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| **AGENDA ITEM** |

**Title of report: Early Years Block Funding 2020-21**

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**Details on who has been consulted with on this paper to date:**

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| **Executive Summary.**  This report updates Schools Forum on the 2019-20 funding arrangements for early years and presents proposals for the use of the 2020-21 early years centrally retained budget to include the oversight of provision in schools. |

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| **Recommendations.**  Forum is asked to:   1. To note the contents of the report. 2. Comment on the proposals for the Early Years Funding Formula for LBTH for 2020-21, and the additional funding streams for three and four-year olds. 3. Agree the Early Years centrally retained funding for 2020-21. |

1. **Background.**

1.1 The Early Years National Funding Formula (EYNFF) was introduced in 2017-18 and the principles remain unchanged for 2019-20. They remain the same for 2020-21 and comprise:

* A mandatory 95% ‘pass through’ of funding to schools and early years providers;
* A 5% central retention currently totalling £1.29m;
* A universal hourly base rate for eligible three and four year olds, currently £7.16; and
* A 30p deprivation supplement for eligible children based on the child’s post code using the Income Deprivation Affecting Children Index (IDACI).

1.2 The 2020-21 EYNFF Guidance for local authorities states that centrally retained early years funds could be used “…for central services or services in-kind, including specialist SEND services.” In addition, the Guidance states that Schools Forums must be consulted on changes to the local early years funding formula (i.e. calculating the payment of the hourly rate for the universal offer for three and four year olds), including agreeing the total centrally retained sum, by the end of February 2020. Locally, central services currently include:

* Staffing for the quality improvement of childcare;
* Early Years Foundation Stage Profile (EYFSP) moderation;
* Inclusion support for childcare settings in line with the SEND Code of Practice; and
* Subsidised training for all early education settings.

1.4 The above central services are (2019-20) not all funded from the retained sum.

1.5 Prior to the introduction of the EYNFF, different base rates were paid in Tower Hamlets. Payments ranged from £4.72 per hour to between £12 and £15 per hour.

1.6 Appendix A contains further information on early years funding streams, risks and the equalities impact of the update and the proposals.

## 2019-20 mid-year update

2.1 Table 1 below shows the current budget of the Early Years retained funding.

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|  | **Table 1: Forum Agreed Centrally Retained Budgets 2019-20** |  |
| **Item** | **Description** | **Budget 2019-2020** |
|  |  | **£m** |
|  | **Contribution to Service Management** | **0.058** |
|  | **Business Support, Sufficiency and QA of entitlements (PVI and criterion referenced only)** | **0.195** |
|  | **Early Help Inclusion Co-Ordinators (SEND support in PVI settings) EYFSP moderation** | **0.447** |
|  | **Workforce Development** | **0.054** |
|  | **Contribution to Nursery Schools** | **0.510** |
|  | **TOTAL** | **1.264** |

## Provisional budget for 2020-21

* 1. The provisional dedicated schools grant (DSG) for the 2020-21 EY block in LBTH, as advised by the Department for Education (DFE), last December, was £29.658m. Table 2 below breaks down this figure.

**Table 2: Provisional Early Years DSG Block for 2020-21**

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| --- | --- | --- |
| Element | Eligible Pupils | DSG Funding £m |
| Universal Entitlement | 4,668 | 21.444 |
| Extended Entitlement | 908 | 4.172 |
| 2 Year Old Entitlement | 827 | 3.101 |
| EY Pupil Premium | NA | 0.293 |
| Disability Access Fund | NA | 0.098 |
| MNS Supplementary Funding | NA | 0.550 |
| Total Early Years Block |  | 29.658 |
| 95% Passthrough |  | 24.335 |
| 5% Centrally Retained |  | 1.29 |

As in previous years, these figures are subject to change and will be finalised by the DFE in 2020 informed by the January Early Years census. Further detail and a summary of risks are included in the Appendices.

3.2 The 5% central retention for 2020-21 is provisionally £1.29m. Table 3 below sets out the 2020 – 2021 proposed use for the centrally retained budget and this report consults schools forum as required.

