



Early years funding

Proposed changes to funding for two year olds and three and four year olds

2019-20 Funding Consultation

December 2018

Consultation: Thursday 6th December 2018 to Wednesday 9th January 2019

Surveymonkey consultation link: <https://www.surveymonkey.co.uk/r/EY1920>

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Consultation overview

This consultation outlines the funding to providers who deliver the early years entitlements in the financial year 2019 to 2020. The early years entitlements are:

- the 15 hours entitlement for disadvantaged two year olds
- the universal 15 hours entitlement for all three and four year olds
- the additional 15 hours entitlement for eligible working parents of three and four year olds
- three and four year olds deprivation supplement
- Early Years Additional Needs Inclusion Fund

Additional funding streams for eligible three and four year olds for providers, which is out of scope of this consultation and remaining unchanged are:

- the Early Years Pupil Premium (EYPP)
- the Disability Access Fund (DAF)
- Maintained Nursery School supplementary funding (*not applicable for Havering*)

Consultation respondents

This consultation is aimed at the following London Borough of Havering stakeholders, and is open to other parties affected by this consultation:

- Private and Voluntary Early Years providers (e.g. childminders, preschools, etc.)
- Independent providers
- Mainstream schools with nurseries
- Early Years Provider Reference Group (EYPRG)
- Schools Funding Forum
- Local Authority Early Years central support services

Part 1 – Introduction

(a) Early Years Block

Funding for early years education is allocated to local authorities by central Government through the Early Years Block of the Dedicated Schools Grant (DSG). The Early Years Block includes six funding streams:

- the early years entitlement for disadvantaged two year olds,
- the early years universal entitlement for three and four year olds,
- the early years additional entitlement for three and four year old children of eligible working parents,
- supplementary funding for Maintained Nursery Schools (not relevant to Havering),
- the Early Years Pupil Premium (EYPP), and
- the Disability Access Fund (DAF).

The initial allocation to local authorities applies hourly funding rates to the previous January census data. For financial year 2019-20, therefore, this is based on the January 2018 census. Initial allocations to local authorities will be announced in December 2018.

These allocations will then be updated for the January 2019 census once it has been verified by the DFE and again for the January 2020 census although any adjustments to an LA's funding arising from the 2020 census will not be made until July in the following financial year.

The local authority must therefore use local data and trend analysis to estimate its likely final funding allocation for the forthcoming financial year.

(b) Early Years Block Estimated Funding 2019-20

As per previous years, we have projected the number of children that we will attract funding for, based on the upcoming January Census and the estimated funding* for 2019-20 is as follows:

	Funding Rate (hourly)	Local Data (PTE)	Local Estimated Funding
entitlement for disadvantaged two year olds	£5.66	675.45	£2,179,151
universal entitlement for three and four year olds	£5.28	4,200.00	£12,640,320
additional entitlement for three and four year old children of eligible working parents	£5.28	1,430.90	£4,306,437
Early Years Pupil Premium (EYPP)	£0.53	285.14	£86,141
Disability Access Fund (DAF)	£615.00	88	£54,120
Total – Early Years Block			£19,266,169

**Please note that the Early Years block funding will be confirmed in July 2019 following the first census update of January 2019.*

(c) Funding Activities of Early Years Block

For two year old and three and four year olds, local authorities have to fund the following activities within each of the funding streams:

	two year olds	three and four year olds
2019-20 Published DfE Funding Rate	£5.66	£5.28
Comparable rate in 2018-19	£5.66	£5.28
<u>To fund:</u>		
Hourly base rate	✓	✓
Supplements	x	✓
In year contingency	✓	✓
Inclusion fund	✓	✓
Central retention	x	✓

(d) Funding requirements prescribed by DfE to LAs for financial year 2019-20

The key points on local authority funding of providers are that local authorities:

- are encouraged to fund providers on the basis of a flat hourly rate for all providers with no compulsory supplements for two year olds
- should set a single funding rate (including the same base rate and supplements) for both entitlements for three and four year olds (that is, both the universal 15 hours, and the additional 15 hours for working parents)
- must plan to pass on at least 95% of their three and four year old funding directly to providers to deliver the three and four year old entitlements
- may request that the 95% requirement be disapplied (i.e. reduced) in specific, exceptional circumstances
- must use a universal base rate for all types of provider in their local three and four year old formula
- must use a deprivation supplement in their local three and four year old formula, and any other supplements used must fall within one of the allowable categories (see Part 2 (a))
- must not channel more than 10% of their funding for three and four olds through funding supplements
- must provide a Special Educational Needs Inclusion Fund (SENIF) for three and four year olds
- must pass on Early Years Pupil Premium (EYPP) in full to providers for eligible three and four year olds
- must pass on Disability Access Fund (DAF) funding in full to providers for eligible three and four year olds

