

## NDNA Report on Underspends and Contingency Budgets for Early Years Funding

### Overview

National Day Nurseries Association (NDNA) has discovered that large amounts of funding, earmarked for children's early education and care, is left underspent in three-quarters of local education authorities in England – with some being channeled into other areas of education spending. This investigation concerns funding for so-called 'free' places for three and four-year-olds including the 15 universal hours and the additional 15 hours for eligible children of working parents.

### Background

National Day Nurseries Association (NDNA) is the national charity representing children's private, voluntary and independent (PVI) nurseries across the UK. NDNA and our members want all children and families to flourish through excellent early years care and learning. The current challenges and chronic underfunding within early years means the quality of childcare is under threat. We campaign with our members to ensure the policy environment supports providers to deliver the high quality, flexible and affordable childcare that families need and that will support better outcomes for children.

Currently in England all three and four-year-olds are entitled to 15 hours of funded childcare from the term after their third birthday during school term time – 38 weeks.

In addition, any three and four-year-olds who have two parents in work - or one parent if a lone parent family – each earning between 16 hours a week at minimum wage and £100,000 a year are entitled to an additional 15 hours per week. This takes their potential entitlement to 30 hours of funded childcare for 38 weeks of the year.

Funding for these places is provided by the Department for Education (DfE) to Local Education Authorities (LEAs) through the Dedicated Schools Grant (DSG) which is made up of the Schools Block, High Needs Block and Early Years Block. The DSG is overseen at a local authority level by the council's Schools Forum whose size and membership is determined locally but will generally comprise school members and non-school members. In many areas there is one representative from PVI nursery providers but this is not always the case, resulting in a lack of voice for the sector.

The early years funding for each LEA is set by the DfE using the Early Years National Funding Formula (EYNFF), which provides each council with an hourly rate of funding per child. Budgets are then set based on the expected number of children entitled to access funded childcare through census data. Local authorities must decide how to allocate this funding to early years providers through an hourly 'base rate' with additional hourly supplements for, Special Educational Needs and Disability (SEND), children from areas of deprivation or the quality of provision all taken from this one hourly rate.

LEAs need to show that once all supplements and the base rates are factored in, early years providers receive 95% of the total early years funding for children within that area. This means up to 5% of the budget can be retained for central administration of the scheme and other early years priorities for the local council.

Since the 30-hour policy was introduced in September 2017, NDNA has been clear in highlighting the challenges nurseries face because, for the majority of providers, the funding rate given to them by the DfE and LEAs does not even cover their delivery costs. In September 2019 we recorded a 153% increase in nursery closures since 30 hours began, as part of our research with the sector. The closure figures had risen from 73 in 2016/17 to 121 in 17/18 reaching 185 in 2018/19.

While costs have risen due to minimum wage rises, business rates increases, pension contributions and inflation, these funding rates have stagnated for the majority and for some, have decreased. Following years of chronic underfunding this report presents an opportunity to review the whole system to ensure that those who work with children get the funding that is already set aside for them.

We wanted to understand more about how LEAs are using the Early Years Block, how it reaches the providers who are delivering the funded hours and what is happening to any unspent funding or how overspends were being managed. We are aware from the experience of our members working with children with additional needs that SEND support and the High Needs Budget are under severe pressure at councils across the country, with demand rising across the board.

## The Freedom of Information (FOI) questions

Under the FOI act, NDNA asked eight questions to all **153** LEAs in England in November 2019 relating to funding for the free entitlement for three and four-year-olds in 2018/19 and 2019/20,

The aim was to follow the funding through an annual cycle from planned budgets to actual expenditure and back into the planning process again. The questions therefore included whether they held any contingency for 2018/19 and if so what the amount was; whether the LEA overspent or underspent on the three to four year-old hours in 2018/19 and how they had distributed any unspent budget.

Similarly, for 2019/20, NDNA asked if the LEA had any planned contingency budgeted and how much that was; what calculations they made in planning the contingency and what they planned to do with any unspent part of it at the end of the financial year.

## Analysis of FOI responses:

A total of **130** LEAs responded to the FOI request. Of these we have analysed **128<sup>i</sup>** responses with **two** being too unclear to analyse. Across England, **21** LEAs did not respond, including **eight** in the London region and **five** in the North West.

### Underspends

A total of **95** LEAs (**74%** of those whose responses we analysed) reported an underspend for 2018/19. Altogether **£63.527 million** remained underspent at the end of the financial year.