**Table 3: Proposed use of Centrally Retained EY budgets 2020-21**

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| **Item** | **Description** | **Budget 2020-2021** |
|  |  | **£m** |
|  | **Contribution to Service Management** | **0.06** |
|  | **Business Support: sufficiency of childcare places (PVI) and QA of criterion referenced entitlements (PVI and Schools)** | **0.34** |
|  | **Quality Assurance team (PVI quality improvement)** | **0.34** |
|  | **Early Help Inclusion Co-Ordinators (SEND support in PVI settings) and EYFSP moderation** | **0.43** |
|  | **Workforce Development** | **0.1** |
|  | **TOTAL** | **1.29** |

## 4. Items for Consultation 2020-2021

4.1 Table 2 above includes the Council’s centrally delivered legal duties with respect to early education settings. These are: monitoring of the entitlements (childcare), improving the quality of childcare, increasing the sufficiency of childcare, implementing EYFSP moderation and supporting inclusion in childcare settings in line with the SEND Code of Practice.

4.2 Budget line (b) above includes existing staff who work with childcare settings on the entitlements. For 2020-21 it also includes funds for staff able to work with schools on their early years funding and access to entitlements. This service has been requested by primary head teachers and business managers. The addition of budget line (c) above to cover the salaries for the quality improvement of childcare should also be noted. This duty is an historic Council duty in the current early years statutory requirements for LAs. These are existing early years staff, in place since 2002. This is an existing team working in childcare settings. It ought, in past years, to have been funded through the Early Years Retained Budget.

4.3 The percentage of childcare settings achieving a “Good” and “Outstanding” rating from Ofsted has increased from 49% in 2013 to 96% in 2019 as a result of this team’s work with childcare settings. Research indicates that such Ofsted gradings contribute positively to children’s outcomes.

## Conclusions

This paper updates and consults with Schools Forum on the proposed funding arrangements for early years for 2020-21 and seeks agreement on the overall central spend.

## Comments of the Chief Finance officer.

5.1 There are no proposed changes to the structure of the Early Years Funding Formula for 2020-21. Hourly rates will increase in line with the national funding formula and provisional EY DSG block figures were published last December and inform this report.

Schools forum will recall that under the EYNFF all local authorities receive notional DSG funding expressed as an hourly funding rate. The December 2019 rate was £8.06 and the council is required to passport 95% through to providers through a combination of the universal base rate and additional supplements.

5.2 Regulations impose a limit on Early Years Block budgets that can be retained centrally currently this is 5% of the total of:

* Base rate funding
* Supplements to all providers
* SEN inclusion fund

The proposed budgets that make up the 5% can only be retained with the agreement of the Schools Forum and this report seeks that approval.

5.3 Appendix B uses the template offered by the DfE to calculate compliance with the 95% pass through requirement. Currently this is at 97.5% and it confirms the council will comply with this requirement at this stage subject to any changes in funding arising from the January EY census. Further detailed analysis will continue to ensure the maximum funding available under the 5% central retention can be utilised for a range of support services for pre-school children, particularly for those from disadvantaged families.

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## Appendices

### Appendix A

### Early Years Funding

#### Early Years National Funding Formula requirements

In 2017-18, the Department for Education (DfE) introduced the Early Years National Funding Formula (EYNFF). The DfE also published the EYNFF Operational Guide (annually updated), which sets the overall framework and expectations on local authorities regarding the EYNFF.

The key elements of the Tower Hamlets funding formula, all of which now meet DfE requirements, are:

* The formula relates to both the existing 15-hour entitlement for all three- and four-year-olds and the additional 15 hours for three- and four-year-old children of eligible working parents (the 30-hour childcare policy) introduced in September 2017.
* A minimum amount of funding to be passed through to providers. From 2017-18 there were new requirements on the amount of funding for three- and four-year olds that local authorities were required pass to providers (the “pass-through” rate). This high pass-throughrequirement is intended to ensure the maximum amount of funding allocated to local authorities by the DfE reaches all registered providers equally. The pass-through funding level was set by the DfE at 93% in 2017-18 and was increased to 95% for 2018-19 and 2019-20.
* A local **universal base rate** for all types of provider, to be set by Local Authorities (LAs) by 2019-20 at the latest. LAs are required to set a universal base rate in their local single funding formulae, meaning there must be a base rate **the same for all types of provider** (nursery classes in primary schools, nursery schools, childcare providers and child minders), by no later than 1 April 2019. A universal base rate was introduced in Tower Hamlets in 2018-19, due to the disapplication. During the disapplication, rates were equalised. The underlying base rate (excluding the mandatory Deprivation Supplement, SEN Inclusion Fund allocations and Contingency) was set at £7.16 in 2018-19.
* **Supplementary funding for maintained nursery schools** (MNS**)**. Local authorities received supplementary funding in 2017-18, 2018-19 and 2019-20 for MNS. The stated aim of the DfE was to enable local authorities to protect their 2016-17 funding rates for MNS (that is, the rates that existed before the EYNFF). These monies are completely separate from the retained funding and from the EY High Needs Block.
* A mandatory **supplement for deprivation**. LAs had the freedom to choose the appropriate metric for allocating funding. Following consultation, the method of paying an enhancement on top of the Early Years Pupil Premium (EYPP) was implemented from 2017-18 in Tower Hamlets. The EYPP rate is 53p per hour and the deprivation supplement was set at 30p per hour. (The 30p supplement also applies to the additional hours, although EYPP can **only** be paid on the universal 15 hours, as set out in the regulations). No further supplements have been used, thereby maximising the base rate to providers.
* A **special educational needs (SEN) inclusion fund** for early years. All LAs are required to have SEN Inclusion Funds for all three and four-year olds with SEN who are taking up free entitlements. Where an LA has a high number of eligible two year olds, they may extend this fund to include eligible two year olds. Locally, the Council has made the decision to include eligible two year olds.

EYNFF Changes for 2019-20

The main changes from the requirements for the 2018-19 financial year (as outlined in the Operational Guidance 2019-20) were as follows:

* LAs must use a single universal base rate for all types of provider, including Maintained Nursery Schools, in their local three and four-year-old formula.
* They will continue to allocate the Maintained Nursery Schools Supplementary Funding through additional lump sums as provided separately by the government.

There is no change to the EYNFF hourly funding rate that LBTH receives from the DfE to deliver all elements of the formula. This is now set at £7.16 after the rate equalisation during the disapplication.

Local early years funding changes

* No changes to the EYNFF principles adopted in 2017-18 were proposed for subsequent years.
* The most significant financial change locally was the removal of the LA 25 hour top-up from schools from 1st April 2019. This was required by the government and was implemented during the disapplication period. Rate equalisation across all settings was introduced in parallel.
* The Maintained Nursery Schools received £475k from the Mayor’s Growth Fund (2019-20). This sum is in addition to the DFE supplementary grant (2019-20) for maintained nursery schools in the EY block of the DSG (£550k). A further sum, £510k from the EY retained block, also part of the DSG, but a different element was paid to the nursery schools in 2019-20. The nursery schools also receive the child level entitlement funding, including the deprivation supplement.

Additional funding streams for eligible three- and four-year olds are as follows:

Please note that many schools report that they are not yet able to claim for a range of early years funding streams. On 15th November at the Joint Forum financial update, school business managers strongly requested additional support for schools to increase their expertise. At present, this support cannot be offered by IEYS due to the level of resources available (2019-20) and council restrictions on the employment of temporary staff and post creation.

* The **disability access fund** (DAF). The DAF was introduced in April 2017 to support disabled children’s access to the entitlements for three- and four-year olds. Three- and four-year olds are eligible for the DAF if they are in receipt of child disability living allowance (DLA) and receive free early education. LAs must fund all types of setting providing a place for DAF-eligible children at the fixed annual rate of £615 per eligible child. (If a child receiving DAF moves setting, the new setting is not eligible to receive DAF funding until a year after the initial payment and DAF funding will not be recouped from the original setting). The DfE has confirmed that they will base final DAF funding on Department of Work and Pensions (DWP) data on DLA (adjusted for children in reception) as they found that January census data for DAF would have under-funded LAs. Any funding not directly allocated can therefore be used by the LA “on services in line with the principles and aims of DAF.” Very few schools claim their DAF entitlement and report that they need specialist advice to do this. Hence the proposal for additional staffing for IEYS in this area. At present the underspend is used as directed.
* **Early Years Pupil Premium** (EYPP). The EYPP gives providers additional funding to support disadvantaged three and four-year-old pupils, where their family meets specified criteria/ they are being looked after by a LA or have left care through specified orders. As indicated above, the national rate is 53p per hour per eligible pupil up to a maximum of 570 hours (£302.10 per year). The Operational Guide indicates that in the “small number of cases where a child is also eligible for the additional 15 hours for working parents, EYPP is paid on the universal 15 hours only, up to a total of 570 hours in the year”. The rate remains the same for 2019-20.
* There are various other government funding streams which appear to be unclaimed either by schools or by parents. For example, the £10 an hour breakfast club subsidy for the children of parents in certain training courses, the childcare subsidies available through Job Centre Plus.

