

SCHOOLS FORUM**8th February 2018****Report of the Strategic Director for Children's Services****Early Years Block Budgets 2018-19****1. Purpose of the Report**

To seek the School Forum's views and, where required, approval to the Early Years proposed spend for 2018-19.

2. Information and Analysis**2.1 DSG Income**

The indicative 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 and the High Needs and Early Years budgets now need to be determined: 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	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
Total universal 3 & 4 year old funding (£m)	27.739
No. 3 & 4 year olds - additional 15 hours for eligible working parents	4,341.60
Additional entitlement - 3 & 4 year old hourly rate	£4.400
Total 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

The following points regarding the 2018-19 settlement are worth noting:

- (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;
- (ii) Derbyshire's rate is still protected, the "pure" national funding rate is £4.17 per hour;
- (iii) The announced quantum is based on January 2017 census data, the actual allocations will be based on a combination of January 2018 (5/12^{ths}) and January 2019 (7/12^{ths}) census information.
- (iv) 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;
- (v) 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;
- (vi) 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;
- (vii) 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.
- (viii) 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:

- An increase in the basic hourly rate to all providers from £4.00 to £4.03;
- A reduction in the nursery unit supplement from £0.53 to £0.27 per hour;
- The nursery school enhanced rate to be set at £0.59 per hour, thereby maintaining the overall £4.62 per hour funding rate;
- The delegation to nursery schools of responsibility for those services set out in section 5.1.1 of the LA's autumn consultation to reduce central costs and help meet the required delegation percentage; and
- The formula changes proposed in the LA's autumn consultation (see Section 2.4).

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 Universal hourly rate	£4.03	£4.03	£4.03	-	
Proposed Enhanced hourly rate	£0.59	£0.27	£0.00	-	
Proposed Overall 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	

The reduction in the hourly rate for nursery units was a source of concern to some providers. 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. On balance the Authority believes making the required reduction over two years rather than one is the better option.

Another concern was the additional funding received by nursery schools over and above that of nursery units and PVI providers. Whilst nursery schools do receive additional resources, these funds are met from the Maintained Nursery School Grant rather than the other income streams. Table 3 below demonstrates this point.

Table 3 – Additional funding to nursery schools 2018-19

		£m
Proposed nursery school hourly rate	£4.62	
Proposed universal hourly rate	£4.03	
Protected element paid to nursery schools	£0.59	
No. of universal and additional hours per Table 2	924.52	
No. of universal and additional hours per year x 570	526,976	
Value of above hours @ £0.59 per hour		0.311
Other delegated allocations:		
Lump sum		0.719
Rates		0.059
Contingency		0.020
Specific central spend – per Appendix 1		
Catering		0.063
Broadband		0.025
Capital maintenance		0.030
Licences		0.002
Total additional direct expenditure/funding		1.229
Maintained Nursery Schools Grant		1.178

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. Further details of both changes are provided in Appendix 1.

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 recent 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 therefore as shown in Table 4:

Table 4 - 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 the Authority intends to align as soon as practicable.

2.5 Pass-through requirement

The 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 5 below:

Table 5 – 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 passes the 95% delegation percentage requirement for 2018-19 and provides a margin for the impact of any variation in the actual number of hours provided during the year. However, using the data and extrapolating the calculation into 2019-20 suggests 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.

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 6 overleaf.

Table 6 – 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 2 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 these 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 around £3.6m of uncommitted DSG balances, so the above proposals would reduce this to circa £3.1m. Whilst this proposal is affordable for 2018-19, it is essential that central spending is reduced for 2019-20 so that overall costs remain within the available grant.

In 2019-20 the shortfall would 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.

Even with the impact of these changes in the hourly rates, further measures are required to close the residual shortfall (£0.289m) and it is likely therefore that reductions in the central budgets held to support nursery schools will need to be considered in 2019-20. Removal of the subsidies to nursery schools for broadband, catering and capital would generate a maximum saving of £0.118m which would leave a shortfall of ~£0.171m to be resolved. Due to the requirement to meet the delegation percentage test, any further savings would have to be met from reductions in the central budgets in Appendix 2.

