LANCASHIRE SCHOOLS FORUM
Date of meeting 12 January 2023

Item No 13

Title: Recommendations of the Early Years Block Working Group

Appendix A refers

Executive Summary

On 1 December 2022, the Early Years Block Working Group considered a number of reports/topics, including:

- Early Years Sector Challenges – Update Report (Attached)
- Early Years Block Funding 2023/24
- MNS Deficit Summary
- PVI Finance Update

Recommendations

The Forum is asked to:

a) **Note the report from the Early Years Block Working Group held on 1 December 2022**
b) **Ratify the Working Group's recommendations.**

Background
On 1 December 2022, the Early Years Block Working Group considered a number of reports. A summary of the information presented, and the Working Group's recommendations are provided below:

1. Early Years Sector Challenges – Update Report
This report is attached to the papers as Appendix A, on the challenges faced in the Early Years sector, written by Andrew Cadman and Philippa Perks.

Phillipa the Chair of the Early Years Working Group provided a verbal update on the report at the beginning of the meeting as Cllr Rear attended to hear about the challenges within the sector.

A key purpose of this report is to provide an overview of some of the issues currently affecting the Early Years Sector. Staff recruitment and retention, funding, costs, and training are among the topics discussed in the report.

The Working Group:
a) Noted the report.

2. Early Years Block Funding 2023/24
On 17 November 2022, the Chancellor delivered his Autumn Statement 2022.

The statement made several announcements that will impact on schools and early years funding going forward.

One key expenditure element for the sector relates to increases in the Minimum wage from 1 April 2023 that were announced, which are set out below:

- National Living Wage for those aged 23 and over by 9.7% from £9.50 to £10.42 an hour
- National Minimum Wage for those aged 21-22: by 10.9% from £9.18 to £10.18 an hour
- National Minimum Wage for 18–20-year-olds by 9.7% from £6.83 to £7.49 an hour
- National Minimum Wage for 16-17-year-olds by 9.7% from £4.81 to £5.28 an hour
- The Apprentice Rate by 9.7% from £4.81 to £5.28 an hour

England's core schools budget will receive an additional £2.3 billion in 2023/24 and £2.3 billion in 2024/25. In 2024/25, the core schools budget will be £58.8 billion, £2 billion more than the budget published in Spending Review 2021, after adjusting the budgets to account for the removal of compensation for employer costs from the Health and Social Care Levy.

To date, we have not received any confirmation about these additional elements or any formal notification about 2023/24 early years block allocations for Lancashire, although there is some indication that the 2023/24 hourly rates may be announced later this month. If this is the case, information will be shared with members at the working group meeting.

Details of the final DSG settlement for 2023/24 will only be received in mid-December when we get the full 2023/24 DSG notification.

The mid-December notifications will include the final Schools Block allocations for 2023/24, which will enable updated modelling to be undertaken for that block and a final determination to be made about the availability of any headroom. Members will recall that the initial modelling of the Schools Block for 2023/24 estimated that there would not be any headroom available from April 2023.

3- and 4-year-Old Entitlement

For the 3- and 4-year-old funding for 2020/21 and 2021/22, Schools Forum agreed to transfer £2m each year from the Schools Block to the Early Years Block, to help with the pressures being faced by the sector. This meant that an additional £0.08 per hour was added to the 3- and 4-year-old base rate for these years.

Unfortunately, budget modelling for 2022/23 suggested that this transfer was no longer possible from April 2022 and the £0.08 per hour was removed from the base rate for 2022/23.

The Schools Forum was aware that the early years sector was facing considerable cost pressures. Therefore, they recommended that £1m of Schools Budget reserves was used in 2022/23 to help reduce the turbulence in the system caused by this reduction. The £1m contribution allowed £0.04 per hour and was available for 2022/23 only.

At the last working group, it was raised that the sector would be requesting the £1m of DSG reserves again for 2023/24 to help the EY sector with the current challenges they are facing.

