
Early Years Budget

Report being considered by: Schools' Forum on 19th October 2020

Report Author: Avril Allenby and Lisa Potts

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

1. Purpose of the Report

- 1.1 To update the Schools Forum on the deficit recovery options considered by the Early Years Funding Group and the recommendations and related actions proposed by the Heads Funding Group on 6th October 2020.

2. Background to investigations

- 2.1 Prior to lockdown, the Early Years Funding Group were consulted on a range of options to reduce the rates for 3 & 4 year olds, quality rate, 2 year old and deprivation.
- 2.2 The report considered in July acknowledged the basic principle that there needed to be deficit recovery plan which brings the budget back into line. The Forum also recognised that addressing the deficit in the current financial year would be very challenging.
- 2.3 The Early Years Funding Group have explored a range of options. A summary of all the options considered can be found at Appendix A. Each one is modelled on a five year period of deficit recovery as the impact on funding for individual providers over a shorter period would be extremely detrimental to financial stability across the sector resulting in closures and loss of childcare sufficiency.
- 2.4 As there are a wide range of providers, it was important during discussions that no particular group was affected more than others. Appendix B shows how each provider type would be affected by the reduction in rates options explored. When looking at the detail of impact on providers it is clear that some provision where there are the greatest numbers of vulnerable children and funded two year olds will be adversely impacted by whatever option is adopted. This needs careful consideration when deciding on the final deficit recovery approach.
- 2.5 Since lockdown restrictions have slowly lifted, providers are finding that the ongoing impact of Covid-19 is far more detrimental than imagined.
- 2.6 A range of further options have since been considered to show a tapered effect of the reductions, with less being removed in earlier years. Options 4 and 6 from Appendix B were chosen as the average reduction was the lowest across all provider groups. The full analysis is shown at Appendix C, with a summary as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Version A	81,702	122,553	163,404	204,255	204,255	776,170
Version B	81,702	163,404	204,255	204,255	204,255	857,872
Version C	99,849	113,286	158,846	201,037	201,037	774,055
Version D	99,849	158,846	201,037	201,037	201,037	861,806

- 2.7 With more than 54% of 2019/20 hours for 3 & 4 years olds being funded at £5.06 (including the quality rate), the pass through rate is too high and we are spending more than we are receiving in grant. The additional 15 hours extended funding has led to more schools being flexible in their delivery of hours. By the nature of the staff at a school, all these hours attract the quality rate.

3. Budget 2020/21

- 3.1 The Early Years Block started the year 2020/21 financial year with a deficit budget of £1,477,515
- 3.2 A current year forecast is showing a reduced deficit of £999,952. This forecast is based on the actual hours from the summer term 2020 and forecast hours for autumn 2020 and spring 2021 which are the best figures to be using at this stage however may be subject to change in the future.
- 3.3 The main reason for the lower deficit is a higher than expected grant adjustment for the hours relating to 2019/20. This adjustment is notified to us in July each year.
- 3.4 The latest guidance states that a census will be taken in January 2021 as normal, to calculate the total grant allocation for 2020/21. It is difficult to say long term how this will affect the budget position.

4. Impact on providers from Covid-19

- 4.1 Following a recent meeting of the Early Years Funding Group, it has become increasingly apparent that there are much longer term effects of Covid-19 on this sector. The Institute of Fiscal Studies found that 25% of private sector nurseries ran a “significant deficit” during lockdown, with less than £4 of income for every £5 in costs. Even though they reopened in June, demand for places was still 70% down in the summer holidays compared with pre-covid levels.
- 4.2 Vulnerable children have been impacted the most during this pandemic. This group needs where possible to be protected against any rate cuts. Currently EYPP is 53p per hours and West Berkshire make this up to £2:00 per hour. These children are a priority both nationally and locally and this has become even more of a focus during the pandemic.
- 4.3 More staff are required to manage bubbles of smaller than the normal sized groups. Also to provide cover for staff absence. Those accessing the furlough scheme have been rotating staff to gain maximum benefit from this vital business support.
- 4.4 30 hours entitlement is only available when both parents are working. There’s been a decrease in the number of parents eligible for this funding, therefore hours have decreased. Or parents are uncertain of the job stability once the furlough scheme

ends and are therefore being cautious about relying on childcare or the entitlement of additional hours.

