

# Briefing Note to School's Forum

## Early Years National Funding Formula Consultation

1<sup>st</sup> September 2016

### 1 Introduction

This is a high level briefing setting out the key features and implications of the Department for Education's (DfE) proposed changes to early years funding arising from its recently issued document (11 August 2016): *'An early years national funding formula And changes to the way the three-and four-year-old entitlements to childcare are funded Government Consultation'*.

The proposed changes will require a substantial and sustained amount of work to implement in a very tight timeframe. In particular the City Council will need to determine its' funding approach, consult with its' early years providers, discuss with schools forum and announce funding rates well in advance of the financial year beginning April 2017.

It is important to note the impact is not only financial but there will also be a significant operational impact, and to implement the required changes staff from other directorates and early years settings will need to be significantly involved in reviewing and implementing the changes.

### 2 Proposals Part 1 – Funding from central government to local authorities

Hourly funding rates (national averages) will increase from £4.56 to £4.88 for three and four year olds (including Early Years Pupil Premium spend) and from £5.09 to £5.39 for two year olds.

A new early years' national funding formula will also be introduced. The formula will allocate funding for the three and four year old entitlement, both the existing universal 15 hour entitlement and the new 30 hour entitlement for working parents, on a formula basis for the first time. It will commence, for the existing 15 hours, in April 2017 alongside the funding rate uplift announced in the last Spending Review; and for the additional 15 hours, in September 2017, when 30 hours of free childcare is implemented nationally.

The new formula will be based on three funding factors that determine the funding per child that each local authority receives:

1. a 'universal base rate' for each child. The base rate will allocate the majority (89.5%) of all early years formula funding.
2. an 'additional needs factor' reflecting the extra costs of supporting children with additional needs to achieve good early learning and development outcomes. The remainder (10.5%) of early years formula funding will flow through the additional needs factor and it will be based on the following three metrics:
  - a) Free School Meal eligibility, with a proposed weighting of 8%.

- b) English as an Additional Language, with a proposed weighting of 1.5%.
  - c) Disability Living Allowance, with a proposed weighting of 1%.
3. an 'area cost adjustment' reflecting the different costs of providing childcare in different areas of the country.

While the majority of local authorities (75%) would see increases in their hourly funding rates, the DfE would set a funding floor to ensure that no local authority should face a reduction in its hourly funding rate of more than 10% against its' 2016-17 baseline as a result of introducing the formula.

The DfE would also use transitional protections to ensure that no local authority could see an annual reduction in their hourly funding rates of more than 5% in a year.

All local authorities will be funded by the early year's national funding formula, without any transitional protections, by 2019-20.

**The key implications of the above proposals include:**

- Based on DfE early years illustrative funding allocations the City Council would see a reduction in its' hourly funding rate from £4.85 to £4.61 (including transitional protection) in 2017-18 resulting in a comparative funding reduction of £595k. Please see table 1 below.

**Table 1**

Description	2016-17 Baseline	2017-18 Baseline	2017-18 Baseline Protection	2017-18 Total Baseline	Variance
Hours	15	15	15		
Weeks	38	38	38		
PTE for 3-4 years olds (Jan 2016)	4308.7	4308.7	4308.7		
LA hourly rate	4.85	4.51	0.10		
<b>Illustrative Funding</b>	<b>£11,917,000</b>	<b>£11,076,300</b>	<b>£245,595</b>	<b>£11,321,895</b>	<b>(£595,105)</b>

- The introduction of the new 30 hour entitlement for working parents may have a significant operational impact on the City Council and early years' providers, going forward.

**3 Proposals Part 2:- Local authority funding to providers**

All local authorities would be required to pass 93% in 2017-18 then 95% in 2018-19 of early years funding to providers. This would maximise funding to childcare providers.

Local authorities would also be required to use a universal base rate to fund providers for each hour of free entitlement by 2019-20. The aim would be to bring about greater equality in funding between different providers.

There would also be supplementary funding for maintained nursery schools for at least two years to keep their transition to a universal base rate manageable.

There would be a limited set of permitted funding supplements, limited to those which reflect

drivers of cost and incentives for providers to meet the needs of parents. The proportion of funding channelled through supplements would be capped at 10% of the hourly funding rate.

The permitted funding supplements are:

- a) **Deprivation:** reflecting the higher costs of providing quality early education for children from backgrounds of socio-economic disadvantage. This will continue to be a mandatory factor in the local formulae.
- b) **Rurality/sparsity:** recognising that lack of scale economies may lead to higher costs to providers operating in very small settings, and that these may be unavoidable in sparsely populated rural areas with limited demand.
- c) **Flexibility:** the DfE want providers to offer flexible childcare which fits around parents' working patterns, and therefore believe local authorities should be able to encourage the provision of a 'stretched offer' including holiday care, 'wraparound' to extend the day or out of hours provision.
- d) **Efficiency:** local authorities should be able to encourage providers to exploit the considerable scope for efficiencies identified in the *Cost of Childcare Review*, to improve the sustainability of their businesses and ensure childcare is provided at good value to parents and the taxpayer.
- e) **Delivery of the additional 15 hours free childcare:** whilst childcare providers will be under strong market incentives to expand their offer, the DfE want to ensure that local authorities have maximum levers to encourage childcare providers to offer the additional 15 hours free childcare for three and four year olds of working parents, alongside the existing 15 hour entitlement.