2023/24 funding rate options are as follows **(It should be noted that after actual DfE allocations were provided after the below was presented to the working group, new rates can be found in Item 10a)**

2022/23 base rate, which included £0.04 contribution from Lancashire Schools Block	£4.48 per hour
2023/24 adjusted base rate without £0.04 contribution	£4.44 per hour
2023/24 base rate with DfE £0.21 uplift (includes TPPG uplift)	**£4.65 per hour**
2023/24 base rate with DfE £0.21 uplift and Reserve funding of £0.04	**£4.69 per hour**

An increase of 21p has been announced for Early Years Funding. This assumes no further Early Years funding will be announced. If the 4p reserve funding was not agreed for 2023/24 then this would give the 3- and 4-year-old hourly rate a net increase of 17p.

2-year-old entitlement

Lancashire is to receive an additional £0.06 per hour for the 2-year-old entitlement for 2023/24, which will be passed on to providers. This would result in a forecast Lancashire funding rate of £5.43 per hour for 2-year-olds for 2023/24.

Maintained Nursery Supplementary Funding

Lancashire is currently forecasted to receive an extra £0.49 per hour for the maintained nursery supplement. The increase in rate includes the TPPG included in the hourly rate for 2023/24, this will give a forecasted rate per hour of £4.28 from £3.67 in 2022/23.

All the above proposed 2023/24 rates are based on the DFE Early Years Consultation that was published in the Summer of 2022. We are still awaiting the outcome of this consultation

At its last meeting, the working group decided to request £1m again from DSG reserves for 2023/24. This possibility may not be available in the upcoming years, so the sector may feel a more significant impact from the lack of these additional funds. Members asked for DSG reserves to be utilised to support the additional 4p in the base rate for another year due to all the challenges they are facing.

As a result of the working group's discussions, the £1m of DSG reserves will be requested again for 2023/24 to assist the EY sector with its current challenges. The £1m contribution would allow £0.04 per hour for 2023/24 only, if it is supported by the School Forum meeting held on 12 January 2023.

The Working Group:

b) **Noted the report.**
c) **Expressed views about their current challenges and DSG reserve.**
d) **Asked for £1m of DSG reserves to be requested again for 2023/24 at the School Forum meeting held on 12 January 2023.**

3. MNS Deficit Summary and 7. PVI Finance Update

Kirsty Lister discussed both items together with the working group on current financial issues faced by Maintained Nursery Schools and Private, Voluntary and Independent providers.

Some nurseries/PVIs are in deficit and are being contacted and meetings are being arranged to help with their financial difficulties. Members were asked for their views on how to help them move forward. LA has already prepared a plan for schools to submit a recovery plan if they fall into deficit as part of the School in Financial Difficulty de-delegation they purchase from the LA, but PVIs may be forced to close. There are a few in question who have inherited deficits and it is more difficult to resolve them. All cases are individually analysed, based on their issues.

Members agreed on how it would be on a case-by-case basis and suggested that a MNS could share their headteacher in the area, this would spread the costs.

It was raised that before COVID a group of LCC Officers met with individual schools to guide and resolve this issue. It was agreed that the team needed to be regrouped. As members mentioned the quality of childcare will be affected if funds are further reduced. For example, when children's centres in previous years were forced to close, this led to a drop in the number of children in nurseries and the quality they were receiving.

In addition, a member has requested that Kirsty Lister meet with all MNS headteachers.

The Working Group:

a) **Noted the information.**

Early Years Sector Challenges – Update Report

Early Years Block Working Group, 1st December 2022

Philippa Perks – Chair of Early Years Block Working Group

Contents

Introduction

This report provides an introduction into some of the issues affecting the Early Years Sector at this current time.

Ofsted published a report on the 14th of November entitled “Best Start in Life Part 1”. In that report Ofsted states “A high quality early years education is vitally important. Children attend early years provision at a crucial developmental point in their lives. The education and care that they receive affects not only future educational attainment but also their future health and happiness.”

