

EARLY YEARS DSG FUNDING PROPOSALS

Purpose of the Report

1. To propose in principle an increase of £0.05 to the basic hourly rate paid to providers for the 3 and 4 year entitlements for 2019/20 to reflect additional financial demands on schools, academies and PVI early years providers. The increase would be subject to approval from the Secretary of State and if approved would be effective from 1 April 2019.
2. To agree initial proposed consultation questions for early years providers in relation to funding rates for 2020/21.
3. To inform Schools Forum members of the requirement to change the profile of funding received by maintained schools and academies from 39 weeks to 38 weeks from 2020/21.

Information and Advice

4. At the June 2019 Schools Forum meeting, the 2018-19 Final Accounts report was presented which identified a £1.7 million underspend from the early years block of the DSG. This underspend had arisen primarily due to fluctuations in the number of children receiving funding throughout the year, specifically the large 'dip' in numbers in the Autumn term. Further information on the reason for the 2018/19 underspend is included as **Appendix One**.
5. The proposals outlined have been developed in consultation with representatives from the Early Years Consultation Group and reflect the challenges all early years providers currently face in maintaining and developing high quality, inclusive places. The original proposals from the Consultation Group were to use the non ISB reserves to increase the hourly rate by £0.10 per hour for 2, 3 and 4 year olds. This proposal was not supported by the council because of increasing demands placed the High Needs budget. The Consultation Group also requested that the future consultation questions include a £0.10 per hour increase for 2, 3 and 4 year olds, as well as widening of the Deprivation Fund to include all LAC children aged 2, 3 and 4; and to extend the fund to 2 year olds known to social care.

SEND Supplementary Funding

6. In addition, underspend reported at the June 2019 School Forum meeting reflects in part the low take up of new SEND supplementary funding, the Early Years Inclusion Fund and the Disability Access Fund (DAF). Additional work is taking place to promote both of these supplementary funding streams to the early years sector.
7. Introduced in April 2017, DAF is available for children in receipt of Disability Living Allowance and take up so far has been very low (35% take up in 2018/19); this situation is reflected nationally. The reasons for this poor take up is unknown and like any new benefit needs time to embed with families. There has also been an underspend in the Early Years Inclusion Fund which was created using both local authority and DSG funding. In the academic Year 2018-2019, 195 children benefitted from this funding and £148,557 was allocated to settings, including £12,264 spent on training for practitioners in the sector. The overall budget was £203,612(DSG) and £281,384 (NCC).

Deprivation Funding

8. Local authorities are obliged to offer a Deprivation supplement in addition to the base rate for 3 and 4 year olds. Historically this has been based on economic disadvantage (free school meals eligibility), and it preceded the Early Years Pupil Premium which uses similar eligibility criteria based on economic disadvantage. Nottinghamshire has followed the recommendation made by Ofsted¹ to take a broader view of 'disadvantage' and to consider other factors which hinder educational attainment.
9. In consultation with early years providers, Nottinghamshire now offers a revised Deprivation Fund supplement focused on 3 and 4 year olds known to social care. This is a one-off payment of £406 per annum to enable early years providers to backfill key staff to participate in multi-agency meetings to plan suitable interventions designed to improve the child's outcomes. Funding continues to be paid until a child reaches school age, to ensure effective support is maintained and robust transitional arrangements are in place. In 2018-19, 200 providers, including 119 schools accessed the funding for 332 children.

Rationale for proposals

School Readiness

10. Research shows that access to high quality early learning experiences, together with a positive learning environment at home, is a vital combination to ensure that children have reached a good level of development at the start of compulsory school age. School readiness is a strong indicator of how prepared a child is to succeed in school cognitively, socially and emotionally.

¹ Ofsted (2016): Unknown Children – destined for disadvantage?
<https://www.gov.uk/government/publications/helping-disadvantaged-young-children-ofsted-thematic-report>

11. In 2018, 69.7% of Nottinghamshire pupils achieved a good level of development, compared to 71.5% across England. Nottinghamshire also performs poorly in comparison with statistically similar Local Authorities as can be seen below.