Our findings show that a very small proportion of this funding then makes it directly to providers delivering the childcare hours. Only **20%** of LEAs reporting an underspend ensured that at least **some or all** of their

underspend (totalling **£9.587m**) went to increase the funding providers received either through the base rate, supplements or through a one-off payment. In most cases, LEAs did not use all their underspend but were not all clear about how much they gave to providers in total. Examples of what LEAs reported to us include:

- **Islington** which said it used unallocated contingency money to give providers a retrospective uplift in base rate and deprivation supplement (**£1.9m** underspend in total, no details of amount of uplift)
- **Bradford** reported using **£0.642m** of its total **£0.730m** underspend to protect the universal base rate which has reduced significantly since 2016 when the EYNFF was introduced
- **Nottinghamshire** reported **£1.670m** underspent and told us that they had applied to the Secretary of State to use **£1m** of that to increase provider base rate by 10p
- **Suffolk** said it used its **£300,000** underspend to distribute to providers as a quality supplement
- **Ealing** said it used its **£0.672m** underspend to increase provider base rate by 20p

**40** LEAs, amounting to **42%** of those reporting an underspend, told us they carried this forward into the Dedicated Schools Grant (DSG) or Early Years Block reserves which totalled **£18.882m**. This includes **Barking and Dagenham** which reported a contingency of **£104,384** in 2018/19 and put their entire **£1.520m** underspend into general DSG reserves.

The pressure on budgets to support children with additional needs was clear as **ten** LEAs said they used their underspent funding (totalling **£8.661m**) to offset overspends within their High Needs Block or supporting children with SEND. **Birmingham** reported that it used its **£2.678m** underspend to fund children with SEND – part of this is to support transition of children with SEND from nursery to school.

**Seven** LEAs used underspent money to offset overspends elsewhere in their Early Years Block on eligible two-year-old places. **Devon** reported its **£0.940m** underspend funded an overspend on two-year olds and early years inclusion funding.

**Eight** LEAs told us they used underspent money to offset previous overspends in the early years block. **Cambridgeshire** said it used its **£1.2m** underspend to partially offset their overall DSG deficit; **Essex** reported using **£1.8m** to offset a previous deficit

A further **eight** LEAs said that the DfE ‘clawed back’ their underspend. **Liverpool** said they were waiting for an adjustment from the DfE relating to their **£987,619** underspend. **Wolverhampton** reported an underspend of **£890,000** due to duplicated pupil data from schools which they said was adjusted by DfE in July 2019.

**Four** more LEAs said they were consulting with their Schools Forum and another **six** had not made a decision.

**A total of 15 LEAs reported an underspend of more than a £1m in 2018/19.**

Underspends totalling more than £1 million 2018/19				
Local Education Authority	Total underspend	Funding rate to Local Authority 2018/19	Base rate to providers 2018/19	% of funding rate paid as base (not incl. supplements)
<b>Surrey</b>	5,157,000	£5.18	£4.60	88.8
<b>Birmingham</b>	2,678,000	£4.71	£4.29	91.1

<b>Hertfordshire</b>	2,504,000	£5.38	£5.05	93.9
<b>Norfolk</b>	2,274,000	£4.30	£3.65	84.9
<b>Islington</b>	1,990,000	£7.83	£5.58	71.3
<b>West Sussex</b>	1,847,000	£4.78	£4.42	92.5
<b>Leeds</b>	1,825,044	£4.81	£4.25	88.4
<b>Nottinghamshire</b>	1,670,000	£4.30	£4.16	96.7
<b>Hounslow</b>	1,570,000	£5.70	£5.25	92.1
<b>Barking and Dagenham</b>	1,520,000	£5.50	£4.70	85.5
<b>Gloucestershire</b>	1,505,000	£4.30	£3.91	90.9
<b>Staffordshire</b>	1,400,000	£4.30	£3.93	91.4
<b>Cambridgeshire</b>	1,200,000	£4.42	£4.04	91.4
<b>City of Bristol</b>	1,115,000	£5.70	£4.88	85.6
<b>Knowsley</b>	1,070,000	£4.72	£3.95	83.7

**Case Study - Surrey County Council:** Surrey responded with information which said its overall underspend in its early years budget was **£5.157m** in 2018/19. This was the highest figure reported by LEAs who responded. Reports to their Schools Forum show that **£4.486m** of underspend resulted from the three and four year-old places, while savings of **£267,000** were made from its central services expenditure. While the council had set aside over **£1m** for its contingencies in 2018/19, this had been reviewed and reduced to **£0.65m** in 2019/20. However, when answering the question about what plans the council had for utilising the underspend in the early years budget it said that none were committed as of 31 December 2019.