Despite this recognition, the sector is facing some of the biggest challenges seen for a long time. Staff recruitment and retention is at crisis point and morale in the sector is at an all-time low.

Funding is not covering running costs and some settings are either closing completely or are reducing capacity[1]. Parents of younger children are facing high childcare costs as they are subsiding places for the older children who are in receipt of government funding.

Parents of children with SEND are struggling to make informed choices of where to send their children as settings both in the maintained and PVI sectors struggle to meet demand when financial support for these children is inadequate. Furthermore, a proposed reduction in ratios will put further pressure on already overworked and underpaid qualified workforce.

Increasing energy costs and rising interest rates are placing further financial constraints on the sector and this may lead to a reduction in the quality of care and education for our 0-5’s, the exact opposite of what Ofsted deems to be essential to the development of children.

The time to act is now. Early Years is the building block for greater success as children move through the education system and Lancashire has recognised that the sector is a key partner in the delivery of the Education Strategy.

Environmental and Sustainability

Energy Costs

The impact of the energy crisis has seen many businesses cease trading as they are unable to meet the cost of their utility bills, many of which have tripled since June 2021. Early years providers are no exception to this, operating as a business but without the option of staff being able to work from home to reduce building costs.

In December 2020, LCC agreed that their ambition is to:

> *"Transition the Lancashire economy away from carbon by 2030, address the biodiversity crisis; while also protecting against poverty and improving social inclusion."*

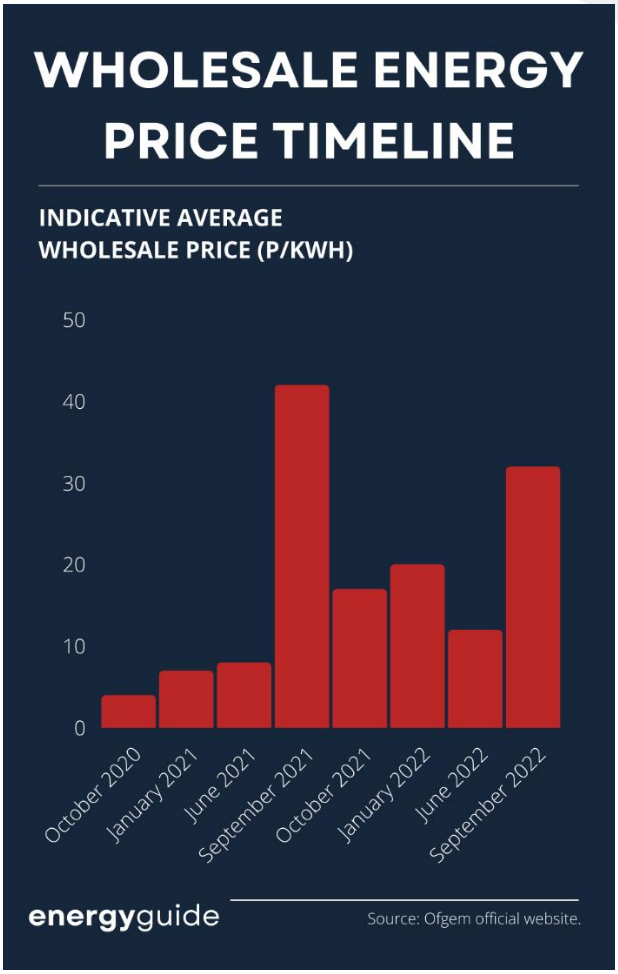
Various stakeholders met to consider ideas about future action that could be taken at the Lancashire Climate Summit in March 2022, development of new plans will be based on the information that was discussed at the summit. LCC are currently updating their climate change strategy.

Whilst LCC is committed to moving away from carbon energy reliance, the risk is a short and medium term one, where Early Years providers will not receive the support required to remain open. Business' are currently protected by a 6 month energy cap, due to end on 31st March, but are currently facing energy costs that are unaffordable.