(Source: “*Early years entitlements: local authority funding of providers - Operational guide 2019 to 2020 (November 2018)*” accessible at [EYNFF Operational Guide - 2019-20 Final.pdf](#))

Part 2 – Formula funding 2019-20

Local authorities consult providers directly and via EYPRG on annual changes to their local formula. The Schools Funding Forum will also be consulted and will give final ratification on the recommendations, following the consultation, on changes to the local early years funding formula and central expenditure supporting Early Years. The formula cannot be changed after the financial year has started.

(a) Factors providers can be funded via the formula:

- (i) Base rate for the entitlement for disadvantaged two year olds (**mandatory**)
- (ii) Universal Base rate for the universal 15 hours entitlement and the additional 15 hours entitlement for working parents for three and four year olds (**mandatory**)
- (iii) Funding supplements for three and four year olds only (***must not be more than 10% of the total value of planned funding to be passed through to providers***):
 - a. deprivation (**mandatory supplement**)
local authorities must use this supplement to recognise deprivation in their areas
 - b. rurality or sparsity (***discretionary supplement***)
to enable local authorities to support providers serving rural areas less likely to benefit from economies of scale
 - c. flexibility (***discretionary supplement***)
to enable local authorities to support providers in offering flexible provision for parents; this could, for example, be childcare wraparound care, out-of-hours provision, or to encourage a particular type of provider in an area (such as to meet a need for childminders in an area)
 - d. quality (***discretionary supplement***)
to support workforce qualifications, or system leadership (supporting high quality providers leading other providers in the local area)
 - e. English as an additional language (EAL) (***discretionary supplement***)

(b) Applicable factors subject to consultation:

- (i) two year olds Base Rate (mandatory)
the only factor to fund disadvantaged two year olds meeting the eligibility criteria. Data collected termly via Census and post-Census change submissions.
- (ii) three and four year olds Universal Base rate (mandatory)
at least 90% of overall funding paid to providers for the three and four year old entitlement will be through this factor. Data collected termly via Census and post-Census change submissions.
- (iii) three and four year olds funding supplement (maximum 10% of overall funding paid to providers):
 - a. Deprivation (mandatory)
Based on the income deprivation affecting children index (IDACI), which is a subset of the indices of multiple deprivation (IMD). It is an area-based measure defined at the level of lower super output area (LSOA) and is based on the data published in September 2015. It is a score between 0 and 1, which can be interpreted as the proportion of children aged under 16 in the LSOA which are in income deprived households. Data is collected in the preceding Autumn Term Census, the same as the mainstream schools' formula.
 - b. Rurality/sparsity (discretionary)
Not applicable for London Borough of Havering.

- c. Flexibility (discretionary)
Not applicable for London Borough of Havering as all providers provide this as part of standard practice
- d. Quality (discretionary)
To review feasibility of having this factor as an option for financial year 2020-21.
The data available is currently considered to be unreliable.
- e. EAL (discretionary)
To review feasibility of having this factor as an option for financial year 2020-21.
The data available is currently considered to be unreliable.

The principle for funding all Early Years providers is to keep the formula as simple as possible. The recommendation is to continue to allocate most of the funding through the base rate factors, with deprivation as the only supplement within the formula.

(c) Financial Year 2018-19 funding decisions

The arrangements that were agreed for the current financial year which were as follows:

- i) to increase the basic hourly rate to providers to £4.53 (from £4.39) for three and four year olds
- ii) to have Deprivation as the only supplement to the basic rate for three and four year olds
- iii) for deprivation supplement, to bring the hourly IDACI rates in line with those used for the schools national funding formula (subject to approval of the NFF)
- iv) to increase the basic hourly rate to providers to £5.35 (from £5.28) for two year olds
- v) to retain contingencies of £803,000 and £85,000 for three and four year olds and two year olds respectively to fund in-year provision
- vi) to retain £730,000 (5%) for LA statutory and quality assurance functions
- vii) to increase the Inclusion Fund to £200,000 (from £100,000) to be funded 50%/50% from the DSG Early Years and High Needs blocks

(d) Financial Year 2019-20 funding proposals

(1) Early years entitlement for disadvantaged two year olds

Early years entitlement funding for disadvantaged two year olds is currently allocated to providers at a rate of £5.35 per hour through the one factor of Base rate.