**Case Study - Staffordshire County Council.** This LEA reported an underspend of **£1.4m** and a **£0.6m** contingency for 2018/19. They decided to increase funding base rate by 4p for 2019/20 then consult with the Schools Forum on how to spend the unused contingency. They reported putting the remainder into the DSG reserves, but did not make it clear how much of the underspend was used for each purpose.

**Case Study - Islington Borough Council:** The local authority had one of the largest underspends of **£1.990m** but told us that it was using this to provide an increased base rate and deprivation supplement to providers to support children's places. The council cited the volatility of funding and the desire to ensure stability to providers. They reported that the underspend was made up of **£1.870m** of unused contingency budget and an in year underspend of **£121,000**. They said that they also planned to hold onto a contingency budget of **£1.7m** in 2019/20.

## Contingencies

These are funds that LEAs plan to retain at the start of the financial year due to uncertainty about the actual levels of take up of funded hours in their area. They are designed to protect the council and providers from an overspend and the prospect of having to repay funding once the true census figures are known. However, for reporting purposes the DfE regard any contingency as part of the 95% pass through requirement for providers. This means any unspent contingency should be used to support childcare providers to deliver funded places.

- **72** LEAs reported contingencies for 2018/19 totalling **£32.013m**
- **68** LEAs reporting contingencies for 2019/20 totalling **£26.436m**

9 LEAs reported contingency amounts of more than £1 million for 2018/19	
Central Beds	2,137,671
Islington	1,927,000
Wandsworth	1,492,000
Kensington & Chelsea	1,491,000
Dudley	1,346,000
Surrey	1,300,000
Bedford	1,290,097
Wirral	1,287,737
Lambeth	1,090,000

5 LEAs reported contingency amounts of more than £1 million for 2019/20	
Leicester	1,853,623
Islington	1,700,000
Bedford	1,397,755
Norfolk	1,315,117
Wirral	1,209,392

Of the LEAs reporting a contingency for **2019/20**:

- **24** LEAs said they were yet to decide what to do with that money (totalling **£7.823m**)
- **19** planned to roll the money forward within the early years block (totalling **£7.398m**)
- Only **eight** LEAs said they planned to use at least some of the contingency money (from a pot of **£4.265m**) to increase providers' base rate/supplements or make sure they honoured the 95% pass-through rate but gave no further details
- **Six** LEAs said they expected no money left at the end of March 2020 from **£2.997m**
- **Three** LEAs reported that they expected the DfE to adjust their funding retrospectively effectively removing any underspent contingency (**£2.570m**)

**Case Study - Leicester City Council:** At **£1.85m** Leicester reported the largest planned contingency for 2019/20 which was an increase of almost a million pounds from its plans for 2018/19 of **£0.870**. While Leicester City Council reported no underspend in response to our request, reports from its School Forum in July showed it expected a **£0.713m** underspend to be 'eliminated' in its final allocation from the DfE.

### Overspends

**23** LEAs reported an overspend for 2018/19 totalling **£10.701m** – of these, **14** LEAs were being given a Government funding rate of **£4.50** or less and seven received the lowest funding rate of **£4.30**. This link between funding rates to LEAs could indicate they were not receiving sufficient resources to be able to deliver the service required at the local level.

- **Seven** of these said they carried the overspend into their general DSG deficit

- Only **two** councils said they used their contingency budget to offset the overspend in early years funded places
- **Three** LEAs said they expected to or had received additional funding from DfE
- **Five** LEAs had not decided how to deal with the overspend or gave no details

Top five Local Education Authority overspends 2018/19		
Local Education Authority	Amount	Funding rate to LA
<b>Redbridge</b>	1,532,000	£5.21
<b>Northamptonshire</b>	1,310,000	£4.35
<b>Wandsworth</b>	1,200,000	£6.48
<b>Central Bedfordshire</b>	895,265	£4.30
<b>Shropshire</b>	764,000	£4.30

**Case study - Central Bedfordshire Council:** This council reported the highest planned contingency for 2018/19 at **£2.138m** and also reported one of the highest overspends of **£0.895m** for the three and four year-old funded places. The overspend was funded from the contingency, which is what it exists to do. However, the council didn't provide information for how the remaining amount held in the contingency budget was used. For 2019/20 the contingency has been significantly reduced to **£496,945**.

## Conclusion

NDNA's analysis of LEAs' early years spending demonstrates the inherent unfair distribution of funding in the current system. This is leading to millions of pounds of public money, designated to support our youngest children and working families, not reaching those providers who are delivering the Government's funded childcare places.