In the short term providers would benefit from clear advice and guidance on how to reduce their energy use without taking drastic measures of turning off heating and lighting (most suitable source

[1] https://www.eyalliance.org.uk/sites/default/files/breaking_point_report_early_years_alliance_2_december_2021.pdf

of advice would need to chosen). This would help focus on any potential high energy use equipment, areas, or times of day, and assist in making actionable decisions to lower their energy consumption.



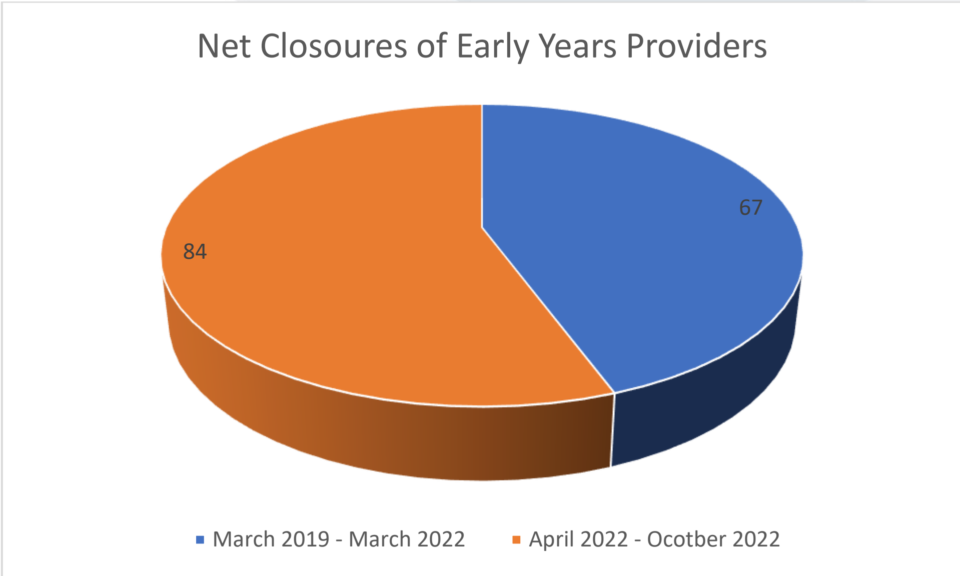
Source – Ofgem Official Website

Provider Closures

This summer, Ofsted data showed that between 1st April 2021 and 31st March 2022 there was a net overall decrease of 4,000 childcare providers in England, the largest decline in six years. There were 68,000 childcare providers registered with Ofsted on 31 March 2022, down by 4% (3,000) since the last release on31 August 2021 Since 31 August 2015, the number of providers has fallen by 22% (19,100)[2].

Whilst closures across Lancashire are lower than the national average, there have been more net closures in the last 6 months as there were in the previous 3 years

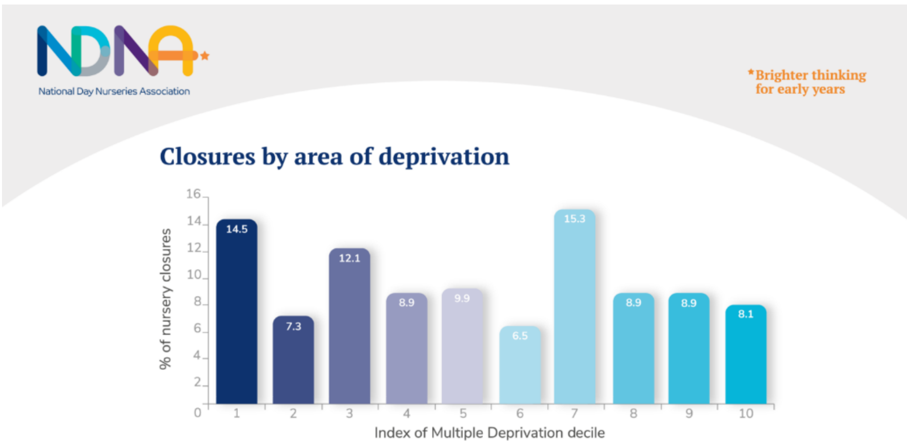
[2] https://www.gov.uk/government/statistics/childcare-providers-and-inspections-as-at-31-march-2022/main-findings-childcare-providers-and-inspections-as-at-31-march-2022