2020-21 Early Years Block Funding for Tower Hamlets

The DfE will publish figures for the initial 2020-21 Early Years allocations for local authorities in December 2019. These will be updated in spring 2020, using data from the January 2020 censuses. Final funding allocations to the LA for 2020-21 will be based on 5/12th of January 2020 child numbers and 7/12th of the January 2021 child numbers. Final allocations will not therefore be known until June / July 2021 – after the end of the 2020-21 financial year. This means that there is considerable uncertainty regarding the final level of funding for 2020-21, as in previous years.

Two-Year-Old Funding

The rate of Two-year-olds is unchanged at £6.50 and is fully delegated.

Centrally Retained Funding

The EYNFF Operational Guidance outlines the percentage pass-through funding to providers that LAs are required to meet and thereby the level of funding for centrally retained funding. In 2017-18 the required pass-through rate was 93% and this was increased to 95% for 2018-19. For 2019-20 onwards the rate is 95%, meaning that up to 5% can be retained to be spent centrally and Schools Forum are required to agree the level of retained funding although not its detail. This is set by the LA and must include: “centrally retained funding for central services”. This includes staffing (Early Years and SEND), quality improvement, moderation and training related expenditure.

The calculated retained funding (based on the initial DSG figures) was £1.264m for 2019-20. The provisional retained funding for 2020-21 is estimated as £1.29m.

The universal rate for 3 and 4 year olds will remain at £7.16 per hour. This meets the government requirement to delegate 95% to providers, with the retained budget being slightly less than the 5% on initial DSG figures.

All nursery head teachers are aware that the retained element of the DSG will not be used to support their budgets 2020-21.

Central functions supported by the centrally retained budget

##### Business Support, Sufficiency and QA of entitlements (PVI and Schools)

At present there is a legally compliant funding quality assurance (QA) process in place for all childcare settings and childminders. This process is administered by the IEYS. It covers all three government entitlements:

1. Early learning for two year olds (criterion referenced);
2. The universal offer for 3 and 4 year olds (childcare settings only 2019-20), and
3. The additional hours for the working parent of three and four year olds (criterion referenced).

At present, this QA system includes schools ONLY for the two criterion referenced entitlements: early learning for two year olds and the additional hours for the working parent of three and four year olds. School Finance has asked IEYS to take on this duty from April 2020. Schools Forum was notified of this proposed development at their October 2019 meeting. Additional staffing will be required by IEYS to create, develop, implement and embed this new QA process. At this stage it is not clear whether the IEYS will be able to recruit staff to provide this support for schools.

##### Quality Assurance team (PVI quality improvement)

Judgements about the quality of learning and teaching in PVI childcare settings are made by Ofsted. The Quality Assurance team intervenes in proportion to need, based on these judgements, to improve outcomes for children and to enable the setting to regain a “Good” or “Outstanding” judgement. At present there are three settings out of 80 graded below “Good”. This is a significant improvement in quality and directly supports good health and educational outcomes for children.

##### Early Help Inclusion Co-Ordinators (SEND support in PVI settings)

SEND support in PVI settings is achieved through the work of the Area SENCOs (qualified teachers). The IEYS offers support for early years settings in the private, voluntary and independent sector (PVI). School SEND support 2-5 is provided through the Tower Hamlets Education Partnership and the Support for Learning Service. The IEYS holds accountability only for SEND in relation to providers in PVI sector: 80 childcare organisations. All children birth to five are entitled to an education provided in line with EYFS statutory requirements. Attendance at childcare or school is voluntary prior to statutory school age (term after a child’s fifth birthday.)