The Authority is seeking Schools Forum approval to be allowed to hold central Early Years budgets totalling £2.144m in 2018-19, funded from the balance of the grant in Table 6 with the shortfall being met from previous years' DSG reserves. Whilst Appendix 2 gives an indication of how these funds would be allocated, the actual allocations will be closely reviewed to identify the scope for savings in 2018-19 and future years. Schools Forum will be updated on this issue later this year.

3. Other Considerations

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

4. Background Papers

Papers held in Children's Services Finance.

5. Officer's Recommendations

Schools Forum is asked to note the report and:

- 5.1 Note the 2018-19 Early Years settlement announced by the DfE;
- 5.2 Give its views on the proposed changes to the EYSFF for 2018-19 as set out in sections 2.3 and 2.4 of the report;
- 5.3 Give its views on the proposed Early Years formula multipliers for 2018-19 as set out in Table 4;
- 5.4 Note that the proposals should ensure the Authority meets the 95% delegation percentage requirement for 2018-19;
- 5.5 Approve the Authority's request to retain £2.144m centrally as set out in section 2.6 underwritten, as required, by DSG cash reserves; and
- 5.6 Note that from 2019-20 onwards centrally held budgets will have to be reduced to keep overall spending within likely grant levels and that further reports on this will be brought to the Forum later this year.

JANE PARFREMENT
Strategic Director for Children's Services

(i) Deprivation

The autumn 2017 consultation with schools and other providers proposed a change in the methodology used to allocate funding for the most deprived children. Derbyshire's current EYSFF uses the 'Index of Multiple Deprivation' (IMD) as a proxy measure to distribute deprivation funding, i.e. it uses families' home post codes, which are considered to be a good, but not perfect, indicator of deprivation. This methodology was established some years ago in the absence of any individual child based data. In the consultation it was proposed that individual child data should be used instead as this would ensure that resources were better targeted at actual need and follow the child should they change provider.

This approach was generally supported in the consultation. The deprivation totals in Table 2 of the report would be allocated using this approach and the indicative deprivation multiplier for 2018-19 would be approx. £1.31 per hour.

(ii) Payment profile

The count of Early Years hours for schools has always been weighted on the basis of 5/12^{ths} (April to August), 4/12^{ths} (September to December) and 3/12^{ths} (January to March) to recognise that the vast majority of staff are on annual contracts and therefore paid every month. In contrast, the PVI system pays providers on a 'weeks per term' basis, with the number of weeks per term varying according to Easter dates.

The LA's consultation proposed moving all providers, including schools, onto a new Early Years payment system which will make payments on the basis of the 'weeks per term'. Academies started to experience the effects of a change to 'weeks per term' from January 2018 as they moved over to the new payment system; this change recognised their status as an outside body. Due to logistical reasons, schools may not be able to transfer to the new payment system until September 2018. However, in preparation for the transfer, a change to payments based on 'weeks per term' will take effect from April 2018.

Schools and providers were asked to give their views on the proposed changes and were broadly supportive.

Summary of retained Early Years Block funding 2017-18

Appendix 2

		2017-18	
	Service	£k	
1	Early Years Improvement Service	1,504	Provides support & quality review of PVI settings, the £50k increase is a contribution to the costs of administering the additional 15 hours
2	Early Years SEN service	415	Assessment of EY children – lower recharge as a proportion of the team’s costs will now be charged to the high needs block
3	Every Child a Talker	55	To meet the costs of the initiative
4	Early Help Offer	50	Contribution to reflect Early Help support to children in EY settings
5	Behaviour Support Service	15	* Provision of service to nursery schools
6	Staffing costs (Maternity/TU/Public Duties) – nursery schools	14	* Backfill of staff absent for these reasons
7	Catering – nursery schools	63	Cost of provision of service to nursery schools
8	Broadband – nursery schools	25	Nursery schools share of central subsidy
9	DBS checks – nursery schools	3	* Estimated costs based on pupil numbers
10	Sports – nursery schools	2	* Share of Sports Service costs
11	Capital Mtce – nursery schools	30	Estimated share based on pupil numbers
12	Licensing – nursery schools	2	Estimated cost for sector
13	Insurance – nursery schools	10	* Notional share of corporate premiums
14	School Improvement	20	* To cover nursery schools costs formerly funded by ESG General Duties
	Total	2,208	
	Total less items marked *	2,144	Proposed 2018-19 central spend

* Nursery schools will be expected to meet these costs from their own budgets in 2018-19