Please Note - Net Closures is the total number of providers that have closed plus the total number of new providers that have opened. The above data is based on provider types, not unique registrations (e.g. one registration might have more than 1 provider type, as may offer nursery, before school, after school and pre-school provision, so the total number of providers includes double counting).

The majority of these closures are linked to Childminders (192). When this provider type is removed from the data there is a net gain of 36 providers over the same period, the majority of which are Out of School Provision (45). The loss of childminders has an impact on flexibility and location of service offer[3]. Total number of providers (excluding childminders), there has been a net reduction of 6 when looking at nurseries/pre-schools and school based provision which is 1% in the last 8 months (or 3% since March 19; 636 now compared to 643 in 2019).

National Day Nurseries Association (NDNA) has been monitoring the closure of nurseries since the 30 hours policy was introduced in 2017. During the summer term April to July 2022, 65% more nurseries have closed compared with the same months in 2021. The greatest concern from the findings is the number of providers that are closing in areas of high deprivation, impacting most on the children and families that benefit the greatest from quality early years provisions[4]. providers in areas of deprivation have high numbers of funded children, many of whom do not have the means to pay for any additional hours or meals. This puts additional pressure on providers in those areas where children are most at need of quality early years provision



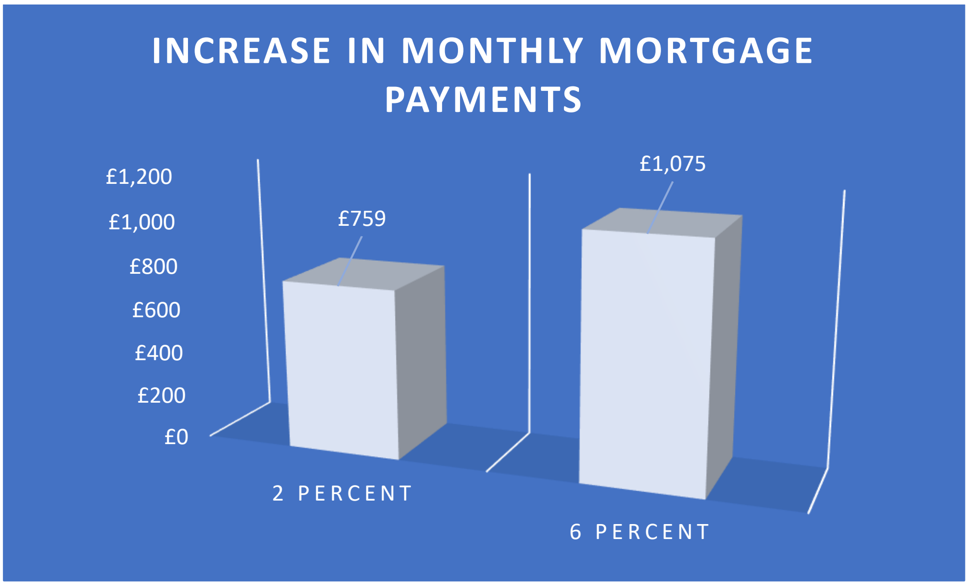
[3] https://www.pacey.org.uk/parents/choosing-great-childcare/types-of-childcare/registered-childminders/
[4] https://ndna.org.uk/childcare-and-early-years-policy/funded-places/

Interest Rates

Increase in interest rates – providers with mortgaged premises face a significant increase in monthly payments (for every £100k of mortgage there will be an extra £600 per year for each 1% interest rise, depends on length of mortgage). With interest rates predicted to peak at 6% in the next 18 months.

