

Schools Forum

18th October 2016

Early Years Funding DfE Consultation

Introduction

1. On 11 August 2016 the Department for Education (DfE) launched a consultation on a proposed new early national funding formula. These changes will affect the funding arrangements for both the existing three and four-year old free entitlement and the extension to 30 hours for the children of working parents, which will be introduced in September 2017. This report provides Schools Forum with the key points relating to the proposed new formula and highlights the potential impact on future early years funding.
2. The consultation period ran until Thursday 22 September 2016 and details of the consultation were forwarded to Forum members during the summer break inviting input into the Councils response.

Background

3. The local authority has a statutory duty to ensure that all children can access their free early years entitlement. Current entitlements are: -
 - a. universal entitlement for all children, from the term after their third birthday, for up to 15 hours of free childcare during school term times (15 hours for 38 weeks of the academic year, 570 hours in total)
 - b. entitlement can be spread over the whole year with fewer hours taken each week if parent and provider agree
 - c. a similar entitlement for all children from the term after their second birthday if the family meet the free school meal eligibility criteria.
4. Early years places are commissioned from a range of providers including primary schools, private and voluntary independent providers and childminders. Providers are funded based on participation.
5. The local authority receives its funding for the provision of these children as a separately specified element of the overall Dedicated Schools Grant. The total amount received each year is based on the numbers of children accessing provision at the time of the annual Early Years Census which takes place in January each year.
6. Rates of per pupil funding received by the local authority have not been increased in the last few years. Currently, the Early Years (EY) block funding received by LAs

is distributed to providers on the basis of a locally agreed EY funding formula for three and four year olds..

7. From September 2017 three and four year olds in 'working families' will be entitled to an additional 15 hours entitlement each week.

Proposed New Early Years Formula

8. There are four main themes to the new proposals:
 - a. transparency in the way funding is allocated from Government to local authorities and, in turn, to providers
 - b. to maximise the funding passed from the local authority to providers,
 - c. to ensure a fair distribution of funding to all types of providers
 - d. to create a better deal for disabled children and those with additional and special needs.

Funding from central government to local authorities

9. A new early years' national funding formula will 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; and for the additional 15 hours for children of working families, in September 2017, when 30 hours of free childcare is implemented nationally.
10. Hourly funding rates (national average) will increase from £4.56 to £4.88 for three and four year olds (including Early Years Pupil Premium spend). The rate in Stockton will rise to £4.45. The figures also suggest that Stockton would receive a further sum of £1.479m in 2017/18 to fund the additional 15 hour entitlement from September 2017 to March 2018.
11. The average national funding rate for disadvantaged two year olds is to increase from £5.09 to £5.39 for two year olds. The rate received Stockton will increase from £4.85 to £5.20. The Government are minded to retain the current two year old arrangements so they are not covered by the proposals in this consultation.
12. The new formula will be based on three funding factors that determine the funding per child that each local authority receives:
 - a. 'universal base rate' for each child. The base rate will allocate the majority (89.5%) of all early years formula funding.
 - b. 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:
 - i. Free School Meal eligibility, with a proposed weighting of 8%.
 - ii. English as an Additional Language, with a proposed weighting of 1.5%.

- iii. Disability Living Allowance, with a proposed weighting of 1%.
- c. an 'area cost adjustment' reflecting the different costs of providing childcare in different areas of the country.

13. 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. Stockton is a gainer under the proposals.
14. 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.

Funding from local authorities to providers

15. 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.
16. 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. Stockton already pays all its providers at the same rates.
17. 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 paid 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.

18. Stockton currently have supplements relating to quality which will not be allowed under the proposals.
19. The Governments illustrative average hourly rate that a provider might expect to receive for 3-4 year old funding in Stockton in 2017-18 is £4.17, including all supplements.

Meeting Childrens Additional Needs

20. 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 disabled children and must make reasonable adjustments for them.
21. 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.
22. 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.
23. 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.
24. 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.
25. 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.
26. 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.

27. 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. In Stockton we currently have a process in place for funding early years high needs, comparable with that for compulsory school age children in order to meet our duties under the EYFS and SEND Code of Practice.

28. 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.

29. The Early Years Pupil Premium will also continue.

Next Steps

30. The Government's response will 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.

31. The government acknowledges that the speed of these changes to EY funding will be 'challenging' for LAs as they will have to determine the funding approach, consult with providers, discuss with Schools' Forum and announce arrangements in advance of April 2017. The same can be said for providers as they may have late notification of final funding figures.

32. It is proposed that a Working group is established to work up proposals to consult with all relevant stakeholders and be brought to Forum in January and / or at the February 2017 meeting as appropriate.

Recommendations

33. That the Forum notes the contents of this report considers nominees for a working group.

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