



NORTH YORKSHIRE SCHOOLS FORUM

Date of meeting:	19 th November 2018
Title of report:	Early Years Deprivation Funding
Type of report: Delete as required	For decision
Executive summary: Including reason for submission	This paper sets out a proposal to consult on changes to the funding rates and methodology used to determine the deprivation paid to early years providers for the funded early education entitlement for 3&4 year olds
Budget / Risk implications:	None
Recommendations:	That the Schools Forum endorses the recommendations set out in section 7.
Voting requirements:	N/A
Appendices:	Appendix: 1,2,3 & 4
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1.0 PURPOSE OF THE REPORT

- 1.1 This report sets out a proposal to consult on possible alternative methodologies for the allocation of the Deprivation Supplement funding for Early Years.

2.0 BACKGROUND

- 2.1 Currently the funding received in respect of 3 and 4 year olds from the DfE is £4.30 per hour, and 95% of this must be passed through to providers in the funding rate the LA pays to them.
- 2.2 In April 2017, a National Funding Formula was introduced by the government which changed the funding rate received, and also introduced the entitlement for eligible working parents to receive 30 hours of funded childcare from September 2017 (NYCC piloted this entitlement from April 2017). NYCC consulted with providers and implemented one universal basic funding rate of £3.90 for all providers regardless of type with some transitional funding for 5 months. At the time, it was agreed to undertake a later review of funding supplements once we had experience of the operation of 30 hours funded childcare. In April 2018, the universal base rate was increased by NYCC to £3.98 in line with the DfE requirement that 95% of funding is paid to providers. The £4.30 funding rate from the government is paid out as follows:

£3.98	Base rate
£0.096	Average deprivation supplement
£0.009	Sparsity supplement
£0.215	Centrally retained by the LA
£4.30	Total LA Funding Rate received from DfE

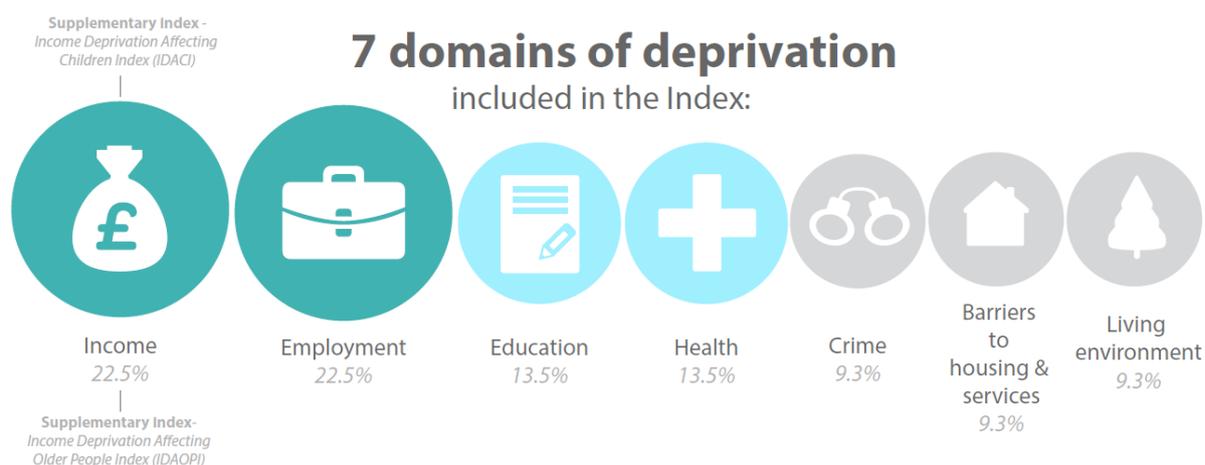
- 2.3 The deprivation paid to providers is a compulsory funding supplement which has a direct relationship to the base funding rate paid, in that the level of funding paid out in deprivation impacts on the funding available for the base funding rate paid to providers. In North Yorkshire, the Early Years deprivation is paid for all 3 & 4 year old children based on an Index of Multiple Deprivation (IMD) methodology. Every area in the country is given an IMD ranking– lowest ranking is least deprived and highest ranking is most deprived.
- 2.4 In 2016/17, the total deprivation paid out to providers was £403k, and this increased to £547k in 2017/18 following the introduction of 30 hours funded childcare.
- 2.5 We currently pay an average of just over 9p per hour in deprivation, which equates to about 2% of the £4.30 funding received from the DfE. This is split into four bands of

deprivation paying out 57p, 10p, 7p and 3p per hour based on the IMD score for a child's home post code.

