

DARLINGTON SCHOOLS FORUM

4th October 2016

ITEM NO 4

EARLY YEARS NATIONAL FUNDING FORMULA

Purpose of Report

1. To update Forum regarding the Department for Education's (DFE) proposals concerning a national funding formula for early years

Background

2. The DFE released a consultation upon a proposed national funding formula (the formula) for early years on the 11th August 2016 that required responses by 22nd September 2016.
3. The DFE will publish the results of the consultation in the autumn.
4. The proposals can be found at the following link <https://consult.education.gov.uk/early-years-funding/eynff>, the following paragraphs **provide a brief summary of the key proposals.**

Early Years

5. It is proposed that the national funding formula will allocate funding for the three and four year old entitlement for both the existing universal 15 hour entitlement and the new 30 hour entitlement for working parents on a formulaic basis.
6. The formula will commence for the existing 15 hours from April 2017 and for the additional 15 hours from September 2017, when the 30 hours of free childcare is implemented nationally.
7. The formula will include the funding rate uplift announced by the Government in the last spending review
8. The formula is designed to allocate funding on a fair, efficient and transparent basis in order to ensure providers can be funded on a sustainable basis.
9. The formula will focus on how at a national level funding is allocated from Government to local authorities and how at a local level funding will be distributed from local authorities to the providers of early year's childcare.
10. The two year old funding formula is already based on a fair and formulaic basis and is therefore not covered by the proposed national funding formula.

11. The two year old funding rate will be uplifted for all local authorities by the additional funding announced within the spending review.
12. School Forums need to be consulted on the local early year's single funding formula, however the Forum does not have a veto. The DFE recognise that the implementation of the new formula from April 17 is challenging with the outcome of the consultation being released in the autumn, however they expect local authorities to plan in advance to ensure the new formula is delivered on time.

The Principles

13. The Government identifies that there is an overwhelming case for changing the early years funding system so that it better supports its key policy objectives in early years, these are to,
 - a. Ensure that there continues to be sufficient childcare places as they expand free entitlement
 - b. Enable all children to benefit from high quality provision
 - c. Ensure that the specific needs of individual children are met
 - d. Deliver affordable and flexible childcare that meets the needs of working parents
14. The proposals therefore are based on the following principles
 - a. Maximising funding to providers
 - b. Allocating funding fairly to local authorities and to different types of provider
 - c. Distribute funding efficiently and effectively to ensure value for money
 - d. Allocate funding transparently so local authorities and providers can understand how their funding rates were derived.
 - e. Target effectively additional funding at those children who need it
 - f. Allow adequate time to transition to the new funding arrangements

The Formula

15. The formula will apply to existing 15 hour entitlement and for the additional entitlement. The funding the local authority receives will be the same for both entitlements.
16. The local authority will be expected to have the same funding rate for providers for both the existing 15 hour entitlement and the new additional 15 hours.
17. Funding will be provided to the local authority based on the number of children that actually take up both entitlements.
18. It is proposed that no authority should face a reduction of greater than 10% in its hourly rate funding against that received in 2016/17.
19. The formula will have three funding factors to determine how much funding a local authority will receive per child including,
 - a. A universal base rate
 - b. An additional needs factor
 - c. An area cost adjustment

20. The formula will simply be as follows, the base rate, plus the additional needs element, multiplied by the area cost adjustment. This is then multiplied by the actual take up of children to give an allocation of funding.

The Universal Base rate (base rate)

21. The universal base rate will be the same for each child and will not differ based on type of provider or local authority area.
22. The base rate will allocate 89.5% of the early years funding formula, the remainder will flow through the additional needs factor.

The Additional Needs

23. The additional needs factor is designed to ensure that each local authority's funding reflects their proportion of children with additional needs and the extra costs of meeting these needs. It is based on three metrics,
 - a. Free School Meal Eligibility (FSM), which will be weighted at 8%
 - b. English as an additional language (EAL), which will be waited at 1.5%
 - c. Disability Living Allowance (DLA), which will be weighted to 1%
24. There is no data for FSM entitlement at early year's stages, therefore Key Stage 1 and 2 data will be used as a best proxy.
25. As with FSM there is no EAL data for children under five, hence Key Stage 1 and 2 data will be used as a best proxy.

The Area Cost Adjustment

26. The area cost adjustment reflects the cost differentials between local authority areas.
27. The cost adjustment will be based on variations on both staffing and premises costs in the local authority area.
28. The area cost adjustment will be used as multiplier for both the universal base rate and the additional needs factor.