£150000
20 years
Current interest rate 2%
Future Interest Rate 6%
+£316 monthly change, 42% increase in monthly mortgage cost

Options for providers are limited, as interest rates rise, they will pay more if on a variable rate deal, or will expect a large increase once their current deal comes to an end. There is volatility within the market, with mortgage rate offers varying across the lenders. Early Years providers should seek professional mortgage advice to determine their best options moving forward.



SEND

Places Demand

Lancashire had 1019 new Specialist Teachers requests 2021-22 and 377 new portage requests 21-22. These are additional to those already being supported. Currently, we identify a level of input required based on the child's needs however as capacity reduces and requests for support increase, these children don't always receive what specialists deem as their required level of support as we don't have the resource to meet all demands.

Inclusion is not a statutory service for the LA – service engagement has improved in last 12 months, with much closer links with the Inclusion Team, however lack of statutory requirement can present issues with resources and funding. This demand and challenge to sufficiency is replicated across the Early Years sector where, since the data was collected for the last CSA, there is anecdotal feedback from providers that an increase in demand for places for children with SEND has left providers struggling to meet that demand.

Lancashire County Councils most recent Childcare Sufficiency Assessment[5] (CSA), was published in June 2022.

Keys points from CSA:

- Parents looking for childcare for children with Special Education Needs and or Disabilities (SEND) say there should be more childcare to meet the needs of their children.
- Provision for Children with Special Educational Needs and/or Disabilities (SEND). Childcare providers who completed our survey were asked about the provision they offer for children with special educational needs and/or disabilities. 94% of providers offer places for children with SEND. Over the last year 74% of childcare providers said demand for a SEND place has remained the same.
- These findings indicate that Lancashire currently has sufficient childcare places available for children with SEND. However, we are aware of some more localised examples where appropriate childcare is not available, in these cases, we try to support families to find a solution that meets their needs, through Lancashire's Family Information Service childcare brokerage service.

We should note there is insufficient extra funding for SEND children and many setting are now having to cap the number of SEND children they are taking in. LCC is currently exploring how accessible Inclusion Funding is and how it is used to meet emerging needs and support reasonable adjustments?

“Early Years plays a vital role in supporting children with SEND. The government now needs to wake up to the fact that this service needs to be funded properly to allow the sector to improve outcomes for all children” (Report Author).

Training

Continuous professional development (CPD) is key in the Early Years sector to develop knowledge and provide a high quality environment for all children, this includes practitioners and managers.

Lack of affordable SEND training can lead to settings not meeting individual needs and cause settings to be downgraded during inspection if they have not met the required standard set out in the Early Years Inspection Handbook. LCC is funding SENCO L3 training (first 50 students) and DfE is delivering online SENCO L3 training. Lack of quality or quantity of staff is leading to capacity challenges for some settings as they don’t have enough staff to accommodate children that require a lower ratio of staff engagement. 11 students have enrolled on the first cohort. There were over 100 applications, however, the majority of the applicants did not meet the requirements to attend the course. Evidence of previous SENCO training and attendance at SEND partnership meetings was not provided, this is a requirement due to the fact that this is a level 3 qualification and a basic understanding of SEND is required and a foundation level of knowledge is a good basis for further development of the workforce
In October, the government announced £180 million worth of funding to improve children’s development in the Early Years. Whilst this is welcomed by the sector, challenges remain regarding the capacity of providers to release staff for training, alongside there being suitable number of staff working in the sector to take advantage of the training offer.

