

Summary Sheet

Council Report

Cabinet/Commissioners' Decision Making Meeting - 14th March 2016

Title

Early Education Funding Rates 2016/17

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

Ian Thomas, Strategic Director for CYPS

Report Author(s)

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Ward(s) Affected

Borough Wide

Summary

The purpose of this report is to seek agreement to increase the early education hourly rate in 2016/17 by approving additional funding from the Schools Dedicated Schools Grant (DSG) Block to be allocated to the Early Years (EY) DSG block to enable an increase in the hourly rate paid to providers. The report also seeks approval for a review of the funding formula for the three nursery schools in Rotherham to enable the funding for early education provision in the borough to be distributed more evenly and to explore whether the budgets could then be reduced in year. Rotherham's funding rate for private and voluntary providers is currently the fourth lowest in the Yorkshire and Humber region and has not been increased in real terms since 2013/14. Early education providers are about to face increased staffing costs due to the introduction of the national living wage, and some may be at risk of becoming financially unsustainable if the hourly rate paid to providers is not increased. All early education provision for 3 and 4 year olds is funded through the EY DSG block. Currently the three nursery schools receive 17.5% of the total EY DSG Block allocation to provide provision for 6.3% of the children accessing 3 and 4 year old early education places. The nursery schools have not had a review of their funding needs since around the year 2000.

Recommendations

That the Commissioner agrees to:-

- 1.1 To increase the hourly rate paid to early education providers (with the exception of Nursery Schools) from April 2016 (see Appendix 3 for increase options), by:
- Approving additional funding from the Schools DSG Block to be allocated to the Early Years DSG block to enable an increase in the hourly rate paid to providers
 - Approving a review of the Early Education Funding allocated to the three nursery schools to identify whether the funding rate is appropriate ensuring that they remain sustainable and exploring whether the budgets could then be reduced in year.

List of Appendices Included

Appendix 1 – Overview of Rotherham funding rates for different types of Early Education providers (including schools) from 2011/12 to 2015/16

Appendix 2 – Comparison of Rotherham's funding rate to other Yorkshire and Humber region LAs and national rates

Appendix 3 – Options for increasing Rotherham's early education funding rate

Appendix 4 – Potential savings to be achieved by reducing the Nursery School funding rate

Background Papers

EYFS Statutory Framework -

http://www.foundationyears.org.uk/files/2014/07/EYFS_framework_from_1_September_2014_with_clarification_note.pdf

Family and Childcare Trust cost survey 2015 -

<http://www.familyandchildcaretrust.org/sites/default/files/files/Childcare%20cost%20survey%202015%20Final.pdf#overlay-context=childcare-cost-survey-2015>

DLT meeting report Early Years and Childcare Performance Outcomes and appendices from 14th December 2015

Sufficiency report presented to DLT on 25.1.16

Childcare Bill Policy Statement December 2015 -

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/482517/Childcare_Bill_Policy_Statement_12.03.2015.pdf

Consideration by any other Council Committee, Scrutiny or Advisory Panel

TBC

Council Approval Required

No

Exempt from the Press and Public- No

Title

Early Education Funding rates 2016/17

1. Recommendations

That the Commissioner agrees to:-

- 1.2 To increase the hourly rate paid to early education providers (with the exception of Nursery Schools) from April 2016 (see Appendix 3 for increase options), by:
- Approving additional funding from the Schools DSG Block to be allocated to the Early Years DSG block to enable an increase in the hourly rate paid to providers
 - Approving a review of the Early Education Funding allocated to the three nursery schools to identify whether the funding rate is appropriate ensuring that they remain sustainable and exploring whether the budgets could then be reduced in year.

2. Background

- 2.1 In 2009/2010 the Department for Education (DfE) introduced a requirement for LAs to implement a Single Funding Formula for Early Education funding to different types of Early Education providers. It was a requirement for every LA to complete an analysis of funding requirements for different types of Early Education providers. This analysis was completed by the LA for all providers in Rotherham, with the exception of the 3 Nursery Schools. A decision was taken at this time that an analysis of Nursery School Funding requirements was not necessary as one had been undertaken around 2000 and this would suffice. The funding formula for the three nursery schools was set in 2009/10 based on maintaining their current funding levels as set in 2000. In Rotherham this resulted in 3 funding rates being set to meet the single formula funding requirements, one for nursery schools, one for nursery provision in maintained schools and one for private and voluntary providers. Appendix 1 provides an overview of Rotherham funding rates for each type of provider between 2011/12 and 2015/16.
- 2.2 The Single Funding Formula allows for a lump sum to be paid to nursery schools as well as an hourly rate. No lump sums are paid to other types of providers. If a lump sum is paid, all nursery schools within the LA must receive the same amount. The three nursery schools receive the maximum lump sum allowed by the DfE.
- 2.3 The Early Years Dedicated Schools Grant (DSG) funding from the DfE has remained static since a separate Early Years Block was introduced in 2013/14 and will remain the same for 2016/17. There has been no additional funding to increase the hourly rate since this time. The allocation of funding for supplements paid to providers was reviewed in 2013/14 and this resulted in a small increase in the basic hourly rate paid to PVI Providers from £3.53 to £3.58 in 2014/15. Some providers benefited from this change more than others, depending on whether they were in receipt of the quality supplement

