Early Years Report

Schools' Forum Date	12th November 2020
Type of Decision	For decision re EY DSG funding
Background Documents	
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Purpose of Report	Forum members are asked to consider and feedback on recommendations in relation to: • The use of the carried forward Early Years underspend to support sufficiency following the increased risks on the EY provider market due to the impact of Covid 19.
Key Recommendations	Forum members are asked to approve the recommendation that the Early Years carry forward balance of £1.169 million is used as follows: • Allocate £400,000 to support sufficiency of childcare provision in areas where settings at risk of closure impact on childcare sufficiency.(strategy outlined below) • Retain £200,000 of the underspend to provide contingency should any unforeseen costs arise. • Allocate £560,000 to the remaining providers based on the full academic year hours and adjust for deprivation factors (as last year)
Resource Implications	The Early Years block is one of the four blocks which make up the ring-fenced Dedicated Schools Grant. At the Schools Forum meeting in June 20 it was agreed that the Early Years year end balances of £1.57 million should be retained within Early Years to meet pressures within that sector. Unallocated balances after adjusting for transfers to the disability access fund, projects agreed by the Schools Forum in June 2019 and year end adjustments for differences between forecasts and actuals, total £1.16 million. This paper sets out the use of these balances.'

1. Introduction

1.1. The Dedicated Schools Grant (DSG) Early Years block funding is calculated using the numbers from the claims submitted in the January census multiplied by a nationally set rate hourly rate which currently for 2019/20 in Gloucestershire is £4.38 for three and four year olds and £5.36 for two year olds. The January census 2020 is used to fund the autumn 2019 and the spring and summer term 2020, this creates a lagged funding effect for the Autumn and Spring terms.

1.2. Funding is not utilised equally across the academic year. The number of hours for three and four year olds are lower in the autumn term and increase to be at their highest in the summer term. With the autumn term also being 14 weeks rather than 12 for the other two terms, this can lead to surplus funding being available when the lagged effect is adjusted for in the June/July of the following year.

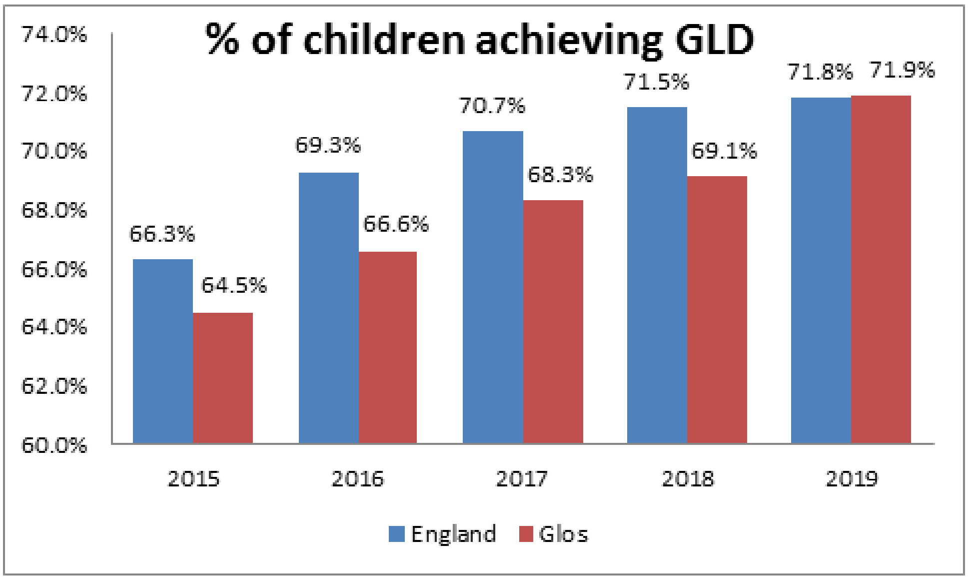
1.3. Last year schools forum agreed for this underspend to be used to allocate a one off payment to every provider based on their full year claims and adjusted for deprivation. Details of this recommendation and decision can be found in the January 2020 schools forum report.

1.4. This paper sets out the Early Years context in Gloucestershire and the current and potential future impact that Covid-19 has had on the EY market and provides options for how best to use the surplus generated by the funding conditions detailed above to ensure that we can maintain sufficient childcare provision over the coming year.

2. Current position and challenges of Early Years provision in Gloucestershire

2.1. It is difficult to overstate the importance to children of having the best possible start in life. Getting off to a good start is hugely important to their subsequent outcomes as they progress through childhood to adolescence and adulthood. Being able to access good quality, local early years provision is critical, particularly for those children from disadvantaged backgrounds. It reduces the gap in development for children and ensures all children start school reaching a good level of development.

