Early Years Deficit Recovery Update

Report being considered by:	Schools' Forum on 17th October 2022		
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Item for:	Information	**By:**	All Forum Members

1. Purpose of the Report

1.1 To update the Forum on the deficit recovery for the Early Years Block

1.2 Explore the impact of any amendments to the deficit recovery plan on Covid recovery for children and provider stability.

2. Deficit Recovery Plan

2.1 In 2019/20 West Berkshire introduced a single base rate in line with government requirements. Using calculations at that time, going forward the base rate of £4.30 with a quality supplement of 0.66p per hour was set.

2.2 Based on the budget information available the Early Years Funding Group proposed that the base rate should increase to £4.40 with a quality supplement remaining 0.66p per hour.

2.3 The deprivation supplement based upon the current arrangements with the funding being linked to the early year's pupil premium, with an increase in the supplement from 0.47p to £1.47.

2.4 At that time there had been no increase to local rates for a period of five years.

2.5 All of this was agreed by the Schools Forum.

2.6 As per the Early Years paper that went to Schools Forum in 2019, the 2019/20 budget was set with an expenditure budget of £9,861,030 against an income budget of £9,646,508 resulting in an in-year deficit budget of £214k, leading to a cumulative deficit of £462k.

2.7 All of this was taking place in the emerging context of Covid-19 and a pattern of changing approaches to funding early year's settings as a consequence.

2.8 From 23rd March 2020 all schools and early years' settings were required to only provide places for vulnerable children and those of key workers. It was also announced that local authorities will continue to be paid their early years DSG as normal.

2.9 The initial early years DSG allocations for 2020 to 2021, announced in December 2019, will be updated to provisional allocations in July 2020 in the usual way (that is, using the January 2020 early years census and schools census).

2.10 From the start of the autumn term 2020, the guidance was that local authorities should continue to fund providers which are open at broadly the levels they would have expected to see in the 2020 autumn term had there been no coronavirus

(COVID-19) outbreak. They should also continue to fund providers which have been advised to close, or left with no option but to close, due to public health reasons. Local authorities should not fund providers which are closed, without public health reason, from the start of the autumn term.

2.11 The intention was to fund on the basis of ‘as if autumn term 2020 were happening normally’. In order to do this, local authorities might, for example, use the numbers of children in places in the previous autumn to inform funding levels this autumn.

2.12 In this context consideration was given to all types of provider and the potential impact on them of the deficit recovery plan. As detailed below the original consultation provided a five year plan. The plan allowed for a lower change in rate in the first two years to protect providers form the impact.

2.13 The option chosen is shown below:

	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26
3 & 4 year olds	3p	4p	6p	7p	8p
quality rate	3p	3p	4p	4p	5p
2 year olds	10p	12p	14p	14p	15p
deprivation	25p	35p	45p	50p	60p

2.14 There was also additional work to mitigate for the impact of the deficit recovery and Covid using Covid Recovery Funding to give providers a Sustainability Grant totalling £226,200.

Funded Providers	Number of Providers	Proposed Tiered Payment
> 32 funded children	21	£3,000
< 32 funded children	45	£1,800
Total Group Providers	**66**	**£144,000**
Childminders	**62**	£600
Total Childminders		**£37,200**
> 32 funded children	9	£3,000
< 32 funded children	10	£1,800
Total Schools & MNS	**19**	**£45,000**
Total All Providers	**147**	**£226,200**
(1 school not claiming)		

2.15 The uptake of the grant was good and where providers have been identified at a later stage as having missed the application round funding has been given to support sustainability cases.

2.16 During these difficult times further work has been taking place to monitor early year's provision and to provide support, guidance and financial advice. Independent financial advice has been targeted at the most vulnerable settings, support with business planning has been available and there has been an open and clear dialogue with providers.

2.17 In October 2021 at the Spending Review, the chancellor announced increases in the funding for early years entitlements. £160 million in 2022-23, £180 million in 2023-24 and £170 million in 2024-25.

2.18 The funding is for local authorities to increase the hourly rates paid to childcare providers by 21 pence for 2 year olds and 17 pence for 3 and 4 year olds. These rate increases reflect cost pressures, as well as anticipated changes in the numbers of eligible children.

