

DERBYSHIRE COUNTY COUNCIL

CABINET

15 March 2018

Report of the Strategic Director for Children's Services

EARLY YEARS BLOCK BUDGETS 2018-19
(YOUNG PEOPLE)

1. **Purpose of the Report**

To seek approval to the Early Years Block funded budgets within the Dedicated Schools Grant (DSG) for 2018-19.

2. **Information and Analysis**

2.1 **DSG Income**

The Dedicated Schools Grant (DSG) allocations for 2018-19 were announced by the DfE on 19 December 2017. The Schools Block allocations were approved by Cabinet at its meeting on 1 February 2018. This report deals with the Early Years Block budgets, the High Needs Block is covered in a separate report to this meeting. A summary of the Early Years DSG allocations are provided in Table 1 below:

Table 1 – Early Years Indicative Settlement 2018-19

Item	2018-19
Early Years Block:	
No. 3 & 4 year olds – universal provision (count)	10,590.53
Universal entitlement - 3 & 4 year old hourly rate	£4.400
Sub total* (£m)	26.561
Maintained Nursery School Grant (£m)	1.178
Universal 3 & 4 year old funding (£m)	27.739
No. 3 & 4 year olds - additional 15 hours for eligible working parents (count)	4,341.60
Additional entitlement - 3 & 4 year old hourly rate	£4.400
Additional hours funding* (£m)	10.889
Other Early Years allocations:	
Funding for disadvantaged 2 year olds (£m)	4.840
Early Years Pupil Premium (£m)	0.326
Early Years Disability Access Fund (£m)	0.157
Sub total – Other EY allocations	5.323
TOTAL EARLY YEARS BLOCK (£m)	43.951

* Calculated as the number of children (count) x hourly rate (£4.40) x 570 (i.e. 38 weeks x 15 hours)

The key points regarding the 2018-19 settlement are as follows:

- (i) Derbyshire's funding rate per hour for the 15 hours of universal provision for 3 and 4 year olds has fallen from £4.63 to £4.40, a 5% reduction which is the maximum allowed: the loss equates to around £1.5m, Derbyshire's rate is still protected, the "pure" national funding rate is £4.17 per hour;
- (ii) The announced quantum is based on January 2017 census data, the actual allocations will be based on a combination of the January 2018 and 2019 census information;
- (iii) Derbyshire will receive £1.178m as a Maintained Nursery Schools (MNS) grant to support its nursery schools, slightly higher than the 2017-18 figure (£1.145m) due to increased pupil numbers: this grant has been guaranteed by the government up to and including 2019-20;
- (iv) Derbyshire will receive the £4.40 hourly funding rate to fund both universal provision and the additional 15 hours for eligible working parents of 3 and 4 year olds. The additional 15 hours provision is a new responsibility which was introduced from September 2017;
- (v) The settlement includes £0.157m for Disability Access Funding which will enable disabled children to access the free entitlement by funding providers to make initial reasonable adjustments and building capacity to support disabled children. The funding is ring-fenced and will be paid to settings via the existing Early Years Pupil Premium framework for each child in receipt of Disability Living Allowance;
- (vi) The overall national average hourly funding rate for disadvantaged two year olds remains at £5.39 and will continue to be allocated on the same basis. Derbyshire's rate is £5.20 per hour, the same as 2017-18.
- (vii) The Pupil Premium Grant allocations will remain as for 2017-18, allocations will be based on a maximum of 570 hours per annum (38 weeks @ 15 hours) and will be funded at £0.53 per hour. The maximum that a pupil can attract is therefore £302.10

2.2 Issues to consider

In determining how to distribute the universal and additional hours funding the DfE:

- (i) Require LAs to delegate 95% of relevant funding to providers from 2018-19 onwards;
- (ii) Require local authorities to have a single universal base rate for all providers by 2019-20;
- (iii) Allow local authorities to continue to provide a higher level of funding to maintained nursery schools; and

- (iv) Require local early years' formulae to have a basic hourly rate and a deprivation indicator. In addition LAs can include indicators for rurality/sparsity, flexibility, quality and a lump sum for nursery schools.

2.3 Proposed allocations 2018-19

The allocations for 2018-19 will reflect the following:

- (a) An increase in the basic hourly rate to all providers from £4.00 to £4.03;
- (b) A reduction in the nursery unit supplement from £0.53 to £0.27 per hour;
- (c) The nursery school enhanced rate to be set at £0.59 per hour, thereby maintaining the overall £4.62 per hour funding rate;
- (d) The delegation to nursery schools of responsibility for those services set out in the LA's autumn consultation to reduce central costs and help meet the required delegation percentage; and
- (e) The formula changes proposed in the LA's autumn consultation.