- 2.6 In reality all providers receive £4.01 which represents £3.98 base rate plus 3p for the Band D minimum deprivation funding rate which is, in effect, paid for all children.

3.0 CURRENT NYCC METHODOLOGY

- 3.1 The methodology currently used by North Yorkshire is based on Index of Multiple Deprivation (IMD). The IMD combines information from the seven domain indices (which measure different types or dimensions of deprivation) to produce an overall relative measure of deprivation.



- 3.2 The current criteria, funding rates and funding profile for 2016/17 and Summer 2017, Autumn 2017 and Spring 2018 deprivation bands used in North Yorkshire are:

Band	IMD Score	Funding Per Hour	2016/17 Total Funding £k	2016/17 % of Total Funding	2017/18 Total Funding £k	2017/18 % of Total Funding
Band A	>34.17	£0.57	161.0	39.9	223.8	40.9
Band B	>20 <34.17	£0.10	73.8	18.3	97.2	17.8
Band C	>10 <20	£0.07	116.6	28.9	153.2	28.0
Band D	>10	£0.03	52.1	12.9	73.1	13.3
Total			403.5	100	547.3	100

The results in the table above indicate that the introduction of the extended entitlement in 2017/18 has had limited impact on the allocation profile of the deprivation funding supplement.

3.3 The total hours and spend paid out for each banding for Summer 2017, Autumn 2018 and Spring 2018 are as follows:-

Band	Funding Per Hour	Annual Funded Hours	Hours in each Band as % of total hours	Total Funding £k	Spend per band as % of total expenditure
Band A	£0.57	392.7k	6.55%	£223.8k	40.89%
Band B	£0.10	972.2k	16.23%	£97.2k	17.76%
Band C	£0.07	2,188.7k	36.53%	£153.2k	27.99%
Band D	£0.03	2,437.6k	40.69%	£73.1k	13.36%
Total		5,991k	100%	£547.3k	100%

4.0 OTHER METHODOLOGIES USED FOR THE IDENTIFICATION OF DEPRIVATION

4.1 Alongside the IMD, there are a number of other methodologies used by local authorities for the allocation of Early Years deprivation; these include Income Deprivation Affecting Children Index (IDACI) and Early Years Pupil Premium (EYPP)



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4.2 Income Deprivation Affecting Children Index (IDACI)

IDACI measures the proportion of children under the age of 16 in an area living in low income households (defined as families in receipt of income support, income based jobseekers allowance or pension credit, or child tax credit with an equivalised income (excluding housing benefits) below 60% of the national median before housing costs). IDACI is an area-based measure.

4.3 Early Years Pupil Premium (EYPP)

EYPP is also a measure used by some LAs for the allocation of the deprivation funding supplement as well as the specific EYPP funding element. EYPP focuses on low income families in receipt of certain benefits with the eligibility criteria being set by the government. Three and four year olds will be eligible for EYPP if the child receives the universal 15 hours entitlement and the parents are in receipt of specified benefits.

EYPP is also paid for looked after children and children who have recently left care.

Children eligible for EYPP receive 53p per hour Early Years Pupil Premium for the universal 15 hours, and these children also attract deprivation at the applicable rate.

5.0 BENCHMARKING WITH OTHER LOCAL AUTHORITIES

5.1 Benchmarking has been undertaken with ten statistical neighbours of NYCC and this indicates that a number of different deprivation funding rates and methodologies are operated. Three use IMD, five use IDACI and two use EYPP. Detailed information is shown in Appendix 1.