In 2019-20, we are proposing to continue to use the one rate to fund providers and increase the funded hourly rate to £5.40 per hour, which will be 95.1% of the hourly rate that we receive for eligible children from the January Census.

It is proposed to retain a contingency budget to fund for participation that is not picked up in Census, with an estimated 32.52 PTE children projected to be funded in-year, requiring approximately £100,102.

The following table illustrates the estimated funding and the distribution of the central government grant to providers:

	2 year old	Estimated Data (PTE)	Estimated Grant	% of funding rate
DfE Funding Rate	£5.66	675.45	£2,179,151	100.00%
Current Base Rate	£5.35	675.45	£2,059,798	94.5%
Base Rate Increase	£0.05	675.45	£19,250	0.9%
Contingency (term time growth)	£0.26	32.52	£100,102	4.6%
Total	£5.66		£2,179,151	100.00%

Consultation question

Based on current projections, the LA is proposing to an increase of 5p from £5.35 to £5.40 for the base rate of funding for Early Years entitlement for disadvantaged two year olds.

Retain a contingency of £100,102 to fund participation that is not picked up in Census.

(2) Universal 15 hours entitlement and the additional 15 hours entitlement for working parents for three and four year olds

Early years entitlement funding for three and four year olds currently supports:

- Universal and Extended Offer (additional 15 hours for working parents) Base Rates
- Deprivation funding
- Early Years Inclusion Fund
- Central Support Services

The current funding formula comprises of £4.53 per hour via the Base rate and deprivation supplement funding of IDACI's six bands.

For 2019-20 we are proposing to increase the funded hourly rate to £4.65 per hour, which is an increase of 12 pence per hour from the 2018-19 funded rate.

We are also proposing to continue to use the same deprivation index of IDACI and retain the same hourly rate as per 2018-19, mirroring the mainstream school's Years Reception to 11 National Funding Formula (NFF) funding rate and methodology. This ensures that the level of deprivation funding is consistent from nursery to Year 11 for children through the factor of IDACI. Other supplements that are permitted (but not recommended) are described at (a) and (b) above.

It is proposed to retain a contingency budget to fund for participation that is not picked up in Census, with an estimated 215.8 PTE children projected to be funded in-year, requiring approximately £572,057.

With the on-going pressures to the DSG High Needs Block, it is proposed to reduce the contribution from the High Needs Block to the Inclusion Fund from £100,000 to £50,000 with a corresponding increase in the contribution from the Early Years Block of £50,000.

With the need to ensure that the software systems are improved and made more effective, the central support budget is proposed to increase to £800,000 from £730,000, which is 4.7% of the overall funding received and below the maximum threshold of retention of 5%.

The following table illustrates the estimated funding and the distribution of the central government grant to providers:

	3/4 year old (universal & extended offer)	Estimated Data (PTE)	Estimated Grant	% of funding rate
DfE Funding Rate	£5.28	5,630.90	£16,946,757	100.00%
Current Base Rate	£4.53	5,630.90	£14,539,547	85.8%
Base Rate Increase	£0.12	5,630.90	£385,153	2.3%
IDACI	£0.156		£500,000	3.0%
Contingency (term time growth)	£0.178	215.83	£572,057	3.3%
Inclusion Fund	£0.047		£150,000	0.9%
Central Support Services	£0.249		£800,000	4.7%
Total	£5.28		£16,946,757	100.00%

Consultation question

Based on current projections, do you support the LA's proposals as follows:

- (i) to an increase of 12p from £4.53 to £4.65 for the base rate of funding for Early years entitlement for funding three and four year olds (universal and extended offer)
- (ii) retain deprivation as the sole supplement using IDACI data
- (iii) retain a contingency of £572,057 to fund participation that is not picked up in Census
- (iv) increase the contribution to the SEN Inclusion Fund from the Early Years Block from £100,000 to £150,000 with a corresponding reduction in the contribution from the High Needs Block
- (v) increase the Central Support budget from £730,000 to £800,000