(10p per hour - which was removed as it had previously been a supplement to incentivise quality and most providers met the criteria) and the lowest deprivation supplement rate (5 p per hour - which was redistributed to ensure it better targeted areas of higher deprivation). Both changes were agreed through the Early Education working group which consists of representatives from across the sector. It is a requirement to have a deprivation supplement as part of the Single Funding Formula.

- 2.4 There is no national Early Education funding rate, with LAs each setting their own rate. This results in different hourly funding rates within the region and nationally. Rotherham had the fourth lowest base funding rate for private and voluntary providers (£3.58 per hour) within the Yorkshire and Humber region in 2015/16, and funds private and voluntary providers at a rate which is below the average regional (£3.85 per hour) and national (£3.99 per hour) funding rate. All Rotherham provider types, with the exception of the three Nursery Schools, were funded below regional and national average rates in 2015/16. Appendix 2 provides an overview of Rotherham's funding rates for different provider types compared to other LAs in the Yorkshire and Humber region and national average rates.
- 2.5 The introduction of the national living wage in April 2016 will place a significant financial pressure on private and voluntary Early Education providers who have to maintain statutory minimum staffing ratios as detailed in the EYFS Statutory Framework. Such pressures could impact on the financial sustainability of some providers, who may then withdraw from the early education and childcare market. Whilst Rotherham currently meets its statutory duty to ensure there is sufficient early education and childcare places to meet demand, as detailed in the Childcare Sufficiency report presented to DLT on 25th January 2016 there is a risk this position could change if providers become financially unsustainable and withdraw from the market. Increasing the hourly early education rate in 2016/17 would reduce this risk. In the Summer term 2015 4904 3 and 4 year olds were accessing an early education funded place (2556 in the school sector, 2348 in the PVI sector).
- 2.6 The Childcare Bill currently passing through parliament includes the increase of early education and child care from 15 hours per week entitlement for all 3 and 4 year olds, to 30 hours per week entitlement for those children with working parents. The introduction of this policy in 2017 will increase the need for more available early education and childcare across Rotherham. A loss of local provision would impact on the LAs future ability to ensure sufficient early education and childcare provision is available for working parents alongside this increasing demand.
- 2.7 Rotherham currently has a strong early years profile as evidenced through the DLT meeting report Early Years and Childcare Performance Outcomes of 14th December 2015. This ensures that the Early Years and Childcare service in partnership with the full range of early years and childcare providers across the Borough contribute to the corporate vision that every child makes the best start in life and that through the provision of high quality affordable early education and childcare parents and carers are able to access education, training and work opportunities, thus contributing to the strategic vision that every adult is

secure, responsible and empowered and that opportunities for prosperity and planning for the future are extended to all.

- 2.8 On 25th November 2015, the Chancellor announced that the government will introduce a national funding formula for early years in 2017/18. This is to ensure that funding is transparently and fairly distributed between different types of providers and different parts of the country. The government have indicated that national average funding rates for three- and four-year-olds will increase in 2017/18 from £4.56 to £4.88 per hour, including the Early Years Pupil Premium (which is paid at a rate of 53p per hour for those children who are eligible). However, if Rotherham continue to fund the nursery schools at a high rate this will mean that other providers receive rates which are lower than the average rates. The current EY DSG block funding that Rotherham receives equates to an average rate of £4.07 per hour (plus 53p for children eligible for Early Years Pupil Premium). But the actual rate paid to private and voluntary providers is £3.58 and to schools is £3.53.