[5] https://www.lancashire.gov.uk/council/performance-inspections-reviews/children-education-and-families/childcare-sufficiency/

Inclusion & DAF Funding

The Inclusion Fund is provided to support 3 and 4 year old children with special educational needs (SEN) who are accessing and early years funded place. Disability Access Fund (DAF) is available if a setting provides places for any 3 or 4 year olds who receive Disability Living Allowance (DLA), the setting is eligible to receive disability access funding, which is £800 per child per year.

Providers report that there are challenges in relation to the identification of Inclusion Funding and DAF funding elements within payments made to providers.

Finance team are exploring how the process can a provide clearer breakdown of the funding elements in payments.

Inspections

There have been 165 Ofsted Early Years inspections in Lancashire between 1st September 2021 and 31st August 2022. Providers feedback to their linked LA advisor regarding the inspection and how it was conducted. Some key points are:

- Feedback at the national meeting was that there is a lack of consistency in the quality of inspectors, that there were two ends of the spectrum and no middle ground in some areas. Local feedback is that this isn't so prevalent in Lancashire
- Nationally the picture is down grading of settings, currently 20% of inspections in the last year have resulted in an inadequate outcome. Comparable data for Lancashire is 7.14% (3.64% once reinspected within the same period)
- Trends in inspection reports are varied, including safeguarding, leadership, SEND, staff knowledge of children, and risk assessments

Funding

Since its introduction in April 2017, the Early Years National Funding Formula (EYNFF) has set the hourly funding rates that each local authority is paid to deliver the universal and additional entitlements for 3- and 4-year-olds. There is a separate formula that sets the hourly funding rates for 2-year-olds.

Funding provided to the sector is insufficient to meet the level of demand. This is a national and historical issue, with Lancashire receiving the lowest funding rate available for 3&4 years olds;

- 48 of 150 LA's nationally receive the lowest rate (32%)
- 10 of 23 LA's in North West receive the lowest rate (43%)
- Average funding for LA's nationally is £5.15
- Average funding for LA's nationally (excluding London) is £4.81

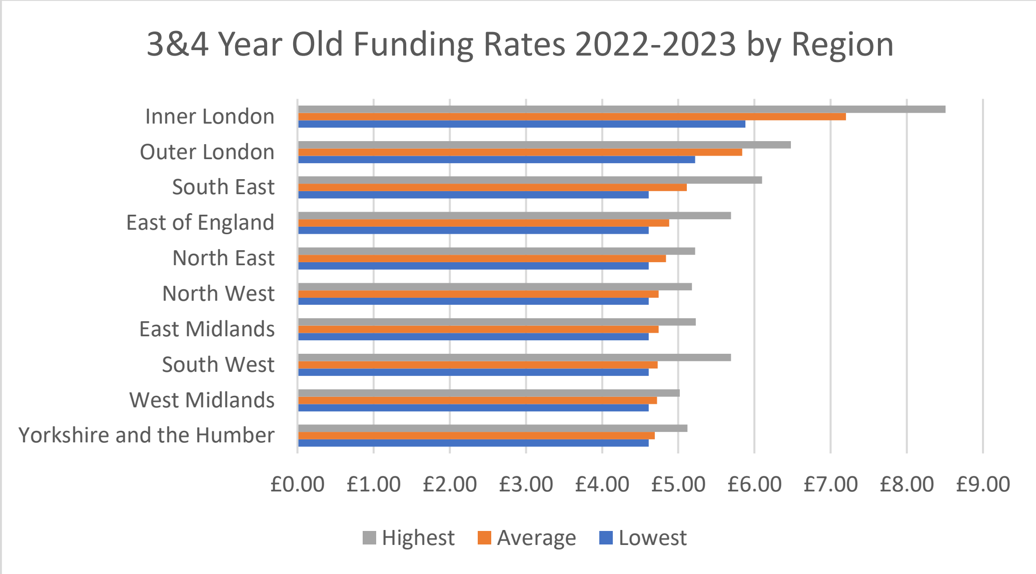
The Institute for Fiscal Studies (IFS) recently reported[6] that funding for the early years likely to fall by 8% up to 2024 as a result of faster-than-expected cost rises

On 4th July 2022 the government launched a consultation on Early Years Funding[7]

As the formulae have not been updated since they were introduced, the datasets underpinning the various factors within the formulae are now not the latest available – which therefore means that the formula is no longer targeting funding as effectively as it could be in order to meet current levels of need, which have changed over the last few years.