5.2 The DfE indicated in their response to the “Early Years Funding – Changes to funding for three and four year olds” consultation that local authorities should consider using metrics for the allocation of deprivation funding which focus on more factors than income. The DfE also make reference to the Ofsted report ‘Unknown children – destined for disadvantage?’ as a valuable source of helpful criteria.

5.3 IDACI is used by five of our statistical neighbours. This is an income only based measure, and so has limitations in meeting the DfE’s expectations in terms of using a wider set of metrics than purely income. The NYCC Performance & Outcomes Team, who are involved in school readiness and child poverty initiatives have advised that IDACI would potentially not identify a number of children who the LA would classify as deprived. Analysis of the indices of deprivation indicates that geographically fewer areas of deprivation which would be included using income only as a measure than are included when using multiple measures.



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- 5.4 Overall North Yorkshire pays 2.2% of funding received in deprivation supplements to providers. Comparisons with statistical neighbours identified that eight paid between 0 and 3% through the deprivation supplement which is in line with North Yorkshire.

6.0 POTENTIAL OPTIONS FOR THE ALLOCATION OF THE DEPRIVATION FUNDING SUPPLEMENT

- 6.1 A number of options have been explored and financial modelling undertaken to identify potential alternative allocation methodologies.

The following principles have been applied to the development of the options:

- Increasing the base rate funding to £4.01 for all providers which equates to the current base rate of £3.98 per hour plus the Band D deprivation funding rate of 3p per hour which, in effect, is paid for all children.
 - The most deprived areas within North Yorkshire, as per the IMD, are not disadvantaged by any of the proposed options for the allocation of the deprivation funding supplement. Appendix 2 provides maps highlighting the geographical deprivation profile within North Yorkshire.
 - To contain expenditure within the funding quantum of the current base rate and deprivation funding.
 - Continue to use IMD as the basis for the allocation of deprivation funding.
 - Easily understandable and easy to administer with no additional information or system requirements having regard to the value of the deprivation funding supplement £547k in the context of the overall 3 & 4 year old DSG value of £27.6m.
- 6.2 Financial modelling has been carried out to assess the impact across the seven districts within North Yorkshire if the number of rates were reduced to one, two or three, using the current IMD bandings as the basis for allocation. These options are as follows:

Current Methodology	No change. Keep the deprivation rates as they are: Band A 57p, Band B 10p, Band C 7p, Band D 3p. Retain base rate funding of £3.98 per hour.
Option 1	Reduce all bands of deprivation by 3p, thus removing the lowest band, and increasing the base funding rate accordingly by 3p on all hours. Base rate £4.01, Deprivation



	Band A 54p, Band B 7p and Band C 4p
Option 2	Three bands of deprivation Band A 57p, Band B 8p, Band C 3p, and increase in the hourly rate of 3p. Base rate £4.01
Option 3	Two bands of deprivation Band A 54p and Band B 16p, and increase of 3p in base rate. Base rate £4.01
Option 4	One band of deprivation 62p to Band A only, and increase the hourly rate by 5p. Base rate £4.03

6.3 An analysis of the options is as follows:

Current Methodology – Retain the current deprivation funding rates

- This method would keep the status quo and not facilitate the increase of the base funding rate to £4.01.

Option 1 – Reduce all funding bands of deprivation by 3p, thus removing the lowest band, and increasing the base funding rate accordingly by 3p on all hours. Base rate £4.01, Deprivation Band A 54p, Band B 7p and Band C 4p

Based on the most recent three terms funding paid out in deprivation, an increase in the hourly rate of 3p would transfer £180k from deprivation funding to base rate funding. **Key points:**

- A higher rate base rate of £4.01 for all providers
- Increase the monthly payments received by providers whilst decreasing the amount of quarterly paid deprivation, thus a small cashflow advantage
- Easier for providers to calculate their base income
- There is no additional deprivation supplement funding for areas with an IMD score of less than 10
- Overall the funding received by providers would remain unchanged

Option 2 - Three bands of deprivation: Band A 57p, Band B 8p, Band C 3p, and increase in the hourly rate of 3p. Base rate £4.01.