Support for Children with Special Educational Needs

29. The Government is clear that all children should be able to access their entitlement to childcare and that no child should have that entitlement restricted or denied due to a special need or disability.
30. The consultation proposes two models to allocate funding to address funding barriers that exist. Government is also clear that further action is required beyond funding to ensure that access is not denied. This includes,
 - a. The local authority role in delivering SEND support in early years
 - b. Early Implementers' and Early Innovator areas will be testing innovative ways of providing care for parents with SEND from September 2016

- c. DFE are developing a workforce strategy to help remove barriers to attracting, recruiting and retaining staff.
31. Local authorities should support settings to provide childcare to disabled children through the use of the high needs and the early year's block of DSG.
 32. There will be a new targeted Disability Access Fund (DAF) to support disabled children to access free entitlement. The local authority will receive this as a ring fenced amount, which will be passed on directly to providers for each eligible child. Eligible children will be those in receipt of Disability Living Allowance taking up a place in a setting. This will be paid to the provider as an annual lump sum rather than as an hourly rate. The provider will be responsible for making decisions upon how this funding is employed.
 33. The DAF is not intended to cover all costs of providing care to disabled children, providers will still be required to support children under the Early Years Foundation Stage and Equalities Act 2010.
 34. The DFE are encouraging all local authorities to build on existing best practice by creating SEN inclusion funds to provide additional top up funding to providers on a case by case basis. To establish an inclusion fund it is proposed that the local authority should pool an amount of funding from either or both the early years and high needs DSG block.
 35. Inclusion funds that are passed onto providers (in the form of a top up) are classed as part of the 95% pass through rate.
 36. Where local authorities wish to use part of their inclusion fund to support local services, they can do so, these can be delivered by the local authority to providers free of charge but in this case this would not be considered as part of the 95% of funding that must be passed through to providers.
 37. The DFE believe that local authorities know the needs of the local population and hence are best placed to identify children that need support through inclusion funds. Targeting should however be considered in consultation with providers, SEN specialists and parents.
 38. It is expected that the inclusion fund link directly with the published "Local Offer" and be allocated clear and transparently so that it is easily understood by providers and parents.
 39. Local inclusion funds for children with special education needs should support providers in driving outcomes for this group of children.
 40. Early year's pupil premium will continue as a separate allocation.

Funding from the Government to the Local Authority

41. The Government recognise that the current system of distributing funding should reflect the local costs of providing childcare that meets need in each area.
42. Current funding is based on historic spending patterns sometimes determined decades ago, which can give rise to local authority areas of similar characteristic receiving

significantly different funding rates from central government. For example Sandwell receives £3.71 from central government compared to £5.00 in Stoke on Trent.

43. It is deemed essential that the funding system is changed to a national funding system to address the historic imbalance between the funding rates that different local authorities receive.

Funding from Local Authorities to Early Years Childcare providers

44. The DFE will restrict the amount of early years funding that can be top sliced and held centrally. This is to ensure as much of the funding as possible is passed onto providers. The minimum amount of the total funding that must be passed through to providers will be 93% in 2017/18 and 95% thereafter.
45. The pass through calculation includes all funding passed to providers including the base rate, supplements and SEN funding.
46. Any funding held back for demographic growth is also considered as pass through as this is ultimately passed to a provider.
47. Local authorities must use a universal base rate of funding to all the providers in its area by 2019/20 at the latest.
48. The DFE will restrict the amount of funding supplements that can be used within the local formula (in addition to the base rate). This will be done by only allowing local supplements for,
 - a. Deprivation
 - b. Rurality
 - c. Key policy drivers, e.g. Flexibility, Efficiency & 30 hours delivery.
49. The deprivation factor is a mandatory supplement, all others are discretionary.
50. The deprivation supplement is intended to reflect the high costs of providing quality early education for children from backgrounds of social-economic disadvantage. The metric for allocating deprivation remains at the choice of the local authority. Likewise local authorities should retain discretion over the amount of funding allocated through this supplement.
51. Rurality/sparsity. Recognises that a lack of economies of scale may lead to higher cost for very small scale providers. Local authorities will have the scope to determine how much funding and the metric used to determine this supplement. The sparsity element should be judged by distance to the next nearest provider.
52. Flexibility. It is intended to encourage the provision of a stretched offer including holiday care. This is to provide childcare provision that matches the working patterns of parents. The DFE are currently running a programme to determine how schools can work in partnership to provide more flexible offers. The findings of this will be disseminated within a guidance tool in the autumn.

53. Efficiency. To encourage providers to exploit the considerable scope for efficiencies identified in the “Cost of Childcare Review”.
54. 30 hours delivery. To encourage providers to take up the 30 hours offer to ensure sufficiency as well as continuing to provide 15 hour funding places. This supplement could for example be a growth or new places supplement to offer additional money for new capacity where there is a genuine need to meet demand, whilst protecting existing provision.
55. Quality. The DFE are not minded to have a quality supplement.
56. The use of supplements is at the detriment of the base rate, therefore it is proposed that supplements will be capped at 10% of the funding that is passed to providers.
57. There will be additional supplementary funding provided for maintained nursery schools for at least two years to keep their transition to the universal rate manageable.
58. The funding provided to providers must be the same across the local authority irrespective of the provider. Currently authorities have discretion to set a higher base rate for different providers and the discretion to pay lump sums. This will no longer be allowed and the base rate will be the same for all providers.
59. The Government want to minimise the disruption and reassure maintained nursery schools on their position and therefore will provide supplementary funding to maintained nursery schools for at least two years.
60. Maintained nursery schools are schools and as such bear costs over and above other providers because of their structures. The additional supplementary funding takes account of this and provides stability whilst nursery schools explore how to become more sustainable in the longer term, including identifying efficiencies. The DFE will consult on this in further detail in due course.
61. It is expected that the universal funding rate will include funding for training and improvement support. In exchange therefore it is expected that providers that use the local authority to provide training and support services would be expected to receive a charge for this to allow the local authority to cover its costs.