- 4.5 Some families are still anxious about taking up their places and have delayed registration. The confidence in childcare providers is building but many families are not yet accessing their full entitlements.
- 4.6 The sector is expecting major changes at the end of October as the furlough scheme ends. Those providers who have to date been accessing furlough were only able to use the scheme against the income part of their business. For many small providers they couldn't access any funding as they don't income generate, operating using only the public funding and by fund raising. The Institute for Fiscal Studies recons the median furlough payment for nursery staff was worth just 55p for every £1 of lost fee income.
- 4.7 The removal of the scheme will put additional pressure on providers resulting in redundancies and potential closures. It will almost certainly impact on sufficiency of places in some areas of West Berkshire.
- 4.8 There has been a large reduction on private income for providers as parents are using less hours than previously and not wanting to pay for additional services or hours on top of their free entitlement. This income is an important part of the business model for many providers.
- 4.9 Hourly rate doesn't cover the cost of the provision an example:

Our wages total for the 4 qualified pre-school staff has **increased by £7.30 per hour over the last 2 years**, from £34.50 in March 2018 to £41.80 in April 2020, following the rises in the minimum wage.

We must also pay pensions which cost an additional £30 employer's contributions per month.

In the same period our Early Years Funding has increased by 10p per hour from £4.96ph to £5.06ph, per child.

We are a small village setting, open for 16.5 hours each week but only claiming 15 hours funding for most of the children as they do not have 2 working parents. We do an additional 30 minutes each day to the funded hours to make us attractive to parents fitting in school runs too. The funded hours make up 95% of our income so any reduction in it will have a material impact upon us.

We provide considerable support to disadvantaged children, most of whom would have no pre-schooling if we were to close.

5. Recommendations proposed by the Early Years Funding Group

- 5.1 The impact of Covid-19 has resulted in early evidence of financial difficulties for many of our providers being close to closure and the on-going uncertainty is likely to further compound these issues. Therefore the recommendation is to use a tapered reduction in rates with a lower impact on rates in the first two years increasing to meet the deficit over the five year period.

- 5.2 That Option 4 Version B implemented over a five year period is the model adopted. As this model ensures that there is equity of impact across all types of provider while safeguarding funding to support the most vulnerable children. This will also support diminishing the impact of Covid-19, during the early stages of deficit recovery.
- 5.3 For the deficit recovery plan to be thoroughly reviewed annually with clear consideration for local sufficiency, demand and available funding.
- 5.4 That the deficit recovery plan is delayed until April 2022 to ensure current providers can deal with the ongoing impact of Covid-19.

6. Heads Funding Group proposals

- 6.1 That the proposal to delay the deficit recovery until the financial year 2022/2023 is removed as the recovery period has already been delayed with an agreed start date for the budget period 2021/2022.
- 6.2 That there is further work on the deficit recovery models to ensure that over the period of recovery the full amount of deficit is recovered by the end of the final year.

7. Conclusion

- 7.1 The work to date identifies a clear plan over a five year period to address the deficit in the Early Years DSG Funding. The need for caution when considering how to cut the local rates and how fast to recover the deficit are clear, as there is a balance to be struck.
- 7.2 The potential disruption to local provision of childcare and early education is considerable. Alongside this the on-going uncertainty around the further impact of Covid-19, employment insecurity for parents, future funding and sufficiency needs are going to need to be under careful monitoring and review to ensure the plan is responsive to the challenges ahead.
- 7.3 Further work needs to be undertaken to develop a suitable model which both covers the deficit in full but also ensures that the impact on all types of provider is carefully considered so that no part of the sector is unfairly disadvantaged.