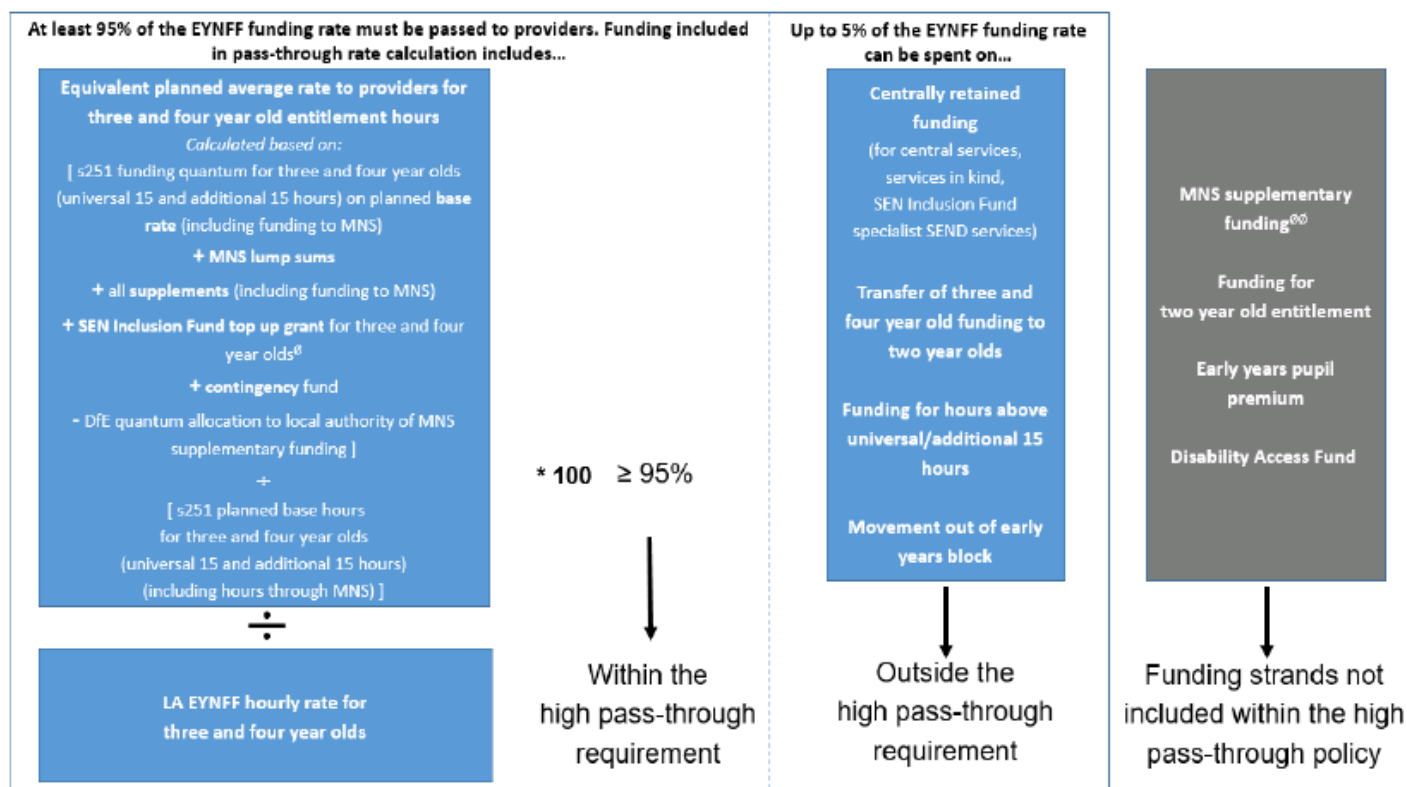
(e) Funding Rates Comparison

Factor Category	Funding Factor	2018-19 Hourly Rate	2019-20 Hourly Rate	Change	Change
Base	Two Year Old – Base Rate	£5.35	£5.40	£0.05	0.93%
Base	Three/Four Year Old – Base Rate (Universal & Extended)	£4.53	£4.65	£0.12	2.65%
Deprivation	Three/Four Year Old – Deprivation - IDACI Band F (0.20-0.25)	£0.23	£0.23	Unchanged	
Deprivation	Three/Four Year Old – Deprivation - IDACI Band E (0.25-0.30)	£0.27	£0.27		
Deprivation	Three/Four Year Old – Deprivation - IDACI Band D (0.30-0.35)	£0.41	£0.41		
Deprivation	Three/Four Year Old – Deprivation - IDACI Band C (0.35-0.40)	£0.44	£0.44		
Deprivation	Three/Four Year Old – Deprivation - IDACI Band B (0.40-0.50)	£0.48	£0.48		
Deprivation	Three/Four Year Old – Deprivation - IDACI Band A (0.50-1.00)	£0.65	£0.65		
EYPP	Three/Four Year Old – Early Years Pupil Premium	£0.53	£0.53		
DAF	Three/Four Year Old – Disability Access Fund (DLA)	£615 lump sum	£615 lump sum		
Inclusion	Two/Three/Four Year Old – Inclusion Fund Support	£3.50	£3.50		
Inclusion	Two/Three/Four Year Old – Inclusion Fund (Complex needs element)	£2.31	£2.31		

