

Schools Forum

Early Years 2018/19 Underspend and 2019/20 Forecast

Executive Summary

- Early Years has underspent in 2018/19 and forecasts an underspend in 2019/20
- Both years' underspends have been driven by fewer hours claimed for 3 and 4 year olds, compared to hours funded from the January census.
- There are difficulties in understanding why the January census point would be a high point in the census, therefore there is a need to review whether this is a trend.
- As more time elapses this helps identify whether a trend is emerging.
- The Early Years funding rate for 2020/21 will be made in conjunction with an Early Years working group, taking trend analysis and affordability into account.
- Discussions are ongoing for how any unspent Early Years contingency can be given back to providers in the following year as a one off lump sum.

Recommendations

1. That the Schools Forum notes the Early Years 2018/19 Underspend and 2019/20 Forecast.

Report of the Deputy Chief Executive and Director for Families and Communities, and the County Treasurer.

PART A

Why is it coming here – what decision is required?

2. The October Schools Forum requested more detail on what made up the 2018/19 underspend and the 2019/20 forecast outturn.

PART B

Context

3. Early Years funding is determined by the Early Years January census. This snapshot taken in January is grossed up to provide a full year's allocation.
4. The payments to providers are based on termly census returns from Early Year providers. Therefore, the payments to providers are based on actual claims, whereas the allocations received are based on a snapshot in time. This means the payments out will always differ to the funding received, resulting in either an under or overspend each year. These under or overspends are either contributed to, or drawn down from, DSG balances.
5. Since the NFF for Early Years was introduced in 2017/18 the allocation has been £4.30 per hour per child for 3 and 4 year olds and £5.20 per hour per child for 2 year olds. This has been the same for 2017/18, 2018/19 and 2019/20. This allocation funds

the base rate, deprivation, SEN inclusion and contingency to providers, in addition to centrally retained functions approved in November's extraordinary Forum.

6. Due to the pressures on DSG balances and the ring fencing of DSG block funding, affordability is important when setting the rates. Staffordshire are keen to set the base rate at a sustainable amount so that a reduction is not necessary in the following year.

Headlines

7. The tables in Appendix 1 show the Early Years outturn broken down by budget and Appendix 2 shows the decisions on the base rate since the NFF was introduced in 2017/18.
8. The 2018/19 underspend was £1.4m (3% under budget) prior to contingency and £2m (4% under allocation) including the unspent contingency. 2019/20 is forecast to underspend by £0.2m (0.4% under budget) before contingency. It is anticipated the 2019/20 contingency will not be needed taking the total Early Years forecast to an underspend of £0.8m (1.6% under allocation) in 2019/20.
9. The 2018/19 and 2019/20 underspend have been driven by fewer hours claimed by providers compared to hours funded from Government for 3 and 4 year olds, this includes both universal and extended hours (A total of 4% fewer hours claimed than funded in 2018/19 and 3% fewer hours claimed than funded in 2019/20). 2019/20 is the third year showing this pattern suggesting that the timing of the January census might be a high point in the census, however it remains unclear why this is the case. The Council is undertaking further analysis to try and understand this position.
10. The 2 year old funding continues to be overspent, showing that the January census continues to be a low point in the census. In 2018/19 we funded 13% more hours than we received funding for and in 2019/20 we are forecast to be funding 6% more hours than we received funding for.

Difficulties in setting the rate

11. 2017/18 was the first year of the DfE's NFF for the Early Years DSG Block, which was implemented a year earlier to the NFF for the Schools, High Needs and Central Services to Schools Blocks. The DfE's NFF brought in significant changes to how Early Year providers were to be funded in Staffordshire. The changes were:
 - Moving from variable funding rates to one universal rate for all providers.
 - Pre NFF there were variable deprivation rates, with varying criteria and thresholds to prove deprivation for different providers. This needed to be unified into one system for all.
 - Part year introduction of 30 hours from September 2017, with different eligibility criteria to the universal 15 hours. It was difficult to estimate demand; in particular how many families would be incentivised into work and switch from informal to formal childcare.

- Movement from Maintained Nurseries to Governor run, this initially caused some confusion with how providers should claim funding. Thus, making it difficult to know how much the service was truly costing.
 - January was a known low point in the census for 2 year olds which needed smoothing.
12. With such significant changes with the 3 and 4 year old funding it was difficult to perform any useful backward looking trend analysis. The DfE set the census point as January because it was considered to be the mid-point census and therefore the best time to accurately gross up a full year's worth of data. No local information inferred that the January census date for 3 and 4 year olds should either be a low point or a high point in the census. Therefore, it was assumed that for every hour we were funded, we would pay over to providers.
13. The rate was set in consultation with every nursery provider and was ratified by Informal Cabinet.