Option 1

	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Total reduction
5p reduction 3 / 4 year olds to £4.35	91,581	91,581	91,581	91,581	91,581	457,905	0.05
5p reduction 3 / 4 year olds to £4.36	20,874	20,874	20,874	20,874	20,874	104,372	0.02
5p reduction 3 / 4 year olds to £4.37	26,790	26,790	26,790	26,790	26,790	133,950	0.20
5p reduction 3 / 4 year olds to £4.38	94,187	94,187	94,187	94,187	94,187	470,935	£1.00
						<u>1,167,162</u>	1.27

Option 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Total reduction
5p reduction 3 / 4 year olds to £4.35	91,581	91,581	91,581	91,581	91,581	457,905	0.05
3p reduction in quality rate to £0.63	31,312	31,312	31,312	31,312	31,312	156,560	0.03
20p reduction in 2 year olds to £5.45	26,790	26,790	26,790	26,790	26,790	133,950	0.20
£1 reduction in deprivation to £1	94,187	94,187	94,187	94,187	94,187	470,935	£1.00
						<u>1,219,350</u>	1.28

Option 3

	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Total reduction
3p reduction 3 / 4 year olds to £4.37	54,948	54,948	54,948	54,948	54,948	274,742	0.03
3p reduction in quality rate to £0.63	31,312	31,312	31,312	31,312	31,312	156,560	0.03
25p reduction in 2 year olds to £5.40	33,488	33,488	33,488	33,488	33,488	167,439	0.25
£1 reduction in deprivation to £1	94,187	94,187	94,187	94,187	94,187	470,935	£1.00
						<u>1,069,676</u>	1.31

Option 4

	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Total reduction
5p reduction 3 / 4 year olds to £4.35	91,581	91,581	91,581	91,581	91,581	457,904	0.05
5p reduction in quality rate to £0.61	52,186	52,186	52,186	52,186	52,186	260,930	0.05
10p reduction in 2 year olds to £5.55	13,395	13,395	13,395	13,395	13,395	66,976	0.10
50p reduction in deprivation to £1.50	47,094	47,094	47,094	47,094	47,094	235,468	0.50
						<u>1,021,277</u>	0.70

Option 5

	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Total reduction
4p reduction 3 / 4 year olds to £4.36	73,265	73,265	73,265	73,265	73,265	366,323	0.04
4p reduction in quality rate to £0.62	41,749	41,749	41,749	41,749	41,749	208,744	0.04
15p reduction in 2 year olds to £5.50	20,093	20,093	20,093	20,093	20,093	100,463	0.15
75p reduction in deprivation to £1.25	70,640	70,640	70,640	70,640	70,640	353,201	0.75
						<u>1,028,732</u>	0.98

Option 6

	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Total reduction
4p reduction 3 / 4 year olds to £4.36	73,265	73,265	73,265	73,265	73,265	366,323	0.04
4p reduction in quality rate to £0.62	41,749	41,749	41,749	41,749	41,749	208,744	0.04
15p reduction in 2 year olds to £5.50	20,093	20,093	20,093	20,093	20,093	100,463	0.15
70p reduction in deprivation to £1.30	65,931	65,931	65,931	65,931	65,931	329,655	0.70
						<u>1,005,185</u>	0.93

Highest percentage loss

	Total reduction (£)	Childminder	Pre-School	Private provider/ Ind school	Nursery Class	Maintained Nursery School	Average reduction
Option 1	1.27	-7.18%	-7.75%	-4.96%	-6.30%	-2.84%	-5.81%
Option 2	1.28	-7.18%	-7.75%	-5.10%	-6.50%	-2.97%	-5.90%
Option 3	1.31	-7.51%	-7.64%	-5.13%	-6.10%	-2.80%	-5.84%
Option 4	0.70	-3.70%	-4.14%	-3.28%	-4.31%	-2.24%	-3.53%
Option 5	0.98	-5.31%	-5.75%	-4.05%	-5.20%	-2.47%	-4.55%
Option 6	0.93	-5.07%	-5.43%	-3.90%	-4.94%	-2.39%	-4.35%