2.19 It was also announced that pupil premium will be increased by 7 pence to 60 pence per hour, the equivalent of £342 per eligible child to support better outcomes for disadvantaged three and four year olds.

2.20 Disability Access Fund (DAF) is also increasing to £800 per year. DAF is paid to childcare providers to support eligible 3 and 4 year olds. Children should be in receipt of disability living allowance and receiving the universal 15 hours offer.

2.21 These rate changes were carefully considered and a balanced view was taken of deficit recovery against provider stability and recovery for children. The increase in rates from 2022/23 take into consideration the increased hourly funding rate announced in the October 2021 Spending Review and the deficit recovery plan.

2.22 The following rate changes came into effect from 1st April 2022:

	previous rate	2021/22 Funding Rate £	2022/23 Rate as per deficit recovery £	2022/23 agreed rate £
3 & 4 year olds	£4.40	£4.37	£4.36	£4.50
quality rate	£0.66	£0.63	£0.63	£0.63
2 year olds	£5.65	£5.55	£5.53	£5.71
deprivation	£2.00	£1.75	£1.65	£1.72

3. Deficit position at the end of March 2022

3.1 The table below summarises the current position as at the end of March 2022.

3.2 The cumulative deficit has decreased by £56,000 from 2020/21 to 2021/22. Based on the total number of hours in 2021/22 the deficit should have been reduced by around £130k, however there was an adjustment required in the overall funding for the year which has reduced this value to £56k.

Reserve Balances (surplus)/deficit	2019/20 31.3.2020 Actual	2020/21 31.3.2021 Actual	2021/22 31.3.2022 Actual
Early Years Block	874	970	914

4. How we are comparing to the plan

4.1 The deficit recovery plan was based on the following projection:

	actual Year 1 2021/22	forecast Year 2 2022/23	forecast Year 3 2023/24	forecast Year 4 2024/25	forecast Year 5 2025/26	Total
up to 8p reduction 3 / 4 year olds to £4.32	52,992	73,265	109,897	128,213	146,529	510,896
up to 5p reduction in quality rate to £0.61	29,751	31,312	41,749	41,749	52,186	196,746
up to 15p reduction in 2 year olds to £5.50	12,706	16,074	18,753	18,753	20,093	86,379
up to 60p reduction in deprivation to £1.40	33,957	32,965	42,384	47,094	56,512	212,912
	129,406	153,616	212,783	235,808	275,320	1,006,934

4.2 The plan was to save a lower value in the first few years as providers recovered from the Covid-19 pandemic, with larger savings in the later years.

4.3 The first year we had planned to save £129k, but due to some adjustments to the income, the total deficit reduced by £56k.

4.4 It is clear that the original plan is not realising the deficit needed to get the budget back in line. With this in mind there needs to be a rigorous reconsideration of the options.

4.5 This will include consideration of the next two years of funding from government, the local rate values for deprivation, two years olds and the quality supplement.

4.6 There is some evidence that due to local commitment to quality that the number of settings accessing the quality rate has increased overtime impacting heavily on the budget. There was a review of the eligibility criteria in the last financial year with some strengthening of the qualification levels and equivalence of qualifications against qualified teacher status (QTS). This piece of work did see a small reduction in those accessing the additional rate funding.

4.7 A review of both the deprivation supplement and the two year old rate were considered however due to the impact of the pandemic on these areas no change was proposed.

5. Conclusion

5.1 Monitoring of the current budget deficit plan will continue during the current financial year looking carefully at the impact the increased funding from government is having on both provider stability and the budget position.

5.2 Working with the Early Years Funding Group as the emerging position becomes clear develop an alternative plan if needed.

5.3 We will review the planned rates for 23/24 and 24/25 in the light of the additional funding from the Spending Review settlement giving careful consideration of how best to use this funding to stabilise the budget position. .

5.4 These are difficult and challenging times so there needs to be a sense of balance to all planned rate changes for the deficit recovery. Children's recovery from the impact of Covid, provider sustainability and the cost of living crisis will all have to be considered in any forward planning.