**Report to Hartlepool Schools’ Forum 11 October 2019**

**From Early Years Task and Finish Group**

# Item 6: Dedicated Schools Grant – Early Years Block 2 Year Old Entitlement Review

1. **Introduction**

1.1 Schools’ Forum reviewed a report at their meeting on 21 June 2019 that introduced the issue of a funding shortfall against 2 year old entitlement within the Early Years Block.

1.2 Forum Members will recall that a Task and Finish Group was established at the meeting to better understand the reasons for the funding shortfall and to assess options available for dealing with the financial pressure.

1.3 Appendix 1 to this report outlines the analysis completed by the Task and Finish Group and their associated findings to date.

1.4 This report presents initial thinking from the Task and Finish Group on potential options for dealing with the funding shortfall for consideration by Schools’ Forum, along with a suggested timeline for any change.

1.5 The final decision on how to deal with the funding shortfall rests with Children’s Services Committee who will be fully briefed on the results of this consultation with Schools’ Forum.

**2. Background**

2.1 Since 2016/17, spending against the Early Years National Funding Formula has returned a year-end underspend that has been taken to DSG reserves.

2.2 Although the overall historic position has returned an underspend, expenditure against 2 year old entitlements has overspent during the same period. As underspending against 3-4 year old provision has exceeded overspending on 2 year old provision, the overall financial position has resulted in a contribution to DSG reserves at year-end.

2.3 Forum Members will recall that the hourly rate for 3-4 year old provision was restructured in 2019/20 to remove discretionary supplements and increase the base rate payable to all providers. The key reason for this decision was to increase the certainty of payments to providers in order meet the 95% pass-through rate required in the regulations.

2.5 As a result of the hourly rate change (effective from 1 April 2019), a significant underspend against 3-4 year old provision is unlikely in 2019/20. Therefore, covering a 2-year old funding shortfall by underspending against 3-4 year old provision in 2019/20 is not expected to be feasible.

2.6 Based on latest projections for compliance with the 95% pass-through rate, it is expected that 2019/20 will be the first year since the introduction of the Early Years National Funding Formula that the Council will overspend and return a deficit against DSG funding.

**3. Summary of Task and Finish Group Findings**

3.1 Appendix 1 to this report documents the areas of review by the Task and Finish Group, along with work completed to explore possible mitigation of the 2 year old funding shortfall.

3.2 The key findings of the Task and Finish Group can be summarised as:

* Unlike the Schools Block, Early Years funding from government is based on 2 census points and is adjusted in-year. Funding for 2019/20 is based on 5/12ths of the January 2019 census volumes and 7/12ths of the January 2020 volumes;
* Hartlepool is within the top-10 local authorities nationally for early years participation;
* 2 year old provision is largely via Private, Voluntary and Independent Providers (PVIs) ( 76% of providers and 49% of 2 year old headcount);
* Maintained school providers are paid on the basis of 3 census points per annum, whereas Academies and PVIs are paid on the basis of actual attendance (via registers). Both methods are allowed within the regulations;
* Actual payments to providers in 2018/19 were £104,718 higher than the amount of funding received from government for 2 year old provision;
* Equivalent analysis for 3-4 year old provision demonstrated that the issue is currently (and historically) restricted to 2 year old provision;
* Hartlepool is compliant with the early years census regulations and is ensuring that the process is followed to obtain the maximum government funding available;
* 5 of 9 Northern region Councils also overspent against 2 year old provision in 2018/19. The funding shortfall issue is not restricted to Hartlepool;
* Had payments to all providers been on the basis of the 3 census points as opposed to attendance, spending in 2018/19 would have reduced by £145k, thereby eliminating the overspend;
* Analysis showed a similar position for reduced spend in 2017/18 had payments been based on the 3 census points;
* PVIs are subject to different regulation, including obligations on staffing ratios and operate in a different financial environment;
* Payments to providers for 2 year old’s eligible for 11.4 hours provision are currently rounded up to 11.5 hours per week;
* Although not significant in volume, certain 2 year olds are “double funded” as a result of starting school nursery provision prior to census date and the Council’s obligation to pay a PVI provider for a 4-week notice period.

**4. Initial Proposals for Change**

4.1 The Task and Finish Group consider that the following changes could be made to the current process as “quick wins”:

1. Cease the practice of rounding up 11.4 hour payments to 11.5 hour payments. This has a very minimal impact on providers but would reduce the funding shortfall by £2.7k per annum.
2. Stop the instances of double funding. This could be achieved by ceasing the current policy for payment of a 4-week notice period to PVIs.

