

Schools Funding Forum 18th January 2017

ITEM 15

Subject Heading:

Early Years National Funding Formula

Report Author:

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Eligibility to vote:

**School and academy members and PVI
representative**

SUMMARY

This item summarises proposed changes to the funding rates and other aspects of early years education funding in Havering following a consultation with the Early Years Provider Reference Group. A DFE consultation on the proposed changes was presented to the Schools Funding Forum at the meeting held on 22nd September 2016 and the Government response to the consultation was received from the DFE in December 2016.

RECOMMENDATIONS

The Schools Funding is recommended to:

1. Agree the recommendations of the Early Years Provider Reference Group in implementing the requirements of the early years national funding formula as follows:
 - (i) from the total early years funding received retain £730,000 for central functions relating to early years from 2017-18 to produce a pass-through rate to providers of 95%
 - (ii) to retain a contingency of £403,000 from the 95% pass-through rate to meet the costs of funding provision that is unfunded from January census data

- (iii) to include a supplement for deprivation within the single funding formula at an hourly rate that is consistent with the rates used for primary schools
 - (iv) that no other supplements are included in the single funding formula (NB – see para 2 below)
 - (v) that £50,000 is allocated to a social inclusion fund from early years funding to match the £50,000 held in the high needs block
 - (vi) that the rate for disadvantaged 2 year olds be £5.28 and a contingency held of £103,000 to meet the costs of funding provision that is unfunded from January census
2. Agree that further work be carried out by the LA on supplements for Quality and EAL for consideration of inclusion in the single funding formula for 2018-19.
3. Agree a base rate of £4.39 per hour.
4. Consider options for the funding of the deprivation supplement as follows:
- (i) to match the current deprivation rates used in the schools formula for primary schools
 - (ii) to match the revised deprivation rates used in the schools formula for primary schools as agreed by the Schools Funding Formula
 - (iii) to apply the schools national funding formula rates for deprivation with an adjustment to Band F

REPORT DETAIL

1. Background

The DFE launched a consultation on the introduction of an early years national funding formula on 11th August 2016 with a deadline for responses of 22nd September.

The intention is to create a strong and sustainable early years funding system that is fair and transparent. The national funding formula will allocate funding for 3 and 4 years old entitlement both for the existing 15 hour entitlement and the new 30 hour entitlement for working parents to be introduced from September 2017.

Currently there are significant and unjustified variations between local authority funding rates from central government which lead to significant differences in the hourly rates that local authorities pay to their providers. There are also differences between local authorities in the amounts that they retain to meet central costs.

An additional £300m is being allocated to uplift the government funding rates which for the majority of LAs will lead to an increase in the rates paid to providers.

2. Revised funding arrangements for 2017-18

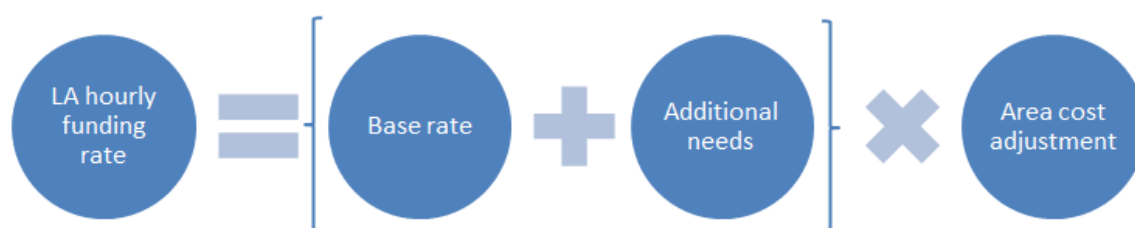
2.1 Summary

Following the consultation, the new arrangements will be as follows:

- a new early years national funding formula from April 2017 that will increase Government funding rates in 80% of local authorities;
- a minimum funding rate of at least £4.30 per hour for every local authority;
- a requirement for local authorities to pass 95% of their funding to providers;
- additional funding, worth £55m per year, to support maintained nursery schools until the end of this Parliament (2019-20);
- a new Disability Access Fund worth £615 per child per year to support disabled three- and four-year-olds to access their early years entitlement; and
- a requirement for all local authorities to have Inclusion Funds to channel additional support to children with Special Educational Needs.

2.2 Funding from central government to local authorities

2.2.1 The formula



Base rate funding	89.5%
Additional needs funding	10.5%

Additional needs based on:

FSM eligibility	8%
English as an additional language	1.5%
Disability living allowance	1%

Area cost adjustment based on:

General labour market adjustment	80%
Nursery & pre-school rateable cost adjustment	10%
Universal costs	10%

2.2.2 Data sources

Funding will continue to be based on the latest January census data adjusted for the following January census to allow for growth. The second January census will adjust the funding for the September to March period (7/12ths)

Data for Free School Meals and EAL will be taken from averages of census data from KS1 and KS2.