2.2. Good progress has been made by the Early Years Service over recent years to ensure provision is both accessible and of high quality. Good quality EY provision has contributed to a significant increase in the percentage of children achieving a good level of development or ‘school readiness’, used as a vital baseline measure to understand progress as they go through school. Illustrated below



2.3. The fragility of the Early Years infrastructure has always presented a challenge to the sufficiency and quality of early education and childcare both locally and nationally. Rising costs and the low hourly childcare rate have led to nurseries struggling to recruit and retain qualified staff, and to ensure long term sustainability. As a result of this, and general financial challenges for small child care businesses, part of the EY provider sector have been at risk and many have been provided with significant Business support to maintain their viability and sustainability.

2.4. The Sutton Trust analysis of polling by the Early Years Alliance of 6,300 early years providers finds that at the height of the pandemic in April, two-thirds of early years providers were closed to all children, including 79% of pre-schools, 59% of nurseries and 41% of childminders. Of those that were closed, two-thirds were expected to be open again by June, with 20% expecting to still be shut and 15% uncertain about whether they would be able to

2.5. Gloucestershire's Childcare Sufficiency and Assessment (2019) which was approved by Cabinet on 19 November concluded that there was sufficient provision to meet the needs of children requiring childcare, with the greater majority of provision of good or outstanding quality. It also highlighted the risks to provider sustainability due to a combination of cost and funding pressures

2.6. An action plan was developed, and has been implemented, to work with local providers to ensure the market continues to develop to meet the diverse needs of children in Gloucestershire. However, the outbreak of Covid 19 in March 2020 presented an unprecedented public health emergency with society forced into lockdown and the closure of large elements of the economy. This included the closure of early year's settings other than for vulnerable children and children of critical workers. As private businesses and charitable enterprises this placed a huge financial strain on providers, many of whom were already stretched and struggling to sustain childcare businesses due to the marginal funding rates in the national offer for 2, 3 and 4yrs age children.

2.7. For some settings with a high percentage of private, fee paying children there was an additional challenge due to the wider impact of the lockdown on employment patterns and corresponding need for child care. Some businesses have been able to claim grants and most settings that closed temporarily have had access to the Government Covid job retention scheme to cover a proportion of their salary payments.

2.8. Following DfE guidance, we have continued to fund any setting that remains closed or becomes closed as a result of public health advice. Some settings report reduced occupancy as parents have chosen to keep children at home until they return to work full time. This would affect the claims they are able to make for children attending this term, but we have advised all settings that we will endeavour to award funding that broadly reflects their usual autumn term claims even for those with reduced occupancy.

2.9. As at October 2020, 680 of 702 EY settings in the county have reopened, and we are continuing to support all open settings, both in respect of advice around Covid safe practice and business support.

2.10. In June we circulated a survey to all EY providers to help us to understand the impact of the pandemic; their immediate and anticipated challenges over the coming months; and the support needed to maintain sufficient, good quality provision across the county. The survey covered a number of areas to allow us to risk assess future sustainability and the barriers that they envisaged moving forward as we manage and recover from the pandemic and its impact.

2.11. All information was collated to identify EY provision that reported cash flow and income/expenditure deficit as their primary concern. A thorough analysis of these, together with further consultation with some, has been developed to identify those settings at the highest risk of closure due to financial losses and of those we have identified specific provision at risk in areas where we will see a significant impact on sufficiency were they to close.

2.12. Of the 260 survey responses received, 168 (35%) cited cash flow/deficits as their primary concern. All income/expenditure figures submitted by providers have been checked and verified as far as is possible. For many settings, EY funding (for the 2, 3 and 4yrs age offer) is the main source of income and we are able to accurately check the amount that each setting has received.

2.13. Only 84 responses submitted deficit amounts (forecast end of year) these ranged from £1,000 - £14,000+, with 23 settings reporting a deficit of over £14,000.

2.14. Stroud and Cotswolds areas have been identified as a significant area of concern, with 13 settings identifying a significant deficit. This would present a sufficiency issue should they close with up to 400 childcare places lost.

2.15. We have only been able to assess the risk factors for those settings that submitted their survey response or provided information via PATA and commissioning teams. There may be others who have not yet been assessed, or who are not currently concerned, about their sustainability that may be impacted in coming months when further impact of Covid on demand for childcare places becomes apparent.