| Area | Recent Trend | Neighbour Rank | Count | Value | 95% Lower CI | 95% Upper CI |
|---------------------------------------|--------------|----------------|---------|-------|--------------|--------------|
| England | ↑ | - | 466,668 | 71.5 | 71.4 | 71.6 |
| Fourth less deprived decile (IMD2015) | — | - | 6,582 | 69.7 | 68.8 | 70.6 |
| Kent | ↑ | 15 | 13,614 | 75.1 | 74.5 | 75.8 |
| Staffordshire | ↑ | 1 | 7,146 | 75.0 | 74.1 | 75.8 |
| Essex | ↑ | 10 | 12,570 | 73.8 | 73.1 | 74.4 |
| Warwickshire | ↑ | 4 | 4,720 | 72.3 | 71.2 | 73.4 |
| Somerset | ↑ | 14 | 4,134 | 71.8 | 70.6 | 73.0 |
| Norfolk | ↑ | 11 | 6,700 | 71.6 | 70.6 | 72.5 |
| Suffolk | ↑ | 9 | 5,735 | 71.5 | 70.5 | 72.4 |
| Northamptonshire | ↑ | 7 | 6,792 | 71.3 | 70.3 | 72.2 |
| Worcestershire | ↑ | 6 | 4,605 | 71.2 | 70.1 | 72.3 |
| Derbyshire | ↑ | 2 | 5,911 | 70.8 | 69.8 | 71.8 |
| Leicestershire | ↑ | 12 | 5,534 | 70.8 | 69.8 | 71.8 |
| Cumbria | ↑ | 13 | 3,535 | 70.0 | 68.7 | 71.3 |
| Nottinghamshire | ↑ | - | 6,582 | 69.7 | 68.8 | 70.6 |
| Lancashire | ↑ | 3 | 9,796 | 69.5 | 68.7 | 70.3 |
| Gloucestershire | ↑ | 8 | 4,743 | 69.2 | 68.1 | 70.2 |
| Lincolnshire | ↑ | 5 | 5,440 | 69.1 | 68.1 | 70.1 |

12. Despite best efforts the attainment gap for children eligible for Free School Meals continues to be significantly wider than England and statistical neighbours. In 2018, only 49.9% of children eligible for free school meals in Nottinghamshire achieved a good level of development. Progress in Nottinghamshire is slow and despite improvements in many other outcome measures; addressing school readiness remains a challenge and therefore ensuring that children (from low income households in particular) access high quality early education and childcare is a priority.

13. The proposal to extend the criteria for Deprivation supplementary funding would offer additional resources to children eligible for free school meals, bringing us more in line with our statutory neighbours, whilst providing access to resources to enable providers to engage in multi-agency meetings for looked after children, and our most disadvantaged 2 year olds.

Sustainability

14. There has been an increase in number of private day nurseries opening this year, however several preschools and childminders have either closed or have ceased to offer funded childcare places. The number of childminders who provide funded places has also declined by 50 with 604 available in 2019, compared to 654 in 2018, and 737 in 2016. A similar picture can be seen amongst preschools with further loss of three this year, leaving 89 in operation, compared to 92 in 2018 and 99 in 2016.

15. The financial pressures widely reported in the national press, and the impact on the sector to sustain, high quality provision required to help narrow the attainment has been previously discussed. Factors that have given rise to increased costs to

all providers, are namely National Living Wage and National Minimum Wage, Pensions Auto Enrolment, Apprenticeship contributions, increased utilities charges and increasing Business Rates impact on their ability to attract high calibre practitioners into the sector.

16. In addition, local policy changes made by the CCG's requiring PVI providers to pay for training to support children with complex medical needs has also increased the financial challenges they face. However, such costs are now met via the Early Years Inclusion fund

3 and 4 year entitlement old benchmarking with statistical neighbours

17. The table bellows illustrates how Nottinghamshire and their statistical neighbours use the funding that they receive from the ESFA to fund their 3 and 4 year old childcare providers. The data has all been taken from Local Authorities Section 251 budget statements 2018/19².

| Local Authority | DSG Funding per 3 & 4 year old | Average Basic Hourly rate 3 & 4 Year olds | Average Funding Supplements 3 & 4 Years olds | Pass through rate |
|------------------|--------------------------------|---|--|-------------------|
| Essex | £4.47 | £4.22 | £0.19 | 98.2% |
| Nottinghamshire | £4.30 | £4.17 | £0.03 | 97.8%* |
| Derbyshire | £4.40 | £4.15 | £0.23 | 96.4% |
| Worcestershire | £4.30 | £4.14 | £0.21 | 101.6% |
| Lancashire | £4.30 | £4.13 | £0.39 | 98.4% |
| Cumbria | £4.30 | £4.03 | £0.18 | 98.5% |
| Kent | £4.48 | £4.00 | £0.44 | 99.2% |
| Warwickshire | £4.30 | £3.96 | £0.32 | 97.1% |
| Staffordshire | £4.30 | £3.93 | £0.12 | 95.2% |
| Northamptonshire | £4.35 | £3.79 | £0.63 | 97.1% |
| Cheshire West | £4.30 | £3.62 | £0.58 | 97.2% |

*Nottinghamshire's figures have been recalculated following the reinstatement of £0.01 per hour.

Single basic hourly rate for all providers

18. In November 2018 the ESFA confirmed that they expect local authorities to fund all providers in the same way for both sets of hours and not to distinguish between the two. This means using the same base rate and same supplements for both entitlements and all providers.

19. From 2020/21 Nottinghamshire will have to standardise the hourly rate being paid to schools, academies and PVI's by changing the number of weeks that schools and academies funding is devolved over from 39 to 38.

² S251 benchmarking is based on budgeted figures. The average basic hourly rate only includes the base rate. Supplements include all the additional 3 and 4 year old funding and the 3 and 4 year old inclusion fund. It does not include DAF or EYPP.

Proposal regarding Early Years hourly rate for 2019/20

20. It is proposed that an increase of £0.05 per hour is made to the current base rate for eligible 3 and 4 year, backdated to April 2019. The increase would be subject to approval from the Secretary of State. The projected cost of the increase is £0.5 million.