3. Key Issues

- 3.1 The introduction of the national living wage will place increasing financial pressure on early education private and voluntary providers across the Borough if the hourly rate paid for early education places is not increased. This could result in the loss of some providers and thus a reduction in the provision available, which in turn may result in some areas having insufficient provision for all 3 and 4 year olds to access their early education entitlement and insufficient provision to enable parents and carers to access childcare to enable them to attend education, training and/or return to work.
- 3.2 Within the current Early Years DSG funding the early education hourly rate paid to providers can only be increased by reducing the funding to the three nursery schools. The three nursery schools currently receive Early Education funding at a significantly higher rate than other provider types (private, voluntary and school nursery class provision). No analysis of their actual funding needs has been completed since 2000, and the funding they receive is above both regional and national average funding rates for nursery schools. The three nursery schools currently receive 17.5% of the total EY DSG Block funding received by Rotherham to provide provision for 6.3% of the children accessing 3 and 4 year old early education places. Only through a review of their actual funding needs will it be possible to identify whether any funding can be released to increase the hourly rate to other provider types. An additional pressure is that there is limited capacity within the Early Years and Childcare Service to complete this review due to the significant staffing reductions within this service over the last few years, so support will be needed from the finance team to complete this review. Due to timescales it will not be possible to reduce the nursery budgets set in 2016/17 however the possibility of reducing the budget mid year could be explored, as part of the proposed review.
- 3.3 Funding from the Schools DSG Block could be moved to the Early Years DSG Block, as a one year solution for 2016/17 only, prior to the DfE review of rates during 2016/17. By increasing rates in 2016/17 this will help secure high quality

provision within the Borough that could otherwise have become financially unsustainable.

4. Options considered and recommended proposal

4.1 There are three possible options to consider in relation to this decision:

- a) Maintain the current hourly funding rate for all providers in the 2016/17 financial year
- b) Allocate additional funding from the Schools DSG Block to increase the hourly rate paid to early education providers (with the exception of Nursery Schools)
- c) Review the three nursery schools funding with the aim of releasing some funding to increase the hourly rate for other providers, but the actual amount released will depend on the outcome of the review of the nursery school funding needs to ensure they remain sustainable and could not be achieved for April 2016.

4.2 It is recommended that approval be given to increase the hourly rate paid to early education providers from April 2016 (see Appendix 3 for increase options), by:

- Approving additional funding from the Schools DSG Block to be allocated to the Early Years DSG block to enable an increase in the hourly rate paid to providers

And

- Approving a review of the Early Education Funding allocated to the three nursery schools to identify whether the funding rate is appropriate ensuring that they remain sustainable and exploring whether the budgets could then be reduced in year.

The current Single Funding Formula for nursery schools could be maintained without a review. However, with increased scrutiny being placed on LA funding rates by national organisations such as the National Day Nurseries Association (NDNA) and the Family and Childcare Trust, as well as local private providers questioning the low hourly rate paid by Rotherham, this would risk future challenge about the formula used to set the high rate paid to the nursery schools relative to national average rates. Given that a decision was taken in 2009/10 not to review the funding needed for nursery schools when this should have been completed alongside a review of other provider types to set the Single Funding Formula, there would be a risk to the LA of wider scrutiny.

5. Consultation

5.1 Consultation with the 3 Nursery Schools will be carried out as part of the review process.

6. Timetable and Accountability for Implementing this Decision

- 6.1 A decision is needed by DLT on the hourly rate for 2016/17 by the end of February in order that contracts be entered into with all providers prior to 1st April 2016.
- 6.2 A decision is needed by DLT on the review of nursery school budgets in order that the three nursery schools can be informed of and involved in this review.

7. Financial and Procurement Implications

- 7.1 The EY DSG block funding provided to the LA by the DfE is funded at an average hourly rate based on the number of 2, 3 and 4 year olds taking up an early education place. Over 99% of this funding is passported directly to providers, with approximately 0.75% held centrally to administer the payments appropriately. This percentage will be increased in 2016/17 to 1.2% held centrally to cover management of payment processes. This action was taken to more realistically reflect the costs of staff supporting the early education process with a small percent still being funded from the revenue budget.
- 7.2 Due to the three nursery schools being funded at a rate that is higher than other nursery schools regionally and nationally it is appropriate to review their funding needs to ensure they are fit for purpose.

8. Legal Implications

- 8.1 In addition to the legal requirements for robust consultation as set out in section 5 above, the Council must comply with the public sector equality duty which requires it to have due regard to the need to:
 - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

In dealing with this duty, the Council must have due regard in particular, to the need to:

- (i) remove or minimise disadvantages suffered by persons who share a relevant characteristic that are connected to that characteristic;
- (ii) take steps to meet the needs of people who share a relevant protected characteristic that are different to the needs of persons who do not share it; and
- (iii) encourage persons who share a relevant characteristic to participate in public life or any other activities where their participation is disproportionately low.