Key points:

- A higher rate base rate of £4.01 for all providers.
- Increase the monthly payments received by providers whilst decreasing the amount of quarterly paid deprivation, thus a small cashflow advantage,
- Easier for providers to calculate their base income
- There is no additional deprivation supplement funding for areas with an IMD score of less than 10
- A greater targeting of funding to the more deprived areas than provided by Option 1.



Option 3 – Two bands of deprivation: Band A 54p and Band B 16p, and increase of 3p in base rate. Base rate £4.01

Key points are:

- A higher rate base rate of £4.01 for all providers,
- Easier for providers to calculate their base income,
- Band B would gain 6p per hour,
- There is no deprivation funding for postcodes with an IMD score of less than 20 (current Band C or Band D),
- Greater targeting of deprivation supplement funding to the most deprived areas.

Option 4 – One band of deprivation 62p to Band A only, and increase the hourly rate by 5p. Base rate £4.03

Key points are:

- The highest proposed base rate funding of £4.03 for all providers,
- Easier for providers to calculate their base income,
- Funding is targeted at the areas of highest deprivation within the county as per IMD with an increase in the Band A (IMD score greater than 34.17) deprivation funding supplement rate of 5p per hour. 6.6% of funded hours are currently in the highest band for deprivation funding,
- Children with Band A postcodes would receive an overall increase of 10p per hour; 5p in the base rate and 5p in the deprivation funding rate
- There is no deprivation funding for post codes with an IMD score of less than 34.17 (current Bands B, C & D)
 - Children with postcodes in Band B and C would receive 5p and 2 p less overall per hour respectively due to the increase in the base rate funding being less than the reduction in deprivation funding
 - Children with postcodes in Band D would receive an overall increase of 2p per hour due to the increase in the hourly base rate being greater than the loss in deprivation funding,
- £300k would transfer from deprivation funding to the base funding rate

Appendices 3 & 4 provide a financial comparison of the options and an analysis of impact by geographical area and provider type.

7.0 Recommendation

7.1 The Schools Forum is asked to:

- Note the contents of this report and the principles used in the development of the options



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- Agree to consult with all early years providers on the options for the allocation of the deprivation funding supplement related to the funded entitlement for 3 & 4 year olds from April 2019. It is proposed that the consultation would run from 21st November 2018 to 17th December 2018. The results will be reported to the Schools Forum meeting on 24th January 2019.

Appendix 1

Methodology used by our DfE statistical neighbours

Local Authority	Methodology Used	Further details of methodology for payment of Early Years deprivation	Percentage paid as deprivation supplement
East Riding of Yorkshire	IMD	Funding based on children on October 2016 census mapped to index of Multiple Deprivation score. To ensure the allocation isn't diluted too much, only settings that get above £300 of funding are awarded the supplement.	2.5%
Warwickshire	ICACI	Use IDACI measure based on 3 Census points - applies to Nursery Schools, Nursery Classes and PVI Providers	4.4%
Cheshire East	ICACI	Deprivation – group based provision is £0.0056 per hour per % of children from the lowest 30% IDACI and £0.067 per hour where children attend from the lowest 30% IDACI	2.1%
Cheshire West and Chester	IMD	Deprivation (£0.005 per hour x percentage children in setting from deprived postcode - rate differs for each setting and this shows average per hour rate across settings)	3.7%
Rutland	IDACI	Deprivation supplement of 11p per hour paid on IDACI postcodes less than 12,993. No child met criteria 17/18 financial year and so no deprivation supplement was paid out.	0%
Central Bedfordshire	IMD	40p paid per child per hour for those in the most deprived 30% of households,	1.5%
Worcestershire	IDACI	Paid at setting level, based on IDACI	0.6%
West Berkshire	EYPP	Deprivation supplement on same basis as EYPPG	0.2%
Warrington	EYPP	EYSF 3&4 Year Old Supplement - Disadvantaged	0%
Staffordshire	IDACI	Deprivation based on number of children in each setting residing in each IDACI postcode. 20 p per hour paid on all funded hours if 10-32% of children reside in disadvantaged areas, and 30p is paid on all funded hours if 33-100% of children live in deprived areas.	2.7%