Average percentage loss

	Total reduction (£)	Childminder	Pre-School	Private provider/ Ind school	Nursery Class	Maintained Nursery School	Average reduction
Option 1	1.27	-1.70%	-2.59%	-1.88%	-2.99%	-2.75%	-2.38%
Option 2	1.28	-1.71%	-2.65%	-1.97%	-3.19%	-2.88%	-2.48%
Option 3	1.31	-1.46%	-2.32%	-1.61%	-2.82%	-2.72%	-2.19%
Option 4	0.70	-1.35%	-2.00%	-1.80%	-2.72%	-2.18%	-2.01%
Option 5	0.98	-1.33%	-2.12%	-1.68%	-2.76%	-2.40%	-2.06%
Option 6	0.93	-1.32%	-2.06%	-1.65%	-2.68%	-2.33%	-2.01%

	Grant received (per hour)	Current rates (per hour)	reduced by:	
			option 4	option 6
3 / 4 year olds quality	£4.78	£4.40	5p	4p
2 year olds deprivation	£5.82	£5.65	10p	15p
	£0.53	£2.00	50p	70p

Option 4 tapered effect - version A

	Year 1	Year 2	Year 3	Year 4	Year 5
3 & 4 year olds quality rate	2p	3p	4p	5p	5p
2 year olds deprivation	4p	6p	8p	10p	10p
	20p	30p	40p	50p	50p

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
up to 5p reduction 3 / 4 year olds to £4.35	36,632	54,948	73,265	91,581	91,581	348,007
up to 5p reduction in quality rate to £0.61	20,874	31,312	41,749	52,186	52,186	198,307
up to 10p reduction in 2 year olds to £5.55	5,358	8,037	10,716	13,395	13,395	50,901
up to 50p reduction in deprivation to £1.50	18,837	28,256	37,675	47,094	47,094	178,955
	81,702	122,553	163,404	204,255	204,255	776,170

Option 4 tapered effect - version B

	Year 1	Year 2	Year 3	Year 4	Year 5
3 & 4 year olds quality rate	2p	4p	5p	5p	5p
2 year olds deprivation	4p	8p	10p	10p	10p
	20p	40p	50p	50p	50p

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
up to 5p reduction 3 / 4 year olds to £4.35	36,632	73,265	91,581	91,581	91,581	384,639
up to 5p reduction in quality rate to £0.61	20,874	41,749	52,186	52,186	52,186	219,181
up to 10p reduction in 2 year olds to £5.55	5,358	10,716	13,395	13,395	13,395	56,259
up to 50p reduction in deprivation to £1.50	18,837	37,675	47,094	47,094	47,094	197,793
	81,702	163,404	204,255	204,255	204,255	857,872

Option 6 tapered effect - version C

	Year 1	Year 2	Year 3	Year 4	Year 5
3 & 4 year olds quality rate	2p	2p	3p	4p	4p
2 year olds deprivation	7p	10p	12p	15p	15p
	35p	45p	60p	70p	70p

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
up to 4p reduction 3 / 4 year olds to £4.36	36,632	36,632	54,948	73,265	73,265	274,742
up to 4p reduction in quality rate to £0.62	20,874	20,874	31,312	41,749	41,749	156,558
up to 15p reduction in 2 year olds to £5.50	9,377	13,395	16,074	20,093	20,093	79,031
up to 70p reduction in deprivation to £1.30	32,965	42,384	56,512	65,931	65,931	263,724
	99,849	113,286	158,846	201,037	201,037	774,055

Early Years Budget

Option 6 tapered effect - version D

	Year 1	Year 2	Year 3	Year 4	Year 5
3 & 4 year olds	2p	3p	4p	4p	4p
quality rate	2p	3p	4p	4p	4p
2 year olds	7p	12p	15p	15p	15p
deprivation	35p	60p	70p	70p	70p

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
4p reduction 3 / 4 year olds to £4.36	36,632	54,948	73,265	73,265	73,265	311,375
4p reduction in quality rate to £0.62	20,874	31,312	41,749	41,749	41,749	177,432
15p reduction in 2 year olds to £5.50	9,377	16,074	20,093	20,093	20,093	85,729
70p reduction in deprivation to £1.30	32,965	56,512	65,931	65,931	65,931	287,270
	99,849	158,846	201,037	201,037	201,037	861,806