



## Briefing note

**To:** Schools Forum                      **Author:** Early Years Sub Group  
**Date:** 9 December 2015

### **Title of Briefing: Early Years Block – Dedicated Schools Grant**

#### **A. Introduction**

1. North Tyneside Schools Forum agreed to transfer the 2015/16 Early Years Block balance to offset in year pressures within the High Needs Block, at the September 2015 meeting.
2. Schools Forum also considered some of the emerging pressures on the 2016/17 Early Years Block. They agreed to establish a sub group, which would consider the 2016/17 Early Years Sub Block.
3. A group was convened that comprised representation from:
  - Children's First Nursery
  - Fieldhouse Nursery
  - Sir James Knott Nursery
  - Fordley Primary School
  - The Local Authorities Commissioning and Investment Team
4. The Group met on the 11<sup>th</sup> November 2015 to agree proposals for a sustainable Early Years Block 2016/17. The group considered:
  - The 2 Year Old Offer
  - The Flexible Free Entitlement for 3 and 4 Year Olds
  - The Flexible Free Entitlement Formula.
5. This report outlines the current position of the Early Years Block, summarises the main pressures and sets out the sub group's recommendations for the Early Years Block 2016/17.

## B.The Early Years Block 2015/16

6. The Early Years Block comprises:
- Funding for the three and four year old entitlement to 15 hours free education;
  - The early years pupil premium; and
  - Participation funding for disadvantaged two year olds.
7. The following table shows the current position of the Early Years Block:

	<b>2015/16</b>
Brought Forward	£1,964,858
Proposed transfer to High Needs Block	£1,222,685
<b>2 Year Old Offer</b>	
DSG	£1,451,362
Expenditure – forecast	£2,193,544
<b>Outturn</b>	<b>£0*</b>

\*DfE guidance states that the final allocations for the funding for two year olds will be based on 5/12 x January 2015 participation numbers plus 7/12 x January 2016 participation numbers. The adjustment payment will not be received until June 2016.

	<b>2015/16</b>
<b>Flexible Free Entitlement</b>	
DSG	£6,062,315
2014/15 DSG Adjustment	£68,000
Expenditure forecast	£6,196,426
<b>Outturn</b>	<b>£-66,111</b>

	<b>2015/16</b>
<b>Total Early Years</b>	
<b>Outturn</b>	<b>£-66,111</b>

8. In September 2015 it was projected that the outturn of the Early Years Block 2015/16 would be £1,222,685. The final position of the Early Years Block will be not be confirmed until after the January 2016 headcount.

## **C. Early Years Block 2016/17**

### **C1. The 2 Year Old Offer**

9. The Early Years Block 2015/16 includes £1,451,362 for the early education entitlement for eligible 2 year olds, which was calculated using the January 2015 headcount.
10. The amount of 2 year old funding the Authority receives from the DfE is dependent upon the number of eligible children taking up the offer.
11. This is the first year that the 2 year old funding has been calculated using a participation based model. Funding was previously calculated using a 'place based' model, which also included additional funding for capacity building activity.
12. As this is the first year of participation based funding, the final allocations for the funding for two year olds will be based on  $5/12 \times$  January 2015 participation numbers, plus  $7/12 \times$  January 2016 participation numbers and will be paid in June 2016.
13. All childcare providers in North Tyneside currently receive £4.85 per hour for delivering the 2 year old offer.
14. In November 2015 the Government announced that nationally, the average rate paid for the 2 year old offer will be £5.39. It was also announced that a national early years funding formula review will be conducted in 2016. The new rates are expected to be introduced during the 2017/18 financial year.

### **Issues**

15. North Tyneside's 2 year old funding allocation will reduce from £2,507,000 in 2014/15 to £1,451,362 in 2015/16, following the introduction of the new funding model. In previous years the 2 year funding generated a significant surplus because the DfE's place based funding model included a significant 'capacity building' element.
16. The £4.85 hourly rate that childcare providers currently receive is seen as sustainable by the sector.
17. There has been significant in year growth in the uptake of the 2 year old offer during 2015. In January 2015 the percentage of eligible children was 66%. The latest figures for November 2015 show an uptake rate of 82%.
18. As this is the first year of the participation based model the DfE will make an adjustment in July 2016 based on a  $5/12$ ths of the January 2015 pupil numbers (to cover the April 2015 to August 2015 period) and  $7/12$ ths of the January 2016 pupil numbers (to cover the September 2015 to March 2016 period). This means that the final allocations for

the funding for two year olds will be based on 5/12 x January 2015 participation numbers plus 7/12 x January 2016 participation numbers.

19. It is projected that the 2 year old offer for 2015/16 will break even, although this will not be confirmed until after the year end.

### **The Challenge**

20. To ensure the 2 year old offer budget is sustainable following the end of the place based funding model.

## **C2. Flexible Free Entitlement for 3 and 4 Year Olds**

21. Every 3 and 4 year old in England is entitled to 570 hours of free early education / childcare each year. This is known as the 'Flexible Free Entitlement'.

22. The amount of funding the authority receives for the Flexible Free Entitlement is determined by the number of children taking up their entitlement.

23. The Early Years Block 2015/16 includes £6,062,315 for the Flexible Free Entitlement.

24. The Authority also receives £160,000 for the Early Years Pupil Premium, which is paid to providers at £0.53 per hour for eligible children.