There is already a funding crisis in early years with hourly rates not covering providers' costs. If the issue of underspent money and contingency budgets is not addressed as a matter of urgency, this will exacerbate an already difficult situation.

The Government has announced additional funding of £66 million to take its investment to £3.6bn in its childcare policy in 2020/21. However, this investigation has revealed that almost the same amount went underspent last year alone. While neither amount is enough to address the years of chronic underfunding of early years places, ensuring that money set aside for early years and childcare reaches providers should be a priority.

In reality, the underspend figure is likely to be much higher as **21** LEAs failed to disclose any information under the FOI request and of those that did, some gave little or unclear data. Equally in many cases in which LEAs have used some of their underspend to increase the provider base rate, they have not given details of how much of the underspend is left to carry forward.

From the responses to our enquiries, NDNA cannot confirm what happened to all the leftover contingency money from 2018/19 or how **56** LEAs managed without any contingency in 2018/19.

While LEAs have seen their budgets stretched in recent years, we have now seen a Government pledge to put large increases in funding for schools from 2020/21 onwards. At this point any 'robbing Peter to pay Paul'



approach of rolling underspends or contingencies from early years into general DSG funds must end. Funding pressures on SEND and the High Needs Block should be addressed to ensure that money for early years is not used to offset large deficits in these areas. It is vital that children with identified additional needs in early years can access the support that will make a life-changing difference to them at this crucial stage of their development.

The Government recently announced increases to National Living Wage and National Minimum Wage rates to being April 2020, most of which rose by more than **6%**, well above inflation. This will significantly expand providers' delivery costs because salaries make up about **75%** of the average nursery's total costs. For those nurseries who are going to receive the full **8p** increase in April, this is still only a **1.8%** rise compared to the minimum wage increase of more than **6%**. But for the many providers whose funding rate has decreased since 2016, their share of the promised **£66m** does not even amount to a rise in real terms.

Before the 2019 General Election, NDNA highlighted the above concerns using a small number of case studies to the Minister and civil servants at the Department for Education (DfE). The Government must now address this situation urgently in the Chancellor's Budget in March.

### Urgent actions

- All funding intended for early years providers must reach the front line – this report demonstrates the urgent need for early years funding to be ring-fenced within the Dedicated Schools Grant (DSG)
- DfE must challenge LEAs why some plan for high levels of contingencies, especially when 56 local authorities told us they had not planned for any contingency at all. These contingency budgets should be reduced in future years – any money left over must be used to increase the provider base rate
- The DfE must also challenge LEAs which end up with large underspends at the end of the financial year – they must ensure that any underspent funding is distributed to providers
- All the additional £66m the Chancellor promised in September must reach providers and must be ring-fenced for early years, taking into consideration cost increases, in particular minimum wage rises
- Give 100% business rates relief to childcare businesses to ease the burden of increased costs for delivering underfunded government places
- Private, voluntary and independent (PVI) early years representatives must have a robust and proportional voice on local Schools Forums and the decision-making process. DfE must urgently review Schools Forums in order to establish separate early years consultative forums to represent the sector fairly within each local education authority
- The DfE should review the feasibility of adopting a single childcare account for parents that draws together all funded support for childcare so families can use this to pay their provider of choice directly.

## Appendix A – Text of FOI Question

### FOI request – Local Authority Funding for free entitlement for three and four-year-olds

#### Financial year 2018/19

- Please provide information about whether any contingency was planned in the Early Years Block for the Financial Year 2018/19 including the amount of any contingency planned.
- Please provide information about any underspend in the early years block for three and four-year-old places in 2018/19 and the amount of any underspend.
- Please provide information about any overspend in the early years block for three and four-year-old places in 2018/19 and the amount of any overspend.
- Please provide information about agreed actions relating to any underspend in the early years block for three and four-year-old places in 2018/19.
- Please provide information about agreed actions relating to any overspend in the early years block for three and four-year-old places in 2018/19.

#### Financial year 2019/20

- Please provide information about whether any contingency was planned in the Early Years Block for the Financial Year 2019/20 including the amount of any contingency planned.
- Please provide information on what calculations were made in planning this contingency budget.
- Please provide information about any plans for any remaining unspent contingency budget at the end of the financial year.

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<sup>i</sup> For the purposes of this exercise, NDNA has **not** included information from Isles of Scilly and City of London local education authorities due to their size. In April 2019, **Bournemouth, Christchurch and Poole** joined as one council but we have reported them as individual LEAs for 2018/19 and together for 2019/20.