

Early Years Budget 2017/18

Report being considered by: Schools Forum

On: 05/12/2016

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Item for: Discussion **By:** All Forum Members

1. Purpose of the Report

- 1.1 This report sets out the current financial position of the Early Years Block budget for 2016/17 and the possible position in 2017/18 based on information received to date from the Government.

2. Recommendation

- 2.1 Report to be noted.

Will the recommendation require the matter to be referred to the Council or the Executive for final determination?	Yes: <input type="checkbox"/>	No: <input checked="" type="checkbox"/>
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3. Background

- 3.1 The current number of early year's providers funded from this block is 116, and the breakdown by type of provider is shown in Table 1.

Table 1

Early Years Providers	Number
Private Nursery/Independent School	25
Pre Schools	38
Childminders	36
Nursery classes in schools	15
Maintained nursery schools	2
Total	116

- 3.2 The Dedicated Schools Grant (DSG) funding in the financial year for the early years block is based on the number of children accessing the free entitlement on the day of the January census over two years – so for 2016/17 funding, the per FTE child DSG funding rates (£3,911.25 for 3 and 4 year olds, £5,092 for 2 year olds) is multiplied by the number of FTE children counted in the January 2016 census multiplied by 5/12 plus the same per child DSG funding rates multiplied by the number of children counted in the January 2017 census multiplied by 7/12. Final confirmation of the funding is received the following June, three months after the close of the financial year to which the funding relates. Early years pupil premium grant (EYPPG) is calculated on the same basis.

- 3.3 Payments to providers are made according to actual take up of places. Each provider is allocated an hourly funding rate at the start of the financial year depending on type of provision and qualification of staff. The provider receives this funding rate for each child for the actual number of hours they attend the setting in the financial year (i.e. funding follows the child). Children can take up their free provision at any time during the year up to the maximum number of funded hours. Additional hours can be purchased from the provider if offered. EYPPG is paid as an additional hourly rate for those children who meet the criteria.
- 3.4 Thus there is a mismatch between DSG funding received and payments made to providers. The budget has to be set (i.e. the hourly rates to be paid to providers agreed) without any certainty of what the funding for the year will be or the number of hours of provision to be paid. There will always be an under or over spend.
- 3.5 In order to set the budget, the methodology used is to base the calculations on prior year data plus an adjustment for any assumed or known changes.
- 3.6 In the last few years the actual DSG funding received for three and four year olds has not covered the payments made to providers, but an under spend on two year olds has been carried forward allowing the three and four year old funding rates to providers to be maintained.

4. Forecast for 2016/17

- 4.1 Accurately forecasting the likely carry forward in the current year is crucial in determining what funds are available (as one-off additional funding or a deficit to be repaid) in the following year.
- 4.2 Assumptions made in setting the budget were based on the funding estimate from the January 2016 census. The hours of provision are based on the actual funded hours from the previous year.
- 4.3 Table 2 sets out the current forecast on each budget line within the early years block.

Table 2

Early Years Block Budget	Budget 2016/17	Current Forecast	Variance
3 & 4 year old PVI Providers	4,382,000	4,452,000	70,000
3 & 4 year old Nursery classes in schools	1,133,080	1,183,080	50,000
3 & 4 year old Maintained nursery	779,380	779,380	0
2 Year Old Funding – all settings	611,440	671,440	60,000
Central Expenditure on Children under 5	128,100	128,100	0
Pre School Teacher Counselling	45,000	45,000	0
Pupil Premium Grant and Deprivation Supplement	100,000	60,000	-40,000
Total Expenditure	7,179,000	7,319,000	140,000
DSG Early Years Block funding	-6,770,313	-6,466,815	303,498
SEN Pre School Children (transfer funding to high needs block)	10,000	10,000	0

In Year Net Position (i.e. shortfall)	418,687	862,185	443,498
DSG carry forward from 2014/15	-576,756	-515,626	14,910
Net Position Overall	-158,069	346,559	458,408

- 4.4 The current figures indicate an over spend. This is due to a higher number of funded children in the summer term; this includes an increase in the number of funded two year olds. The funded hours for the autumn term were lower than expected. The final budget position is unknown until the spring term funding is released.

5. Changes and Requirements for 2017/18

- 5.1 The outcome of the Early Years Funding Consultation was due to be provided in December, however, there has been a challenge from the Pre-school Learning Alliance which questions the research upon which the new rates are based. The Information Commissioner has ruled that the information is made public within 35 days. This is likely to delay a response to the consultation.
- 5.2 In the absence of receipt from the DfE of the final arrangements for 2017/18, there has been initial work and discussions with Early Years Funding Group regarding possible funding models. The discussion considered the budget over 3 years, including the need to recover any deficit, the impact of the changes on providers both negative and positive and any measures which could be taken to mitigate for impact in the initial years. Based on the indicative rates from the funding consultation, the expected rates show that providers can expect an increase (72% of providers) or decrease (28% of providers) in their funding. Based upon March 2016 provider figures it is predicted that 34 providers will see a reduction in their rates, ranging from a reduction of 3% to close to 20%.
- 5.3 As part of the consultation it is proposed that local authorities can retain 5% of the budget for central expenditure on early year's services. As part of the financial planning for 2017/18 it has been assumed that the 5% will be retained. However a number of factors which need consideration when allocating firm commitments against the 5%. The unreliability of the method for calculating the early years budget and therefore the 5%, the central staff implications of the additional 15 hours and the impact upon support funding for SEN in the light of the additional 15 hours.
- 5.4 Central staffing to support the free entitlement work has been tailored to meet the current requirements which include, free entitlement of 3 and 4 year olds, early years' pupil premium and the free entitlement of two year olds. The introduction of the additional 15 hours will create new work requirements for this team including responsibility to undertake eligibility checking, work with providers to identify sufficient provision and business models to deliver the additional entitlement including flexibility for parents. As yet the learning from the pilot authorities has not been shared so the true impact and implications of these changes are hard to measure. So consideration should be given to capacity building in the initial stages of the introduction of the additional 15 hours.
- 5.5 The funding rate changes and the introduction of the 15 additional hours may well have other implications for free entitlement sufficiency. Some providers have already indicated that they are not able to offer the additional hours due to a range of factors including building capacity, impact on place provision and staffing

limitations. This aligned with the reduction in rates which will leave some providers considering their position in the childcare market and viability. This is a very destabilising time for early years provision across the sector.

6. Budget Model for 2017/18

6.1 The Early Years Funding Group discussed three potential models:

1.	Setting a single funding rate for all providers from year 1. Rate will rise in year 2 once deficit is paid off.
2.	A minimum funding guarantee and cap of 5% in years 1 & 2.
3.	A more generous minimum funding guarantee in years 1 & 2, with deficit being paid off in year 3.

6.2 The Early Years Funding Group were clear that at this stage a simple model which provides a minimum funding guarantee and a funding cap would be the fairest way forward. A full consultation with all local providers will need to take place once the outcome of the Early Years Funding Consultation has been provided by the DfE.

7. Conclusion

There are still many uncertainties regarding both funding and pressure upon the area of free entitlement due to the changes in both funding arrangements and provision of free entitlement. The outcome from the DfE Consultation is expected in December at the earliest so until then we are working with the information provided in the consultation document. The outcome of the increased 15 hours pilots is also yet to be shared so there is as yet no clear guidance about the final arrangements for the roll out across England. So there needs to be circumspect and careful consideration of commitments made against the Early Years DSG block until there is a full picture of the implications of forthcoming changes.

8. Consultation and Engagement

A consultation will take place with Early Years Providers on the proposed funding model for 2017/18 once the final information and guidance is available.