

EAST RIDING OF YORKSHIRE COUNCIL

Report to: East Riding Schools' Forum
28 January 2021

Item No

Early Years Funding and Sector Update

Report of the Director of Children, Families and Schools and the Director of Corporate Resources

A. Executive Summary

The Education and Skills Funding Agency (ESFA) has announced that the 2021-22 hourly funding rates for the East Riding will increase from £5.28 to £5.36 for two year olds and from £4.38 to £4.44 for three and four years olds. Overall, early years block funding will increase from £18.162m in 2020-21 to £18.403m for 2021-22.

It is proposed that the hourly rate paid to providers increases from £4.07 to £4.14 for three and four year olds and from £5.28 to £5.36 for two year olds.

Of the £4.44 hourly rate to be received by the East Riding for 2021-22, £4.14 will be used on the hourly rate to providers, the equivalent of £0.13 will be used on the deprivation supplement, and £0.17 on central costs which include supplementary funding for maintained nursery schools.

As agreed by the Schools Forum in November 2018, a lump sum of £0.090m will be provided to each of the maintained nursery schools for 2021-22.

B. Corporate Priorities

Helping Children and Young People Achieve

C. Recommendations

It is recommended that the Schools Forum:

- (i) supports the proposed increase to the hourly rates from the Summer Term 2021 for all Schools and Private, Voluntary and Independent (PVI) settings.
- (ii) approves the central retention of £0.610m (3.8%).

(iii) notes the ongoing support for maintained nursery schools through the payment of supplementary funding over and above the Government allocation.

(iv) supports the proposed use of Early Years balances in the Schools reserve to provide targeted financial support to ensure the sustainability of providers.

D. Equality Implications

Equality implications have been considered and no negative impacts upon protected characteristic groups were identified.

1. Background

Funding for Maintained Nursery Schools

1.1 In 2016, the Early Years National Funding Formula consultation proposed moving to a universal base rate for all early years' providers. The DfE said that it wanted to minimise disruption and reassure maintained nursery schools on their position. The consultation put forward the provision of "supplementary funding for maintained nursery schools for at least two years" to take "account of maintained nursery schools' current costs and provide stability to the nursery school sector while they explore how to become more sustainable in the longer term."

1.2 The Schools Forum on 22 November 2018 agreed to reduce the maintained nursery school lump sum by £0.040m over the next three financial years from a lump sum of £0.130m in 2018-19 to £0.118m in 2019-20, to £0.098m in 2020-21, and finally to £0.090m in 2021-22.

Hourly Rate for two, three and four year olds

1.3 From April 2020, all providers of the free early education entitlement across schools and PVI settings receive £4.07 per hour for three and four year olds and £5.28 for two year olds.

1.4 Local authorities are able to retain an amount for central costs of up to 5% of the total three and four year old allocation. In the East Riding, the decision was taken to pass as much as possible to Schools and PVI settings resulting in a central retention of 4.1% in 2020-21.

2. Funding Announcements

2.1 On 17 December 2020, the Education and Skills Funding Agency (ESFA) announced the 2021-22 hourly funding rates for the East Riding. For two year olds, this will increase from £5.28 to £5.36. For three and four years olds this will increase from £4.38 to £4.44.

2.2 On 17 December 2020, the ESFA announced the schools budget funding settlement for 2021-22. The details of the early years block funding are as follows:

	2020-21	2021-22	Change
	£m	£m	£m
3 and 4 year old universal funding	10.582	10.727	0.145
3 and 4 year additional funding for 15 hours	5.144	5.214	0.070
2 year old funding	1.944	1.974	0.030
Early Years Pupil Premium	0.112	0.112	0.000
Supplementary Funding Maintained Nursery Schools	0.318	0.318	0.000
Disability Access	0.062	0.058	-0.004
	18.162	18.403	0.241

2.3 The settlement confirmed that local authorities can continue to retain a maximum of 5% of the funding for three and four year olds for central early years costs.

3. Funding Proposals for 2021-22

3.1 As agreed by the Schools Forum in November 2018, a lump sum of £0.090m will be provided to each of the maintained nursery schools for 2021-22.

3.2 This will require funding of £0.360m compared with the £0.318m provided in the early years block. It is proposed that the difference of £0.042m will be found from the central retention relating to three and four year olds.

3.3 It is proposed that the hourly rate paid to providers increases from £4.07 to £4.14 for three and four year olds and from £5.28 to £5.36 for two year olds.

3.4 This means that all £0.06 of the £0.06 hourly funding rate increase from the ESFA for 2020-21 is passed to providers, plus an extra £0.01. This extra £0.01 is funded by reducing the proportion of the 3 and 4 year old funding retained centrally. The central retention will represent 3.8% of the funding for 3 and 4 year olds, against the maximum allowable of 5%.

3.5 In addition, eligible schools and settings receive a deprivation supplement worth £0.467m.

3.6 To summarise, of the £4.44 hourly rate to be received by the East Riding, £4.14 will be used on the hourly rate to providers, the equivalent of £0.13 will be used on the deprivation supplement, and £0.17 on central costs.