2.16. An analysis of the financial data submitted enabled us to grade each on their cash flow concerns, however in addition to the cited cash flow and deficits we looked at their future sustainability and how this might be achieved, or not. Providers rated Red are those that have significant deficits and/or no recovery potential. Where they predicted a possible potential recovery we have graded them Amber. It was deemed that Amber was the correct grading however there remains a risk that providers are being unduly optimistic and recovery plans may not have the desired impact.

2.17. On further analysis it is interesting to note that the majority of the group graded as AMBER are registered childminders. Although in some cases they have been identified as having a high percentage deficit there is a willingness to adapt their business model to aid recovery - however this does not mean that they may not fall into the RED category in the future and in order to ensure that parents have choice we need to consider this concern.

2.18. We have also RAG rated them in respect of risk to sufficiency i.e., if the provision closed what would the potential risk be to sufficiency in the area? In some areas closure would have a major impact on our sufficiency duties and in other areas if provision closes it may not affect our sufficiency duties and we have graded accordingly.

2.19. A number of the areas are highlighted as Amber as we currently have sufficient places - of course should a number of providers close in that area it will obviously have a greater impact and we do also need to bear in mind that the survey was not returned by all providers. We have spoken to a number of providers more recently who have highlighted concerns however did not (for whatever reason) submit the financial survey.

2.20. In total 36 settings were identified as being at high risk of closure with the potential loss of over 800 childcare places, closure of at least 12 of these settings would potentially cause significant sufficiency challenges if childcare places could not be maintained through some means.

3. Funding Options

3.8. Gloucestershire currently has early years DSG carry forward balances available of £1.169 million. There are a number of options set out below which could be applied.

1. Allocate all of the funding to providers based on academic year hours – Autumn 19 to Summer 20 adjusting for deprivation, as was agreed for the previous year's underspend.
2. Use the funding to ensure sufficient childcare by preventing the closure of those settings most at risk and/or to increase capacity at neighbouring settings
3. Retain the underspend to off-set overspend on Dedicated Schools Grant

3.9. After consideration of the options available, it is recommended that we:

- Allocate £400,000 to support sufficiency of childcare provision in areas where settings at risk of closure impact on childcare sufficiency.(strategy outlined below)
- Retain £200,000 of the underspend to provide contingency should any unforeseen costs arise.
- Allocate £560,000 to the remaining providers based on the full academic year hours and adjust for deprivation factors (as last year)

4. Rationale

4.1. It is evident from research and consultation with the sector, that Covid 19 has had a significant impact on the early year's economy. There is clear evidence of the impact on the sustainability of some local provision that may result in sufficiency challenges in some areas of the county.

4.2. Not only do we have a duty to have available sufficient childcare provision in the county but a duty to make every effort to give children the best start in life; access to good quality, local childcare is a critical factor in achieving this.

4.3. The closure of settings will not only present a sufficiency issue in respect of childcare places available in the immediate and near future but there will be a longer term impact in respect of the loss of experienced, skilled and qualified staff . The Early Years is a sector that already struggles to recruit and maintain a highly skilled workforce and any further loss will impact on the quality of provision available in the county and the subsequent early years experience and support for the children of Gloucestershire.

4.4. In order to support the EY sector moving forward it is critical that we consider the impact of COVID 19 on the local childcare market and find ways to support providers to remain sustainable and to ensure sufficiency childcare places are available in areas where settings close: to both support the children of Gloucestershire and enable the LA to meet its sufficiency duties. Areas showing a potential significant fall in childcare places due to closure, in particular those in areas of high need should be prioritised for support.

4.5. Were we to allocate funding across all Early Years Providers using the same formula as last year, the amounts awarded to settings that have been identified as at high risk of closure in areas of sufficiency risk would not be enough to minimise risk.

In relation to supporting sufficiency, it is proposed we implement a strategy to allocate the funding allocated as follows:

- Commission additional Business support for EY providers to review business plans, exploring all options to recoup loss income and to maximise opportunities for increased income/recued expenditure over the coming year.

- Carry out further financial analysis of settings who have been identified as being at risk and confirm that the impact of covid is the primary reason for financial concerns and that the business is otherwise viable and highly likely to be sustainable in future if supported in the short term. This is particular crucial for those reported forecast deficits in excess of £50K

- Prioritise those settings where analysis reflects a high risk of closure ***and*** where loss of childcare places due to closure would impact on childcare sufficiency in the area
- Provide a one off payment to those settings to prevent closure OR

  Invest in neighbouring settings to increase capacity to prevent loss of childcare places in the area