[6] https://ifs.org.uk/news/funding-early-years-likely-fall-8-2024-result-faster-expected-cost-rises
[7] https://www.gov.uk/government/consultations/early-years-funding-formulae

The government propose to update the data annually to be more reflective of the demands within the sector.



Workforce development

In August 2020, The Social Mobility Commission[8] published a research report; ['The Stability of the Early Years Workforce in England'](), covering national regional and organisational barriers that the early years sector is facing within its workforce.

One of the headline statements referred to the research showing that the early years workforce is becoming increasingly unstable, with staff leaving the sector not being replaced in suitable numbers.

Recruitment and retention of staff to the Early Years sector has been a challenge for many years, this has been amplified by events in recent years (covid, cost of living) that has pushed the sector to crisis point as staff seek better paid, less stressful employment outside of the sector. In December 2021, the Early Years Alliance[9] published the results of their sector wide survey on staff recruitment and retention in the early years sector in England 'Breaking Point: the impact of recruitment and retention challenges on the early years sector in England'. The survey received almost 1400 repones, with the key points being:

- More than eight in ten of settings are finding it difficult to recruit staff
- Around half have had to limit the number of, or stop taking on, new children at their setting over the six months prior to the survey
- Over a third of respondents are actively considering leaving the sector
- One in six believe that staffing shortages are likely to force their setting to close permanently within a year

The National Living Wage (NLW) will rise to £10.42 from 1 April 2023, an increase of 92 pence or 9.7%. Many settings have a wage cost of 70% and as there is an inflationary pressure of 11% on the remaining 30% of costs, the overall increase in costs is significant. This will prove challenging

[8] https://www.gov.uk/government/organisations/social-mobility-commission
[9] https://www.eyalliance.org.uk/about-us

for most, impossible for some, to absorb; especially those with no or low parental income to help bridge the gap.

Early Years Workforce Strategy is being written and will be shared with the EYBWG prior to next meeting for comment and amendments

Business support

Business Rates and VAT

Not all providers nationally pay business rates, this varies by region. Providers may find they will need to apply for Hardship relief from their district councils. In England, councils can reduce business rates bill with hardship relief. To be eligible, businesses must satisfy their council that both:

- they would be in financial difficulties without it
- giving hardship relief to them is in the interests of local people

Providers can contact their District council about their business rates bill

A recent article in the Financial Times[10] highlighted that on the average nursery will this year pay £13,267 in business rates — equivalent to 2,878 hours of government funding.

Finance Team to source information on the current procedure for District councils in relation to their business rates and how that varies across the county. Finance team to also explore the current guidelines for VAT and how that differs for PVI's and Maintained providers, and what actions could be taken to address any disparity[11], [12].

Business Support and Financial Planning

The EY team currently offer a traded service for business support (following initial free consultation). There are PVI's whose financial position is precarious and would benefit from business advice to improve their service offer. Their current financial position means that they cannot purchase the traded offer despite it being beneficial for them to receive some targeted support. This would need to be funded via any reserves currently held in the EYB of the DSG, eligibility would also be determined on various measures (yet to be decided) linked to financial position, local sufficiency and team capacity.

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[10] https://www.ft.com/content/49f5dc0e-91a9-4afb-8cda-f4aa0c1f9eea

[11] https://www.gov.uk/hmrc-internal-manuals/vat-education-manual/vatedu36900

[12] https://www.gov.uk/government/publications/revenue-and-customs-brief-10-2022-vat-business-and-non-business-activities/vat-business-and-non-business-activities