Actions taken since the NFF was introduced in 2017/18.

14. When setting the rate in 2018/19, we did not have a full year's worth of data for 2017/18 and one full term had not yet been paid with the 30 hours. The rate could be increased due to the reduction in centrally retained funding from 7% to 5% which resulted in a Base rate increase from £3.85 per hour per child to £3.93 per hour per child.
15. When setting the 19/20 rate, there was the 17/18 outturn and 18/19 forecast outturn available to review. This provided at least some historical data to perform limited trend analysis. The contingency allocation remained the same as this reflected the cost overrun for 2 year olds in 18/19, which seemed an appropriate quantum to address risks and uncertainties within the Early Years block more generally. The basic rate paid to providers increased due to a reduction in the deprivation budget. It is important to note that the deprivation payments to providers did not reduce, but the total payments made were less than initially expected.

Future rates and decisions

16. Due to the underspend in 18/19 the council is looking at mechanisms to give the unspent contingency back to providers as a one off lump sum. If the 19/20 contingency underspends the council will look at ways to return this to providers.
17. If the underspend continues with the 3 and 4 year olds it could be concluded that this is a high point in the census for Staffordshire. It is unknown why this would be the case. With an increase in the rate nationally (8p per child per hour for 2020/21) and assuming this position in the January census is a high point there is an opportunity to increase the funding rate. The Council is in process of setting up Early Years workshop for future year rate setting. Areas to review include:
- Base Rate
 - Deprivation funding
 - Contingency funding

18. This could help nursery settings address the additional cost pressures resulting from minimum wage increases (ranging from a 3.6% increase to a 5.4% increase), business rates and pension contributions (all businesses are now required to pay 1% on top of salaries as a pension contribution).

Report author:

Author's Name: Matt Biggs (Childcare and Sufficiency Manager) and Will Wilkes (Senior Corporate Accountant)

Ext. No.: 01785 854 554 and 01785 278157

Early Years Block Underspends

	2018/19			% Hours claimed vs government funded	Fore cast 2019/20			% Hours claimed vs government funded
	Budget £m	Actual £m	Variance £m		Budget £m	Actual £m	Variance £m	
3&4 year old entitlement	38.9	37.4	-1.5	-4%	39.6	38.6	-1.0	-3%
2 yr old entitlement	5.0	5.6	0.6	+13%	5.5	5.9	0.4	+6%
Deprivation	1.0	0.6	-0.4		0.6	0.8	0.2	
Central Expenditure	2.1	2.1	0.0		2.1	2.1	0.0	
Disability Access Fund	0.2	0.1	-0.1		0.2	0.2	0.0	
Early Years Pupil Premium	0.3	0.3	0.0		0.4	0.4	0.0	
Maintained nursery school supplementary funding	0.1	0.1	0.0		0.2	0.2	0.0	
	47.6	46.2	-1.4		48.6	48.2	-0.4	
Late adjustment (Spring 19 adjustment paid in 19/20)						0.2	0.2	
Outturn	47.6	46.2	-1.4		48.6	48.4	-0.2	
De-delegated: Contingency	0.6		-0.6		0.6		-0.6	
TOTAL EARLY YEARS BLOCK	48.2	46.2	-2.0		49.2	48.4	-0.8	

Early Years Base Rate

	3 and 4 Year Olds			
	DfE rate (£ per hour per child)	SCC Base Rate (£ per hour per child)	Increase from previous year's SCC Base rate	Comments
2017/18	4.30	3.85	N/A	Rate increased varied significantly due to move from variable rates
2018/19	4.30	3.93	8p, or 2%	Increase has been made from the reduction in the central expenditure budget retained, this reduced from 7% to 5%.
2019/20	4.30	3.97	4p, or 1%	Increase has been made from the reduction in the deprivation budget

	2 Year Olds			
	DfE rate	SCC Base Rate	Increase from previous year's SCC Base rate	Comments
2017/18	5.20	5.00	15p, or 3%	
2018/19	5.20	5.00	0p, 0%	
2019/20	5.20	5.08	8p, or 1.6%	