Protected characteristics include disability, age, race, sex, religion or belief, gender reassignment, marriage and civil partnership, pregnancy/maternity and sexual orientation.

9. Human Resources Implications

- 9.1 There are limited human resource implications for RMBC. The vast majority of early education providers are private and voluntary providers and schools. However, RMBC directly provides early education provision in two children's centres. For these provisions to remain sustainable they must cover all costs through the early education funding received for children they care for. If salary costs increase, but the hourly rate paid does not increase this could put these provisions at risk of not being financially sustainable.

If a review of the nursery school funding identifies they could be financially sustainable at a lower funding rate and this lower rate was implemented, this could result in the nursery schools needing to review staffing levels to ensure they are within the reduced budget allocation.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 At present the early years and childcare sector across Rotherham are effectively supporting the corporate vision:
- Every child making the best start in life

And the CYPS vision:

- Children and young people start school ready to learn for life.

However, if the funding rate does not increase to address the additional financial pressures that early years and childcare providers will face the positive contribution currently being made to these priorities could reduce.

The three nursery schools provide outstanding (as evidenced through Ofsted inspection outcomes) early education and care for many disadvantaged children. A reduction in funding for the nursery schools could impact on the quality of provision that they are able to provide.

11 Equalities and Human Rights Implications

- 11.1 Historically early years and childcare provision has been less financially sustainable in areas of higher deprivation as it is less likely that parents/carers will purchase additional childcare beyond the early education funded provision. Therefore, the additional financial pressure created through the increase in the national minimum wage and the introduction of the national living wage could disproportionately adversely impact on providers in such areas. However, in areas of higher deprivation there is more likely to be school F1/Nursery provision providing early education for 3 and 4 year olds, so this could offset this risk. But, whilst other providers are likely to be able to offer parents/carers additional paid for childcare and/or more flexible arrangements for accessing

early education provision to support access to education, training and work, only some school F1/nursery provision offers these options.

Children who attend the three nursery schools are being funded at a significantly higher rate than children attending other types of provision. By ensuring the nursery schools single funding formula is fit for purpose, and re-distributing any funding released to other provider types the gap between early education funding provided to different types of providers is narrowed.

An equality impact assessment will be undertaken which will inform the outcome of the review of nursery school budgets.

12. Implications for Partners and Other Directorates

12.1 The three nursery schools are also contracted to run children's centre services on behalf of the LA Early Help service. Whilst funding for children's centre services is from a different source than the nursery school provision, a review of funding requirements for the nursery school provision could impact on the leadership focus on children's centre activity.

13. Risks and Mitigation

13.1 There is a risk that Early Years providers become less financially sustainable and this results in providers leaving the early education market. This may lead to the LA being unable to fulfil its statutory duty to ensure sufficient early education provision for all 3 and 4 year olds. To mitigate this risk an increase in the hourly rate paid would indicate to providers that the LA are supporting them in addressing the increasing financial pressure of the introduction of the national living wage, even if the increase does not fully cover this additional cost for providers.

If the review of funding requirements identifies that the three nursery schools will receive less funding than they have historically, this may impact on their delivery model and could result in changes to their practice which may make them less likely to achieve outstanding Ofsted outcomes in the future. To support the changes to funding, the reductions could be introduced over phased period to enable changes of practice to be introduced in a planned way.

14. Accountable Officer(s)

Karen Borthwick – Assistant Director Education and Skills

Approvals Obtained from:-

Strategic Director of Finance and Corporate Services:- Vera Njegic, Principal Finance Officer

Director of Legal Services:- Neil Concannon, Service Manager – Litigation and Social Care

Head of Procurement (if appropriate):- N/A

This report is published on the Council's website or can be found at:-

<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories=>

Appendix 1 – Overview of Rotherham funding rates for different types of providers 2011/12 to 2015/16

Rotherham Early Education Funding Hourly Rates

	2011/12	2012/13	2013/14	2014/15	2015/16
PVI Providers	£3.40	£3.40	£3.53	£3.58	£3.58
Schools	£3.30	£3.30	£3.53	£3.53	£3.53
Nursery Schools hourly rate	£6.40	£6.40	£6.40	£6.40	£6.40
Nursery Schools annual lump sum payment					
Arnold	£177,708	£179,485	£182,000	£175,000	£175,000
Aughton	£209,409	£211,503	£182,000	£175,000	£175,000
Rawmarsh	£177,708	£179,485	£182,000	£175,000	£175,000
Quality Supplement – all schools / providers who met eligibility criteria	10p	10p	10p	£0.00	£0.00
Deprivation Rate – all schools / providers depending on annual analysis of post code of children attending	5/10/15p	5/10/15p	5/10/15p	10/15p	10/15p

The current EY DSG Block rate that Rotherham receives equates to an average rate of £4.07 per pupil per hour. This is currently split (in line with the agreed Single Funding Formula) to the above amounts for different provider types.