The illustrative average hourly rate that a provider might expect to receive for 3-4 year old funding in Stoke-on-Trent in 2017-18 is £4.15, including all supplements.

#### **The key implications of these proposals are:-**

- The proposals require LA's to pass-through 93% in 2017-18 then 95% in 2018-19 of early years funding to providers. This would limit the amount of funding which local authorities are allowed to retain centrally to support early years provision. This would result in an estimated reduction of the 'central expenditure on children under 5' budget, funded by the Dedicated Schools Grant (DSG), of £976k.
- Work and modelling will need to be carried out to assess the impact of the funding changes. This will require major input from finance, service directorates and the schools forum and any sub group to develop the new formula.
- It is a challenging timetable for the local authority to determine its' funding approach; consult with providers, discuss with schools forum and announce funding rates well in advance of the financial year beginning in April 2017.

## **4 Proposals Part 3 – Meeting children’s additional needs**

The Childcare Act 2006 and Childcare 2016 make it clear that if children meet the eligibility requirements for the free entitlements, the local authority must secure a place for them. If a disabled child wishes to take up the free entitlements, additional needs must not be a barrier to doing so. The Equality Act 2010 ensures local authorities and all early years settings must not discriminate against, harass or victimise disabled children and must make reasonable adjustments for them.

While early years settings are under clear legal obligations to make reasonable adjustments to support disabled children to access their entitlement, the DfE recognise that this can put additional cost pressures on providers. Local authorities should also support settings to provide childcare to disabled children through the use of the high needs block within the DSG.

The DfE propose to introduce additional targeted Disability Access Funding with an aim to support providers to make initial reasonable adjustments and build the capacity of the setting to support disabled children. The total additional funding available is £12.5m per year. The funding would be paid to all providers for each child in receipt of Disability Living Allowance (DLA) taking up a place in their setting. This would be paid to the provider as a total annual sum rather than an increase on the hourly rate.

To ensure that this new approach is implemented as simply as possible, the DfE propose building on the existing model of EYPP. This would mean that the local authority would receive the additional targeted Disability Access Funding as a ring fenced amount and they would be responsible for passing a total amount directly through to providers for each eligible child.

Once the additional funding is allocated to an early years setting, the provider will be responsible for making decisions about how the funding should be deployed.

The Early Years Disability Access Funding is not intended to cover the total costs of providing childcare for a disabled child in receipt of DLA. Providers will still be required to support all children within their setting as per their duties under The Early Years Foundation Stage (EYFS) and Equality Act 2010, and work with the local authority when additional support is required.

Local authorities will also be encouraged to build on existing best practice by creating SEN Inclusion Funds to provide additional top up funding to providers to improve outcomes for children with special educational needs.

To establish an inclusion fund it is proposed that local authorities should pool an amount of funding from either one or both of their early years and high needs allocation from the Dedicated Schools Grant. Over the course of the financial year local authorities will be required to use the fund to facilitate discussions with their providers about the needs of children with SEN taking up the free entitlements. It also expected that local authorities will pass the majority of the funding through to providers in the form of ‘top ups’ on a case by case basis.

Where local authorities wish to use part of their inclusion fund to support local services, for example specialist services, they must continue to be able to do so.

These measures will help providers by making it easier for them access additional funding to support children with special educational needs and disabilities (SEND). In turn providers will

help families by securing better access to the free entitlement and improved outcomes for their children.

The Early Years Pupil Premium will also continue.

**The key implications of these proposals are:-**

- The introduction of the new Disability Access Fund may have an operational impact on the City Council in relation to the receiving of the ring fenced funding and then managing the process to pass the total funding direct to providers.
- The creation of an inclusion fund will require the local authority to carry out a detailed review of current procedures, processes and funding to support children with special educational needs and disabilities in early years settings.

**5 Timetable for consultation, Government response, and local authority determination of local formulae**

The consultation will close on Thursday 22<sup>nd</sup> September 2016. The Government's response will then be published in the Autumn. The Government's aim is to announce local authority allocations at the same time as the response to allow authorities to go out to consultation on their proposed local formulas.

New funding arrangements will commence for the existing 15 hour entitlement in April 2017 alongside the funding rate uplift, and for the additional 15 hours in September 2017 when the 30 hour entitlement is implemented nationally.

**6 Next Steps**

- Form a task group across Finance, Early Years, SEN and other areas within the Children and Families Directorate.
- A response to the consultation is drafted and distributed to the Schools Forum and early years' settings before the 22<sup>nd</sup> September 2016 deadline.
- At the next Schools Forum, on the 19<sup>th</sup> September 2016, this briefing note is shared with the forum members.
- Meetings of the Early Years Formula Working Group are held in September and further meetings scheduled for October and December.