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.

## **RECOMMENDATION/S**

That the Schools Forum:

- Notes the content of the report;
- Supports the need to undertake a detailed review of current funding arrangements which will seek to increase the hourly rate for 2, 3 and 4 year old children to be brought to the next Schools Forum in June 2015.
- To consider the possibility for back dating any agreed amendments for the PVI Sector from April 2015.

**Justine Gibling**  
**Group Manager, Early Years and Early Intervention**

**For any enquiries about this report please contact:**  
Justine Gibling  
T: 0115 977 4426  
E: [justine.gibling@nottsc.gov.uk](mailto:justine.gibling@nottsc.gov.uk)