

## **EARLY YEARS DSG FUNDING PROPOSALS**

### **Purpose of the Report**

1. To seek an 'in principle' agreement from the Forum, effective from 1<sup>st</sup> April 2018, to use £108,000 of non ISB reserves to pay £0.01p per hour on the base early years funding rate for 2, 3 and 4 year olds to reflect additional financial demands on schools, academies and PVI early years providers.
2. To agree proposed consultation questions for early years providers in relation to funding rates for 2019/20.

### **Information and Advice**

3. On 7<sup>th</sup> December 2017 Forum approved the proposal to lower the hourly funding rate for 2, 3 and 4 year olds by £0.01p for 2018-19, to create the statutory Early Years Inclusion Fund. This was a redistribution of £108k of funding within the Early Years Block of the DSG and kept the amount of funding centrally retained from that block to 3% of the permitted maximum of 5% for 2018/19.
4. At the June 2018 Forum meeting the 2017-18 Final Accounts report was presented which identified a £1.151million underspend from the early years block of the DSG. This underspend had arisen from the additional £1m income from the higher than anticipated take-up of the extended 15 hours free childcare for working parents, a higher than average attendance for the universal 15 hours of early education and £115K of unspent Early Years Pupil Premium and Disability Access Fund.
5. Forum are reminded that whilst there is an almost even split of the proportion of 3 and 4 year olds eligible for their early years entitlement who access provision from a school or Private, Voluntary or Independent (PVI) provider, almost 95% of eligible 2 year olds currently access their entitlement from the PVI part of the early years sector.

### **Rationale for proposal**

6. Last year, early years providers were subjected to a number of new initiatives introduced by central government which have had significant impact on provision. The first year of the introduction of 30 hours free childcare has seen a reduction of 6,536 children in previously fee paying places, for whom providers now only receive the funded hourly rate. This has had a significant financial impact on providers as there is a marked difference between what the LA pay for funded places and what a provider would ordinarily charge to cover costs.

7. This situation is not unique to Nottinghamshire. Nationally, in a recent survey by Nursery World, 87% of providers reported that the funding received for the free entitlements does not cover their costs, with an average yearly shortfall of £2,166 per child. Many report needing to increase the fees for non-funded childcare to subsidise that shortfall. Others report opting out from offering funded places to the most vulnerable 2 year olds and not offering 30 hours funded places to eligible parents as they simply cannot afford to run their provision in a deficit funding situation.
8. Locally, we have several preschools and nurseries at risk of closure, which would impact on both our early years places and childcare sufficiency duties. The number of childminders registered in Nottinghamshire continues to decline with 653 in 2018 compared to 737 in 2016. A similar picture can be seen amongst preschools with 92 in operation in 2018 compared to 99 in 2016.
9. We have evidence to suggest that of a growing number of providers are limiting the number of funded places for 2 year olds, to focus more on children in fee paying places, to help with business sustainability.
- 8 The underspend reported at the June School Forum meeting reflects in part the low take up of new supplementary funding, DAF (Disabled Access Fund) to meet the needs of children with disabilities. Introduced in April 2017 DAF is available for children in receipt of the Disability Living Allowance and take up so far has been low. This is not often claimed by families with such young children and, like any new benefit needs time to embed with families.
9. Available funding is based on estimated numbers of eligible children by the DfE with the responsibility for encouraging take up by parents laying with the providers themselves. Further work is planned by Early Childhood Services to promote the availability and use of all supplementary funding to both parents and early years providers increase future take-up
10. We have had a lower and fluctuating take up of places by eligible 2 year olds as some providers find the staff ratios of 1 adult to 4 children for this age group unaffordable, whereas the ratio for 3 and 4 year olds is easier to afford 1 child to 8 children ( or even 1:13 in schools)
11. Local policy changes, including the removal of DCATCH for 0-25 year olds and the requirement for private, voluntary and independent providers to self-fund children's medical needs, unlike maintained schools, have also increased the costs associated with children with special educational needs accessing provision in the PVI sector.
12. Other factors have given rise to increased costs to all providers, namely National Living Wage and National Minimum Wage, Pensions Auto Enrolment, Apprenticeship contributions, increased business rates and utilities charges.
13. Providers also report that additional charges such as workforce development and Continuous Professional Development for staff, necessary to maintain quality of provision

and narrow the attainment gap and which until recently was offered free by LA's now has to be paid for. Also the Government requirements for early years staff to have GCSE qualifications in Maths and English have also impacted on individual setting's training and development budgets

### Proposal regarding Early Years hourly rate

14. It is proposed that an uplift is made to the current base rate for eligible 2, 3 and 4 year olds, backdated to April 2018.
15. In light of the £1.151m underspend from the Early Years block of the DSG in 2017-18, we propose to allocate the projected costs of £108,000 from the reserves to reinstate the 2017-18 hourly rate.

|   | 2017/18          | Agreed 2018/19 | Proposed 2018/19* |
|---|------------------|----------------|-------------------|
|   | Hourly base rate |                |                   |
| Eligible 2 year olds in PVI settings          | £5.23            | £5.22          | £5.23             |
| Eligible 2 year olds in school settings       | £5.10            | £5.09          | £5.10             |
| Eligible 3 and 4 year olds in PVI settings    | £4.17            | £4.16          | £4.17             |
| Eligible 3 and 4 year olds in school settings | £4.07            | £4.06          | £4.07             |

- 16 The proposals outlined have been developed in consultation with representatives from the Early Years consultation and reflect the challenges all early years providers currently face in maintaining and developing high quality, inclusive places.

### Financial Implications

- 17 If the Schools Forum agrees in principle to an additional in-year payment to schools and PVI providers, in 2018/19, the local authority will need to submit a disapplication request to the Education Skills Funding Agency (ESFA) to seek approval to do this. This is because a retrospective change to the Early Years National Funding Formula (EYNFF) is not permissible under the Schools & Early Years Finance (England) Regulations 2017.
- 18 The Non-ISB reserve is currently forecasting a deficit of £0.8m for 2018- 19 due to the forecast overspend on the High Needs Block. If the Schools Forum agree to this proposal it will increase the forecast deficit on the reserve by £108,000 and increase the overall overspend on the High Needs Block in 2019-20.

### Proposed Consultation Question

- 19 In light of the challenges detailed above, it is proposed that one question is included in the forthcoming consultation regarding the proposed hourly rates for 2019-20, as follows:

*In 2018/19 the early years funding rate was reduced by £0.01p per hour to create an Early Years Inclusion fund to support children aged 3 and 4 years with SEN. Do you agree with the proposal to reinstate the £0.01p per hour in 2019/20, with a subsequent reduction of the DSG Early Years Inclusion Fund allocation from £190,000 to £92,000?*

## **RECOMMENDATIONS**

### **That the Schools Forum:**

- 1) Approves the proposal to provide £108,000 of Non Schools ISB Reserves to be used to temporarily increase the hourly rate for 2018-19 by a total of £0.01p, backdated to 1 April 2018. This would be subject to approval by the ESFA (paragraph 17 above).
- 2) Approves the proposed question to be included in the consultation for early years funding rates for 2019-20.

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