Appendix 2 – Comparison of Rotherham’s funding rate to other Yorkshire and Humber region LAs and national rates: 2015/16

Local Authority	Base Rate PVI	Base Rate Schools	Base Rate Nursery Schools	Annual Lump Sum paid to each Nursery School	Deprivation	Quality	Flexibility
York	£3.38	£3.38	£3.38	tbc	40p		
North East Lincs	£3.43	3.06 - £3.1	£3.80	tbc	5 / 10p		
Hull	£3.56	£3.52	£3.56	tbc	0 - 26p		
Rotherham	£3.58	£3.53	£6.40	£175k	10/15p	£0.00	£0.00
Barnsley	£3.59		no nursery schools	N/A	46p		
Calderdale	£3.78	£3.78	no nursery schools	N/A	87p		
Doncaster	£3.78		no nursery schools	N/A	32p		23p
Leeds	£3.80			tbc	75p		
Sheffield	£3.82			tbc	30p		
North Lincs	£3.90	£3.90	no nursery schools	N/A	42p	20 - 35p	50p
Wakefield	£3.91	£3.91	£6.76	£0.00	15p		
Kirklees	£4.19	£4.19	£4.19	£142k	26p		
Bradford	£4.63	£4.13	£5.71	£0.00			
North Yorkshire	3.62 - £5.6	£4.16	£5.67	£32k	3 - 57p		
East Riding				tbc			
Average Base Rate	£3.85	£3.74	£4.34				
National Average Rates*	£3.99*	£4.22*	£7.19*				

*Average National rates include the base rate and supplements for each provider type

Please note Rotherham nursery schools each receive the maximum lump sum allowable by the DfE (currently £175,000 per year). Therefore where lump sum data is not available for other LAs it cannot exceed that which is paid to Rotherham nursery schools.

Appendix 3 – Options for Increasing Rotherham’s Early Education Funding Rate

The following calculations are based on total hours delivered in 2014/15 and therefore represent an indication of the additional funding required to meet 2016/16 delivery

Option A: Approximate cost of increasing Rotherham hourly rate to Yorkshire and Humber average

	PVI	Schools	Total
2015/16 Y&H average hourly base rate	£3.85	£3.74	
Difference between Y&H average base rate and current Rotherham base rate	27p per hour	21p per hour	
Total cost to increase Rotherham base rate to Y&H rate	£238,033	£222,415	£460,448

The above calculation assumes that the Nursery School rates are maintained at £6.40 per hour plus £175k lump sum each

Option B: Approximate cost of increasing Rotherham hourly rate by 10p / hour and 15p / hour

	PVI	Schools	Total
2015/16 Y&H average hourly base rate	£3.85	£3.74	
Rotherham hourly base rate if increased by 10p per hour	£3.68	£3.63	
Rotherham hourly base rate if increases by 15p per hour	£3.73	£3.68	
Total cost to increase Rotherham rate by 10p / hour	£88,160	£105,912	£194,072
Total cost to increase Rotherham rate by 15p / hour	£132,240	£158,868	£291,108

The above calculation assumes that the Nursery School rates are maintained at £6.40 per hour plus £175k lump sum each

Appendix 4 - Potential Savings to be Achieved by Reducing Nursery School Funding Rates:

The following table highlights the potential savings that could contribute to an increase for schools, private and voluntary providers in the future if the Nursery Schools budgets are reduced:

	Potential Savings
Total Nursery School budget reduced by 5%	£83,122
Total Nursery School budget reduced by 10%	£166,244
Nursery Schools paid at Y&H average rate of £4.34 per hour plus £175k lump sum*	£381,829

*National Schools Funding Guidance may restrict a reduction in the hourly rate to a maximum of 1.5% a year. The same reduction as applying the Y&H average nursery rate of £4.34 could be achieved by the following alternative:

	Potential Savings
Nursery Schools hourly rate reduced by 1.5% (£6.39) and lump sum reduced to £56,027 each	£381,829