2.2.3 National funding increases

The increase in the level of Government funding will provide local authorities with a guaranteed minimum funding of £4.30 per hour giving scope for them to pay providers an average hourly rate of £4 per hour for 3 and 4 year olds. Funding for the early years sector will increase further following the introduction of an additional 15 hours of free entitlement for eligible families from September 2017.

Funding for disadvantaged two year old will also increase from an average of £5.09 to £5.39.

2.2.4 Havering Funding

Currently, LAs are funding according to a Guaranteed Unit of Funding (GUF) per child on the January census, adjusted for the second January census. For Havering the GUF is £3,979.94 which based on January 2016 data would allocate £9.6m.

Using the same data, it is estimated that the revised formula at 2.2.1 will allocate £11.2m, an increase of 16%.

Funding for two year olds will increase from £5.28 per hour to £5.66 from 2017-18.

2.3 Local authority funding to providers

2.3.1 Central retention

To ensure consistency in the amount of the funding received by local authorities that is retained for central functions, a minimum pass-through

rate to providers is included in the new arrangements. This is 95% from 2018-19 onwards with a slightly lower level of 93% in 2017-18 to allow some LAs time to reduce central costs.

2.3.2 Pass- through rate

It is permitted that contingencies are included in the 95% pass-through rate subject to them being used to include in the funding allocated to providers. Similarly, contributions to a social inclusion fund may also be included in the 95% subject to them being used to fund providers.

2.3.3 Universal base rate

By 2019-20, all local authorities are required to set a universal base rate in their local single funding formula which is the same for different types of provider. In Havering, the base rates are currently £3.56 for private and voluntary providers and £4.10 for schools.

2.3.4 Supplements

Local authorities' single funding formula should ensure that no more than 10% of the funding is allocated through supplements. The initial consultation suggested a range of standard supplements and following consultation the final supplements that may be used are as follows:

Category	Mandatory / discretionary	Allowed / not allowed
Deprivation	Mandatory	Allowed
Rurality/Sparsity	Discretionary	Allowed
Flexibility	Discretionary	Allowed
Quality	Discretionary	Allowed (used for workforce qualifications and/or system leadership)
English as an additional language	Discretionary	Allowed
<i>Efficiency</i>	<i>N/A</i>	<i>Not allowed</i>
<i>Additional 15 hours</i>	<i>N/A</i>	<i>Not allowed (future possible inclusion will be kept under review)</i>

2.4 Meeting the needs of disabled children and children with special educational needs

From April 2017, the government will introduce the new targeted early years Disability Access Fund of £12.5m, to enable a fixed lump sum payment of £615 per eligible child per year to be paid to early years settings that are

providing a free entitlement place for three and four year olds. The eligibility criteria for receiving the Disability Access Fund will be receipt of DLA.

The purpose of the Disability Access Fund is to aid access to places. Additional funding for providing ongoing support for disabled young children will continue to be available from the high needs block of the DSG, including for children with Education, Health and Care (EHC) plans. Children with SEND who are not in receipt of DLA will also be able to access support from their local SEN inclusion fund.

From April 2017 all local authorities will be required to establish SEN inclusion funds for three and four year olds in their local funding systems. Local authorities, in consultation with their local early years providers, parents, and SEN specialists, will be responsible for deciding the children for which the SEN inclusion fund will be used. The DFE view is that the fund would be best focused on children with lower level or emerging SEN, since those with more complex SEN (broadly those children in receipt of an Education, Health and Care (EHC) plan) can receive additional funding via the high needs DSG block.

Local authorities will be responsible for deciding the amount of money (pooled from either or both of their early years and high needs DSG funding) that they set aside for their SEN inclusion fund, and how the fund will be allocated to providers. The Government will require local authorities to publish details of their eligibility criteria along with the planned value of the fund at the start of the year, and the process for allocating funding to providers as part of their 'Local Offer'.

Local authorities should pass the majority of their SEN inclusion funds to providers in the form of top up grants on a case-by-case basis: this will count within the 95% pass-through.

2.5 Consultation with the Early Years Provider Reference Group

A consultation was held with the Early Years Provider Reference Group (EYPRG) on 30th November, the day before the Government response to the August/September consultation was issued. The view of the EYPRG was that a higher base rate would be sufficient to incentivise implementation of the additional 15 hours rather than a separate supplement. Data for flexibility and efficiency was difficult to capture.