The Area SENCOs prioritise a range of activities to support the council in meeting its statutory duties:

* Supporting identification and planning for children with SEND in PVI providers.
* Supporting transitions into schools.
* Ensuring every PVI setting has an allocated Area Inclusion Coordinator (Area SENCO in the SEND Code of Practice) providing SEND advice.
* Ensuring contributions to EHC plans by Area Inclusion Coordinators (Area INCOs) in childcare settings are carried out within expected time limits;

##### Workforce Development

This Council continues to subsidise the costs of training for all early education settings. This is unusual, but is in line with the recommendations of national research (REPEY, EPSE) and government enquiries into quality (the Nutbrown Review). Enquiry visits to other councils indicate that a charge based on the cost of delivery reduces take up, quality and child level outcomes. Given the financial situation locally, IEYS will consult with early years settings on a possible increase in the fees for training.

##### EYFSP moderation

This process fulfils the council’s statutory duty of moderating school EYFSP results to ensure their accuracy, validity and reliability. This is carried out by a team of moderators from schools, supported by the IEYS QA teachers. Schools who agree to staff joining the moderation team receive a contribution from the retained funding towards the supply costs incurred by their school. The STA requires that at least 25% of schools are moderated by visit annually. The STA specifies the focus for the statutory visit in terms of the areas of learning and also the date of the final collection. All aspects of the EYFSP must be covered during each visit as the curriculum is holistic.

The STA also requires the IEYS to secure the agreement of Schools Forum to any local variations in approach. Locally, this means the Autumn and Spring visits. In previous years, head teachers have decided that they prefer to have early notice of any issues that may be developing in their early years’ provision and have supported the local “three point” model.

There has been a continued local improvement in levels of school readiness (EYFSP GLD) since 2013. There has been a narrowing of the attainment gap for the last three years. Success would be to continue to these upward trends. There is a focus on narrowing the gap (as measured by the EYFSP); both with respect to attainment for children with SEND but in particular the attainment gap between boys and girls which is significant at this time in LBTH.

**B. Risks and uncertainties**

There remain significant risks in setting the level of the retained funding, based on EYNFF for 2020-21. The DfE Early Years allocations will be published in December 2019, and will be updated in spring 2020, using data from the January 2020 censuses. The January 2020 census data, that drives funding for parts of both the 2019-20 and 2020-21 financial years, may not be representative of actual allocations. The January 2020 census data will determine 5/12ths of the 2020-21 Early Years Block DSG funding. Similarly, there is considerable uncertainty regarding the final level of funding for 2020-21 until after information is received regarding the January 2021 censuses (with 7/12ths of 2020-21 funding based on this). Final allocations will not be known until June / July 2021. This is, as in previous years, after the end of the 2020-21 financial year.

The levels of actual take up of places throughout the financial year, compared to the snap shot January censuses for funding, affect the final funding outcomes. The data presented is at this stage a forecast.

The majority of funding is allocated on an hourly basis so is proportional to take up on a participation model. In contrast, elements of the formula are fixed, such as the SEN Inclusion Fund and Deprivation supplement and do not therefore move proportionally to take up. If take up for the SEN Inclusion Fund and the deprivation fund are lower, this can affect the pass-through rate achieved. Adjustments by Schools Finance may be required to account for this mid-year 2019-20 and 2020-21.

### C. Equal Opportunities Implications and Impact on Equality Groups

Where the LA continues to have discretion in funding decisions, it will continue to give priority to the needs of vulnerable pupils and the Council’s aims of raising attainment, narrowing the attainment gap and safeguarding children.

It is on the basis of equalities that the proposals for 2020-21 have been made.

Appendix B: Early Years 2020-21 DSG Block Provisional Allocation

The table below follows DfE guidance on the calculation of the 95% pass through rate to all Early Years providers. It confirms the council will comply with this requirement at this stage subject to any changes in funding arising from the January EY census. Further detailed analysis will continue to ensure the maximum funding available under the 5% central retention can be utilised for a range of support services for pre-school children.