Transition Arrangements

62. There will be some gradual phasing in of the changes in the formula to allow both local authorities and providers to plan how best to use the new levels of funding. It is proposed this will limit turbulence within funding and allow for smooth transition into 30 hour provision.
63. Local authorities will receive protection whereby if under the new formula the funding they receive decreases, this will be limited to a 5% reduction in their hourly rate for 2017/18 and 2018/19. It is expected that all local authorities will be on formula by 2019/20.

64. It is recognised that moving to a universal per child funding rate is a significant change in many areas, therefore it is proposed to allow authorities until 2019/20 to fully implement, however authorities will be encouraged to move a universal system earlier.
65. The pass through rate of 95% will be disruptive in some areas, therefore it is proposed to start with a pass through rate of 93% in 2017/18, moving to 95% in 18/19.
66. As a result of the high pass through rate of funds to providers it is proposed to remove the minimum funding guarantee from providers as it will no longer be necessary.

Funding In Darlington

67. Within the consultation the DFE quotes average rates for two year olds will increase from £5.09 to 5.39 and for three and four year olds from £4.56 to £4.88. **Forum and providers should note that these are average national rates and do not reflect the amount of funding Darlington currently receives or is proposed to receive.** The following paragraphs outlined the proposed rates for Darlington.
68. All rates quoted are from indicative figures provided by the DFE within the consultation document. **These rates are subject to change dependent on the outcome of the consultation and in line with funding available nationally.** Final allocations for early year's budgets are expected to be given as part of the consultation response due in the autumn and will be confirmed in the Dedicated School Grant (DSG) allocations that are published in December.
69. Darlington currently receives £4.85 per hour for two year old funding. The indicative allocations provide a rate of £5.20 for Darlington in 2017/18. Darlington currently fund providers at a rate higher than funding received due to the use of underspent grant from previous years.
70. The indicative funding rate for Darlington for 3 & 4 year old children in 2017/18 is £4.44 per hour. This is made up of £3.93 basic funding, £0.44 for the FSM, £0.02 for EAL and £0.05 for DLA. FSM, EAL and DLA are all additional needs elements of the formula.
71. Darlington currently receives £3.92 per hour for three and four year old entitlement. However as Forum will be aware in order to balance the early year's block, funding is transferred from the schools block into the early year block. This transfer equates to 25 pence per hour. The DFE have rebased the blocks within Darlington's DSG to reflect the actual spending patterns and hence this has been added into the current funding level to give a revised funding rate for 2016/17 of £4.17.
72. The indicative rate of £4.44 for 3 and 4 year old entitlement therefore represents an increase of 27 pence per hour.
73. The indicative funding rates covers all spend within the early years formula, including the base rate, supplements and retained elements by the local authority. Therefore the actual hourly rate paid to providers will be less than funded hourly rate (i.e. indicative £4.44 per hour).

Darlington's Formula 2017/18

74. Darlington's current formula for 3 & 4 year old entitlement has the following characteristics,
 - a. A basic hourly rate for nursery schools and nursery classes in primary schools
 - b. A basic hourly rate for private, voluntary and independent providers
 - c. A deprivation supplement which is the same for all providers
 - d. A lump sum for nursery schools.
75. Darlington do not currently use supplements for rurality, sparsity, flexibility, efficiency or quality.
76. Once the outcome of the consultation is known a new formula will need to be established for Darlington for 3 & 4 year old funding. This will be consulted upon to all relevant stakeholders and brought to Forum in January 2017. Further reporting will be made to Forum in March 2017 prior to the April deadline as necessary.
77. It is clear however that if the outcome of the consultation is as proposed Darlington will need to make changes as follows,
 - a. The basic rate will need to be the same for all providers in the future (mandatory from April 2019).
 - b. The lump sums for nursery schools will be replaced by the DFE supplementary funding which has been indicatively allocated at £161,868 in total for 2017/18.
78. Decisions will need to be made concerning the use of other supplements. These will need to be considered within the 10% supplement cap. Darlington currently allocates approximately 3.4% on the deprivation supplement as a percentage of total 3 & 4 year old planned spend.
79. Darlington currently allocates £239k to central early years this equates to less than 3.5% of the total 3&4 year old spend, including inclusion funding as a pass through.
80. EYPP rates will continue to be passported in full to providers at the rate funded by the DFE (currently 53p per hour).
81. Consideration will need to be given to the two year old rate for 2017/18.

Recommendations

82. That Forum notes the content of this report

**Brett Nielsen
Finance Manager,
Resources Department**