3.7 This will mean that, of the £15.941m provided for 3 and 4 year olds, £14.864m will be used on the hourly rate to providers, £0.467m will be used on the deprivation supplement and £0.610m on central costs.

3.8 The following table represents the changes between 2020-21 and 2021-22 in the distribution of the hourly rate between payments to nursery schools, nursery classes and PVI's, deprivation and central costs.

Three and Four Year Old Funding

	2020-21 Per Hour	2020-21 £m	2020-21 %	2021-22 Per Hour	2021-22 £m	2021-22 %
Nursery Schools, nursery classes and PVI's	4.07	14.646	92.9%	4.14	14.864	93.2%
Deprivation	0.13	0.468	3.0%	0.13	0.467	2.9%
Central Costs	0.18	0.648	4.1%	0.17	0.610	3.9%
Total	4.38	15.762		4.44	15.941	

- 3.9 This central retention will represent 3.9% of the funding for 3 and 4 year olds. This is against a maximum allowable of 5%. The £0.610m will directly fund approximately 19.5 WTE posts, the maintained nursery lump sum top-up described in 3.2, the emergency childcare funding budget and a contribution towards Early Years overheads.

Central retention costs 2021-22

	£m
Staffing	0.491
Emergency Childcare funding and equipment	0.042
Maintained Nurseries	0.042
Free School Meals	0.005
Early Year Overheads	0.030
	<u>0.610</u>

- 3.10 There is currently a balance of £0.737m relating to Early Years in the Schools reserve. This balance is due to cumulative underspends on the Early Years block (Individual Schools Budget) of the Dedicated Schools Grant in previous financial years. Many providers are facing financial challenges as a consequence of the Covid-19 pandemic and the local authority has a duty to ensure that universal provision within the East Riding remains sustainable. Therefore, it is proposed that the utilisation of this reserve to provide targeted financial support to ensure the sustainability of providers be explored as a matter of urgency. Any consequential recommendations will be subject to the Council's decision making process.

4. Impact of the Pandemic

- 4.1 In East Riding a significant proportion of Early Years providers are from the Private and Voluntary sector, hence many will be classed as small to medium sized enterprises (SMEs). Like many SMEs they faced some similar challenges prior to and during the pandemic. They have also been able to access some of the support made available to SMEs generally throughout the pandemic, however there have been some differences in this when comparing an early years SME to other types of SMEs.
- 4.2 Furlough has been available to the sector, but it did not have the same criteria for Early Years providers. The reason for this is linked to the fact a proportion of their income comes from the funded early years entitlement, so in a sense could be classed as guaranteed, albeit guaranteed at a rate of £4.07/£5.28 per hour. So providers were only able to furlough staff against the proportion of their additional charged for income. When also taking into consideration managing smaller groups/bubbles of children, staffing ratios set by Ofsted and other factors to ensure a safe and as a lower risk environment as possible, providers have reported this was not always a straight forward and easy thing to manage.
- 4.3 There are also other areas of difference that it could be argued make running an early years business more complex in comparison to other small businesses. Personal Protective Equipment (PPE) will have caused additional costs for all businesses in some way shape or form. However, the cost to an early years setting has been significant in the context of continuing to educate and care for young children, similar to that of schools, where support was provided. As well as the costs of the common resources / equipment associated with the pandemic, early years providers have also at times had to manage children in 'bubbles' and carry out very thorough cleaning programmes at various points of a day, with weekly deep cleans. This makes it difficult to utilise staff across rooms as they would normally, whilst also ensuring enough staff are available to manage this additional work. Some settings have also reported that in managing bubbles/smaller groups, they have had to reconfigure space to accommodate safe working, resulting in reduced the numbers in baby rooms or further capping the numbers of children able to attend under normal circumstances below the normal staffing ratios required by Ofsted.
- 4.4 During the pandemic, one of the other key issues providers have reported via their Early Years Advisor or through East Riding provider consultation groups has been the reductions in the additional hours they charge for, as in the hours parents will pay for above either the standard 15 funded hours (for 2, 3 and 4 year olds) or the 30 hours for working households. Many parents understandably chose not to, or may have not been able to, take up their place during the Summer Term 2020 (first lockdown). Currently, for the Spring Term (current lockdown), approximately 1,100 parents elected for their child not to take up the place that was available to them for this term.
- 4.5 Prior to the pandemic, pre-schools were the part of the sector where most closures occurred. The main cause of this can be linked back to the introduction of 30 hours funded childcare for working households and the complexities this then caused for this part of the sector.

During the pandemic, 19 closures have occurred across all parts of the sector, pre-schools, nurseries and childminders. The local authority has a statutory duty to ensure there are sufficient early year's places on offer for families to access. This is assessed via its Sufficiency Assessment. This is currently being developed for the coming year 2021/22.

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