The impact of the changes in respect of delegated funds is set out in Table 2.

Table 2 – Proposed Early Years Delegated Allocations 2018-19

	Nursery schools	Nursery units	PVI	Total	
Proposed LA Universal hourly rate	£4.03	£4.03	£4.03	-	
Proposed LA Enhanced hourly rate	£0.59	£0.27	£0.00	-	
Proposed Overall LA hourly rate	£4.62	£4.30	£4.03	-	A
No. 3&4 year olds accessing universal hrs	666.63	3,735.67	6,188.23	10,590.53	B
No. 3&4 year olds accessing additional hrs	257.89	697.26	3,386.45	4,341.60	C
Delegated funding	£m	£m	£m	£m	
Universal allocation	1.755	9.156	14.215	25.126	= AxBx570hrs
Additional hours allocation	0.679	1.709	7.779	10.167	= AxCx570 hrs
Sub total - hourly rate allocations	2.434	10.865	21.994	35.293	
Formula supplements:					
Lump sum	0.719	0.000	0.000	0.719	
Deprivation	0.054	0.508	0.325	0.887	
Rates	0.056	0.000	0.000	0.056	
Sub total - formula supplements	0.829	0.508	0.325	1.662	
Contingency – treated as delegated	0.020	0.000	0.000	0.020	
Total delegated funding	3.283	11.373	22.319	36.975	

In the consultation with providers in the autumn term 2017, the reduction in the hourly rate for nursery units was a source of concern. However, LAs are required to have implemented a universal rate across nursery units and PVI providers by April 2019. If no change to nursery units' funding were made in April 2018, a much greater reduction would need to be applied from April 2019 and overall costs would be higher in 2018-19.

2.4 Changes to the Early Years Single Funding Formula (EYSFF)

Two formula changes, which were the subject of consultation with schools and other providers in the autumn of 2017, related to social deprivation and the timing of payments to providers. The main change to the LA's Early Years Single Funding Formula (EYSFF) is in respect of the allocation of funding for deprived pupils. The LA's consultation proposed that in future this should be on the basis of individual pupil data rather than the current proxy Index of Multiple Deprivation' (IMD), which is based on home post codes. It is proposed that the 2017-18 deprivation quantum be retained and allocated on this basis for 2018-19. Subject to confirmed census data, this would result in a deprivation multiplier for next year of £1.31 per hour, equivalent to almost £750 a year for a child receiving 570 hours of provision. The proposed multipliers for 2018-19 are shown in Table 3:

Table 3 - Proposed EYSFF multipliers 2018-19

	Nursery Schools	Nursery Units	PVI Settings
Basic Hourly Rate	£4.03	£4.03	£4.03
Enhanced Hourly Rate	£0.59	£0.27	-
Lump Sum	£89,813.79	-	-
Social Deprivation per hour	£1.31	£1.31	£1.31

The other change is in respect of the timing of payments to providers which are currently on a mix of weeks (for external providers) and terms (for schools and academies). It is intended that all providers should be paid on the basis of the number of weeks as soon as is practicable.

2.5 Pass-through requirement

The DfE's pass-through requirement expresses the delegated funding per hour as a proportion of the Early Years grant income per hour, with both the spending and income figures being net of the Maintained Nursery School grant. Based on the proposals in this report Derbyshire is expected to meet the 95% pass-through requirement as shown in Table 4 below:

Table 4 – Pass-through calculation 2018-19

	Count	Hours	
Pupil count/hours (universal) – per Table 2	10,590.53	6,036,602	
Pupil count/hours (working families) – per Table 2	4,341.60	2,474,712	
Total hours		8,511,314	A
Delegated funding per Table 2 (£m)		£36.975m	
Less funded by Maintained Nursery School Grant		-£1.178m	
Delegated costs met by universal/additional hours grant		£35.797m	B
Delegated costs per hour		£4.206	C=B/A
Core government funding rate per hour		£4.400	D
Delegated pass-through percentage		95.59%	C/D*100

The calculation shows that Derbyshire meets the 95% delegation percentage requirement for 2018-19 with a margin to cover the impact of any variation in the actual number of hours provided during the year. However, extrapolating the calculations into 2019-20, the delegation percentage will reduce to ~95.1% for that year. This deterioration is due to the lower amount that will be paid to nursery units when their current hourly rate (£4.30) is reduced to the expected universal rate of £4.09 per hour. This position will be kept under review.