Potential Increases to LA Hourly Rate For 3 and 4 Year Olds in 2020/21

21. On 4 September 2019, as part of the spending review announcement, the Chancellor of the Exchequer announced his plan to increase early years spending by £66m in 2020/21 to increase the hourly rate that's being paid at maintained nursery schools and other childcare providers that deliver on the Government's free childcare offer.

22. Further detail on how this will affect Nottinghamshire's Early Years Block are expected in October. Should the funding per child that Nottinghamshire receives from the ESFA increase, it may be possible for the Local Authority to increase the rates paid to providers in 2020/21 to a greater extent than being proposed in this report.

Proposed Consultation Questions for 2020/21

| | Current 2019/20 Rate | | Proposed 2020/21 Rate | |
|---|----------------------|----------------|-----------------------|----------------|
| | Schools (39 weeks) | PVI (38 weeks) | Schools (38 weeks) | PVI (38 weeks) |
| 3 & 4 Year olds Universal Entitlement Basic Hourly Rate | £4.07 | £4.17 | £4.22 | £4.22 |
| 3 & 4 Year olds Additional Entitlement Basic Hourly Rate | £4.07 | £4.17 | £4.22 | £4.22 |
| 3 & 4 Year olds Deprivation supplement (FSM) Hourly Rate | £0.00 | £0.00 | £0.10 | £0.10 |
| 3 & 4 Year olds Deprivation supplement (CiN) Meeting time | £406.00 | £406.00 | £406.00 | £406.00 |
| 2 Year Olds Basic Hourly Rate | £5.10 | £5.23 | £5.23 | £5.23 |
| 2 Year olds Deprivation supplement (CiN) Meeting time | £0.00 | £0.00 | £406.00 | £406.00 |

23. Considering the challenges detailed above, it is proposed that the following questions are included in the forthcoming consultation regarding the proposed hourly rates for 2020-21, as follows:

3 and 4 year olds:

- Do you agree with an increase in the hourly rate for funded 3 & 4 year old children by £0.05 per hour, given that this may be reduced in coming years (anticipated cost £500k)?*
- Do you agree with the proposal to extend the criteria for Deprivation Fund to include all 3 and 4 year old Looked After Children (LAC) as well as those identified as a Child in Need (CiN) and those on a Child Protection Plan (CPP) (anticipated cost £106k)?*

- c) *Do you agree with the proposal to extend the criteria of the Deprivation Fund to extend 3 and 4 year olds eligible for Free School Meals at an hourly rate of £0.10 per hour, (anticipated cost £82k)?*

2 year olds:

- d) *Do you agree with the proposal to extend the criteria for Deprivation Fund to include 2 year olds who are LAC/CIN/ CPP (anticipated cost £25k)?*

OR

- e) *Do you agree to increase the basic hourly rate for 2 year olds who are eligible for Free School Meals by 0.05p (anticipated cost £55k)?*

Financial Implications

24. If the Schools Forum agrees in principle to an additional in-year payment to schools and PVI providers, in 2019/20, 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 2018.

25. Agenda Item 3e showed that following an increase of £0.05 to the basic hourly rate paid for 3 & 4 year olds in 2019/20, the un-ringfenced element of Non-ISB reserve will have a forecast surplus of £4.359 million at the end of 2019/20.

26. All proposals for 2020/21 have been costed based on the number of children appearing on the January 2019 Early Years Census, Their inclusion would see NCC's pass through rate remain above the prescribed 95% but would reduce future years underspends within the Early Years Block.

RECOMMENDATIONS

That the Schools Forum:

- 1) Approves the in-principle proposal to increase the basic hourly rate for 3 and 4 year olds for 2019-20 by £0.05, backdated to 1 April 2019. This would be subject to approval by the SOS (paragraph 24 above).
- 2) Consider and agree the initial proposed questions to be included in the consultation for early years funding rates for 2020-21.
- 3) To note the change to the number of weeks that Schools and Academies funded will be funded on and the corresponding change to the hourly rates received.

Irene Kakoullis

Group Manager Early Childhood Services

T: 0115 97 74431

E: irene.kakoullis@nottsc.gov.uk

For further information:

Jude Burgess
Strategic Early Years Manager
T: 0115 97 73543
E: jude.burgess@nottscc.gov.uk

Appendix One

Explanation of how underspend of 3 and 4 year old childcare funding occurs

The following graphs show the numbers of children recorded on census in each term since Summer 2015.

NCC are funded using data from the January (Spring term) Schools and Early Years Census (orange line on graphs).

The underspend occurs because the paid pupil numbers drops in autumn by a BIGGER MARGIN (green arrows) than the rise in paid pupil numbers (red arrows) in summer. So, we pay out less in autumn (which is also a longer term) than in summer. It is the difference between these paid pupil numbers that creates the underspend both for schools and PVI providers.

If the rise in summer was equal to the reduction in numbers in autumn, then there would be no underspend.

If the rise in summer was higher than the reduction in numbers in the autumn, then there would be an overspend.