The recommendations to the Schools Funding Forum were as follows:

- (i) That the LA implements the revised formula from 2017-18
- (ii) From the funding received, the DFE retain £730,000 for central functions relating to early years. This is within the 5% permitted for 2018-19 and within the 7% for 2017-18. Pass-through rates would therefore be 95% from 2017-18.

- (iii) That a contingency be held of £403,000 for the funding of participation that is outside of the two January census dates. This follows the recommendation of the LA to avoid overspend of the Early Years Block. The contingency forms part of the 95% pass-through rate.
- (iv) That the deprivation supplement (which is mandatory) is to be the only supplement to be used in Havering's formula. Options to fund discretionary supplements of flexibility, additional 15 hours, efficiency and rurality/sparsity were not agreed.

Note: Since this recommendation, two other supplements have been included in the range which may be included: Quality and EAL.

- (v) That the hourly rates to be attached to the deprivation supplement to be the same as those used in the schools funding formula for primary schools as follows:

Band 1	£0	£0
Band 2	£120	£0.21 per hr
Band 3	£274	£0.48 per hr
Band 4	£610	£1.07 per hr
Band 5	£627	£1.10 per hr
Band 6	£644	£1.13 per hr

Note: Since this recommendation, the IDACI rates to be used in the Schools National funding Formula have changed which may impact on those used in the 2017-18 local schools funding formula.

- (vi) That £50,000 be allocated from Early Years funding towards a social inclusion fund. This match funds the £50,000 already included within the High Needs Block.
- (vii) That for 2 year olds, the hourly rate to fund providers remains at £5.28 and £103,000 is retained as a contingency to fund participation that is outside of the two January census dates. This follows the recommendation of the LA to avoid overspend of the Early Years Block. This was agreed subject to the assurance of the Schools Funding Forum that any balance from the contingency would be ring-fenced for early years.

2.6 Financial implications for providers

Based on a pass-through of 95% of the grant and a minimum of 90% allocated through the base rate, the minimum base rate for all providers will

be £4.14 per hour. The less that is allocated to fund supplements, the greater will be the base rate.

Allocating funding to deprivation only will produce a base rate of £4.39 to all providers.

The Quality supplement would cease which is currently £0.29 for Good settings and £0.39 for Outstanding

Deprivation rates would change as follows:

	current £	revised £
Band 1	0	0
Band 2	0.37	0.21
Band 3	0.57	0.48
Band 4	0.97	1.07
Band 5	1.35	1.10
Band 6	1.75	1.13

It is estimated that this would allocate £458k of funding through deprivation factors compared to £460k in 2015-16 and an estimate of £505k in 2016-17.

2.7 Revisions to supplements

Since the consultation with EYRPG, the final arrangement for funding have been published by the DFE and there have been changes to the supplements permitted and to the IDACI bandings relating to schools funding both for 2017-18 and in the proposals for National Funding Formula.

In the initial consultation, a Quality supplement was excluded from the range that local authorities may use in their formula but it is now included. The inclusion of an EAL factor is also permitted.

2.7.2 IDACI

The DFE has changed the IDACI bandings as follows:

IDACI Score	IDACI band 2016/17	IDACI band 2017/18
Less than 0.2	0	G
0.2 - 0.25	1	F
0.25 - 0.3	2	E
0.3 - 0.35	3	D
0.35 - 0.4		C
0.4 - 0.5	4	B
0.5 - 0.6	5	A
0.6 - 1	6	

Even without any decisions of the Schools Funding Forum to change the funding rates for 2017-18, this will slightly change the IDACI factors used for the early years formula as follows:

Current (Schools) £		Revised £	
0	0	G	0
1	0	F	0
2	0.21	E	0.21
3	0.48	D	0.48
		C	0.48
4	1.07	B	1.07
5	1.10	A	1.13
6	1.13		

The recommendation of the EYPRG was to use the same IDACI rates in the Early Years formula as used in the schools formula. These rates are to be decided elsewhere in this agenda.

Irrespective of the rates to be used for schools' 2017-18 funding, the rates for the Early Years formula could move directly to the schools NFF rates (with an adjustment to Band F to be within budget). These would be as follows:

Schools NFF £		Amended £
G	0	
F	0.37	0.18
E	0.45	
D	0.68	
C	0.68	
B	1.79	
A	1.09	
Cost	£559k	£506k

2.8 Quality

A Quality factor is permitted to:

- support workforce qualifications, or;
- support system leadership (supporting high quality providers leading other providers in the local area)

The data for this is not currently secure and is it recommended that further work be carried out for proposals to be considered for 2018-19 funding.

2.9 EAL

An EAL factor is permitted based on the numbers of children with EAL on the census.

The data for this is not currently secure and it is recommended that further work be carried out for proposals to be considered for 2018-19 funding.