2.6 Central Early Years

The delegated allocations in Table 2 would leave a balance remaining from the grant of £1.653m as shown in Table 5 below.

Table 5 – Balance of Early Years funding 2018-19

	Nursery schools	Nursery units	PVI	Total
	£m	£m	£m	£m
Delegated funding to providers per Table 2	3.283	11.373	22.319	36.975
Universal funding per Table 1				26.561
Additional hours funding per Table 1				10.889
Maintained Nursery School funding per Table 1				1.178
Total income				38.628
Balance available before central spend				1.653

Appendix 1 sets out the centrally held Early Years budgets for 2017-18. Within the total (£2.208m), £0.064m is used to fund a range of services for nursery schools, which will be met from those schools' delegated budgets from April 2018. The total central spend excluding these items is £2.144m, a sum which exceeds the balance of the grant by £0.491m.

Given the lead-in time to make significant reductions in expenditure, the above shortfall for 2018-19 will have to be met from DSG reserves. The latest estimate is that the Authority has £3.600m of uncommitted DSG balances, so the above proposals would reduce this to £3.109m. Whilst this proposal is affordable for 2018-19, it is essential that central early years spending is reduced for 2019-20 if overall costs are to remain within the available grant.

In 2019-20 the shortfall will naturally reduce due to the impact of aligning the hourly rates paid to PVI providers and nursery units. A universal rate of £4.09 per hour would increase PVI funding by around £0.328m, whilst nursery units would see a fall in their funding of £0.530m as their protected rate reduces from £4.30 to the same £4.09 per hour, a net saving of £0.202m.

Even with the impact of these changes in the hourly rates, further measures are required to close the residual shortfall, estimated to be £0.289m. Due to the requirement to meet the delegation percentage test, any further savings would have to

be met from further reductions in the central budgets in Appendix 1, including those held to support nursery schools. This will be the subject of further work with the Schools Forum and other stakeholders during 2018.

Schools Forum considered the central Early Years budgets at its meeting on 8 February 2018 and agreed that for 2018-19 the LA should be allowed to retain £2.144m centrally, underwritten as required from previous years' DSG reserves.

3. **Other Considerations** - In preparing this report, the relevance of the following factors has been considered: - prevention of crime & disorder, equality of opportunity, and environmental, health, social value, human rights, human resources, property and transport considerations.

4. **Background Papers** - Files held within Children's Services Finance.

5. **Key Decision** - Yes

6. **Call-in** - Is it required that the call-in period be waived in respect of the decisions being proposed within this report? No.

7. **Officer's Recommendations** That Cabinet:

7.1 Note the 2018-19 Early Years settlement announced by the DfE;

7.2. Agree the 2018-19 Early Years formula multipliers as set out in section 2.4;

7.3. Note that the pass-through test will be met for 2018-19;

7.4. Confirm the Early Years central budgets for 2018-19 in Appendix 1; and

7.5. Agree to underwrite the proposals in this report from previous years' DSG reserves.

Jane Parfrement

Strategic Director for Children's Services

Summary of retained Early Years Block funding 2018-19**Appendix 1**

	2017-18	2018-19	
Service	£k	£k	Service
Early Years Improvement Service	1,504	1,504	Provides support & quality review of PVI settings
Early Years SEN service	415	415	Assessment of EY children
Every Child a Talker	55	55	To meet the costs of the initiative
Early Help Offer	50	50	Contribution to reflect Early Help support to children in EY settings
Behaviour Support Service	15	0	Provision of service to nursery schools – delegated April 2018
Staffing costs (Maternity/TU/Public Duties) – nursery schools	14	0	Backfill of staff absent for these reasons – delegated April 2018
Catering – nursery schools	63	63	Cost of provision of service to nursery schools
Broadband – nursery schools	25	25	Nursery schools share of central subsidy
DBS checks – nursery schools	3	0	Estimated costs based on pupil numbers– delegated April 2018
Sports – nursery schools	2	0	Share of Sports Service costs– delegated April 2018
Capital Mtce – nursery schools	30	30	Estimated share based on pupil numbers
Licensing – nursery schools	2	2	Estimated cost for sector
Insurance – nursery schools	10	0	Notional share of corporate premiums– delegated April 2018
School Improvement	20	0	To cover nursery schools' costs formerly funded by ESG General Duties– delegated April 2018
Total	2,208	2,144	