**5. Options for Dealing with the 2 Year Old Funding Shortfall**

5.1 If agreed, the proposals listed at section 4 of this report will help to reduce the current financial pressure, however, the amounts involved do not deal with the full issue estimated at £105k per annum (on the basis of 2018/19 volumes and eligibility).

5.2 The work completed by the Task and Finish Group suggests there are 3 options available for consideration:

1. Maintain the existing basis for provider payments, resulting in a disapplication request to cover the expected DSG deficit;
2. Lobby government, whilst supporting in-year spending from the Early Years reserve balance and continue the work of the Task and Finish Group;
3. Move the funding basis for all providers to the 3 census points as opposed to attendance.

5.3 The table below considers each of the 3 options in more detail.

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| **Option Description** | **Pro’s** | **Con’s** |
| Option 1: Maintain the existing basis for provider payments, resulting in a disapplication request to cover the expected DSG deficit | * Financial viability of PVIs is not placed at further risk; * Existing capacity for 2 year olds is not compromised * Participation rates likely to remain in top-10 nationally | * Local authority would need to act to avoid a planned DSG deficit through disapplication for a school’s block transfer |
| Option 2: Lobby government and support in-year spending from the Early Years reserve until funding changes can be implemented | * The funding shortfall issue is made visible and becomes a government issue to tackle; * If lobbying is successful, a resolution may be found through funding changes in the system; * Using reserves in the short-term allows time for the Task and Finish Group to consider a further year of data (2019/20) to ensure an informed decision; * Using reserves in the short-term allows time for the Task and Finish Group membership to be extended and for completion of a fuller impact assessment; * Financial viability of PVIs is not placed at further risk; * Existing capacity for 2 year olds is not compromised; * Participation rates likely to remain in top-10 nationally | * The timing of any funding changes is uncertain. Such changes, if successful, usually carry a significant lead time; * The current early years reserve balance stands at £0.284m. The annual call on reserves would be circa £0.105m per annum so reserves would cover 2 full financial year shortfalls only (2019/20 and 2020/21) |
| Option 3: Move the funding basis for all providers to the 3 census points as opposed to attendance | * Overspend position likely to be reversed from 2020/21 onwards; * Current administration and billing to fund PVI and academy providers based on attendance is simplified | * The financial viability of PVI providers is placed at serious risk; * PVI providers may refuse to accept eligible 2 year olds above their census point volumes; * Council is unable to place all eligible 2 year-olds as capacity becomes restricted; * Early Years participation rates reduce significantly, which may in turn risk future education outcomes for Hartlepool children; * The full effect of such a change is not yet understood in sufficient detail owing to the lack of a fuller impact assessment |

5.4 The preferred option from the Task and Finish Group, supported by the local authority, is option 2. Although the Group has been able to consider data in detail from 2018/19 and 2017/18, a further complete year of data for 2019/20 would be extremely helpful to confirm:

* The actual position at 2019/20 year-end for expenditure on 3-4 year old entitlement, including whether the 95% pass-through rate has been reached for the first time linked to the hourly rate change;
* Whether the analysis relating to a move of payment basis to 3 census points for PVIs and academies for 2017/18 and 2018/19 is replicated for a third year in 2019/20. As volumes of 2-year olds vary both on census days and during the year, a third year of data for analysis would help to ensure an informed decision.

5.5 In addition to the benefits from a further year of data for 2019/20, use of reserves in short-term, would enable:

* Time to lobby government for review of funding arrangements and preferably gain support from neighbouring authorities. The Task and Finish Group have found that 5 of 9 neighbouring authorities overspent against 2 year old entitlement in 2018/19;
* Extending membership of the Task and Finish Group and ensuring that there is appropriate representation or consultation across Early Years providers;
* Completion of a fuller impact assessment to ensure the impact on providers from any payment basis change is sufficiently understood and planned for. The impact assessment would have particular regard to the distinction of PVI provision because of the differing regulatory and financial environment.

**6. Recommendations**

6.1 Forum is recommended to:

1. note the contents of the report;
2. consider the 2 initial proposals for change outlined at section 4 of this report and decide if each proposal should be submitted to Children’s Services Committee for decision;
3. consider the 3 options outlined at section 5 of this report, noting the preferred Task and Finish Group option, and decide which would reflect the preferred option for Schools’ Forum. Children’s Services Committee will be briefed on the results of this vote when they are asked to make a final decision.

**A vote is required and ALL Schools’ Forum members are eligible to vote.**