(f) Compliance Check for 95% pass through rate based on proposals

Calc	Line	Description	Hourly Funding Rate	Amount
A	1	Anticipated budget for base rate for 3 and 4 year olds	£4.65 per hour (proposed)	£14,924,700
	2	Anticipated budget for MNS lump sums for 3 and 4 year olds	n/a	£0
	3	Anticipated budget for supplements for 3 and 4 year olds: Deprivation (including funding to MNS)	Deprivation Supplement - IDACI Band F (0.20-0.25) - £0.23 per hour Deprivation Supplement - IDACI Band E (0.25-0.30) - £0.27 per hour Deprivation Supplement - IDACI Band D (0.30-0.35) - £0.41 per hour Deprivation Supplement - IDACI Band C (0.35-0.40) - £0.44 per hour Deprivation Supplement - IDACI Band B (0.40-0.50) - £0.48 per hour Deprivation Supplement - IDACI Band A (0.50-1.00) - £0.65 per hour	£500,000
	4	Anticipated budget for supplements for 3 and 4 year olds: Quality	n/a	£0
	5	Anticipated budget for supplements for 3 and 4 year olds: Flexibility	n/a	£0
	6	Anticipated budget for supplements for 3 and 4 year olds: Rurality	n/a	£0
	7	Anticipated budget for supplements for 3 and 4 year olds: EAL	n/a	£0
	8	Anticipated budget for 3 and 4 year old SEN inclusion fund (top up grant element)	Inclusion Fund Support - £3.50 per hour Complex Needs Support - £2.31 per hour (<i>must be in receipt of Inclusion Fund Support</i>)	£150,000
	9	Anticipated budget for 3 and 4 year old contingency	£4.65	£572,057
		Subtotal =		£16,146,757
B	10	DfE initial quantum allocation to local authority of MNS supplementary funding	n/a	£0
C	11	Planned total base rate hours for universal 15 and additional 15 hours for 3 and 4 year olds	5,630.9 PTE (<i>estimated from Autumn 2018 Census numbers & previous year's data</i>)	3,209,613 hours
D	12	Equivalent average rate to providers for entitlement hours for 3 and 4 year olds = (A-B) / C = (lines 1+2+3+4+5+6+7+8+9 - 10) / (line 11)	(£16,146,757 - £0) / 3,209,613 hours	£5.03 per hour
E	13	LA EYNFF hourly rate for 3 and 4 year olds (published in preliminary November 2018 DSG Early Years block table)		£5.28 per hour
F	14	Test of meeting requirement F = (D / E) * 100 = ((line 12) / (line 13))*100	(£5.03 per hour / £5.28 per hour) x 100%	95.3%

(g) DfE diagram illustrating which funding strands are included in the 95% pass-through rate calculation, and which are excluded



[Ⓔ] SEN Inclusion Fund must be established by combining an amount from either one or both of their early years block and high needs block.

^{ⒺⒺ} DfE allocated MNS supplementary funding quantum to local authority. Only the MNS funding from the EYNFF allocation is considered within the pass-through rate calculation.

For those who wish to complete the consultation by ink, please complete the response form below and email your response to education.finance@havering.gov.uk.

Consultee Details :

Name :

Position (if applicable) :

Date :

Organisation :

Email address :

1. Early years entitlement for disadvantaged two year olds proposals:

(i) 2 year olds – an increase of 5p from £5.35 to £5.40

☐ Yes ☐ No ☐ No view

(ii) Retain a contingency of £100,102 to fund participation that is not picked up in Census.

☐ Yes ☐ No ☐ No view

2. Early years entitlement for three and four year old proposals:

(i) 3 & 4 year olds – an increase of 12p per hour to the basic hourly rate from £4.53 to £4.65

☐ Yes ☐ No ☐ No view

(ii) retain deprivation as the sole supplement using IDACI data

☐ Yes ☐ No ☐ No view

(iii) retain a contingency of £572,057 to fund participation that is not picked up in Census

☐ Yes ☐ No ☐ No view

(iv) increase the contribution from Early Years Block from £100,000 to £150,000 to compensate for the reduction in the contribution from the High Needs Block

☐ Yes ☐ No ☐ No view

(v) increase the central retention to £800,000 (from £730,000), which is within the 5% central retention permitted.

☐ Yes ☐ No ☐ No view