### **Issues**

25. The Flexible Free Entitlement budget has been persistently overspent.

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>Flexible Free Entitlement</b>			
Outturn	£-123,149	£-105,142	<b>-£66,111</b>

26. Take up of the 3 and 4 entitlement is high nationally and locally:

- 96% in England (January 2015)
- 99% in North Tyneside (January 2015)

### **The Challenge**

27. To address the persistent overspend on the Flexible Free Entitlement Funding.

### **C3. The Early Years Single Funding Formula**

28. The early education entitlement funding must be distributed using a locally determined, transparent formula known as the Early Years Single Funding Formula.
29. Annex A. shows North Tyneside's current Early Years Single Funding Formula.

#### **The Issues**

30. The childcare sector nationally has consistently argued that the rate paid to providers for the 3 and 4 year old entitlement does not reflect the costs of providing high quality childcare.
31. Each authority receives a different level of funding for the 3 and 4 year olds offer based on a DfE funding formula. North Tyneside receives the lowest unit of funding for the 3 and 4 old offer in the region.
32. North Tyneside pays the lowest average rate to providers of the Free, Flexible Entitlement for 3 and 4 year olds. See Annex B for detail.
33. Private, voluntary and independent sector providers face significant budgetary pressures in the year ahead. The introduction of the Living Wage in 2016 will significantly increase costs for private, voluntary and independent providers.
34. The Government acknowledged there was an issue regarding the funding of the 3 and 4 year old entitlement and established a review of the costs of providing childcare. In November 2015 it was announced that the national average hourly rate for free childcare for 3 and 4 year olds will be £4.88 including the Early Years Pupil Premium. It was also announced that a national early years funding formula review will be conducted in 2016.
35. The increase in the average rate paid to childcare providers nationally is not expected to be introduced until the 2017/18 financial year.
36. There is a risk to the sustainability to the 3 and 4 year old free, flexible entitlement if more funding is not secured for early education and childcare providers before the new rate is introduced in 2017.
37. There will be a phased reduction in the lump sum paid to the maintained nursery.

#### **The Challenge**

38. To secure the sustainability of the Flexibility Free Entitlement during 2016/17 by increasing the funding available to childcare providers.

## D. Proposals

39. The Early Years Sub Group agreed the following proposals for the Early Years Block 2016/17.

	<b>Proposal</b>	<b>Rationale</b>
<b>2 Year Old Offer</b>	1) Increase the budget by <b>£100,000</b>	To provide contingency to deal with the potential in year pressures following the introduction of the participation based funding model.
<b>Flexible Free Entitlement</b>	2) Increase the budget by <b>£75,000</b>	To tackle the persistent overspend.
<b>Early Years Single Funding Formula</b>	3) Increase the hourly base rate paid to providers of the Flexible Free Entitlement by £0.10.  This will deliver an additional £128,021 for schools and £41,627 for private, voluntary and independent providers.  This will cost <b>£170,000</b>	To secure the sustainability of the 3 and 4 year old offer ahead of the forthcoming increase in national funding rates.
<b>Other Formula</b>	4) Phased reduction in the lump sum paid to a childcare provider over three years. 2016/17 £-32,000 2017/18 £-32,000 2018/19 £-32,234	Tapered reduction to maintain sustainability of setting and sufficiency of placements within wider area.
<b>The net adjustment required is £313,000.</b>		

## E. Recommendations

40. It is recommended that Schools Forum approve the Early Years Working Group's proposals for the Early Years Block 2016/17, which would require a transfer of £313,000 from the Schools Block.

## Annex A

## North Tyneside's Early Years Single Funding Formula

<b>Early Years Single Funding Formula 2015-16</b>			<b>£0.10 Increase to Basic Hourly Rate for 3 &amp; 4 Year Old Offer</b>
<b>Factor</b>	<b>Description</b>	<b>Amount per pupil per hour (£)</b>	<b>Amount per pupil per hour (£)</b>
Basic Hourly Rate	a) Teacher Led	3.32	3.37
	b) Non Teacher Led	3.17	3.22
Deprivation	a) Highest	0.20	0.20
	b) Upper	0.15	0.15
	c) Lower	0.10	0.10
	d) Lowest	0.00	0.00
Quality	None	0.00	0.00
Flexibility Supplement	a) No flexibility	0.00	0.00
	b) Session flexibility	0.00	0.00
	c) Flexible limited opening	0.00	0.00
	d) Flexible school hours	0.25	0.25
	e) Fully flexible	0.35	0.35
Other Formula	Lump sum to maintained nursery	£96,234	
2 Year Old Offer Base Rate	Rate paid per hour for each provider type	£4.85	

Annex B

**Average Rate to Providers of the Free, Flexible Entitlement for 3 and 4 year olds**

<b>1</b>	Sunderland	£4.77
<b>2</b>	Newcastle	£4.42
<b>3</b>	South Tyneside	£4.18
<b>4</b>	Darlington	£4.12
<b>5</b>	Gateshead	£4.09
<b>6</b>	Durham	£4.00
<b>7</b>	Northumberland	£3.55
<b>8-</b>	<b>North Tyneside</b>	<b>£3.54</b>
<b>8-</b>	Middlesbrough	£3.54