

## SCHOOLS' FUNDING FORUM

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| <b>SUBJECT:</b> | Briefing on the Early Years National Funding Formula Consultation |
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| <b>SUMMARY OF REPORT:</b>  |                  |
| To provide a briefing on the DfE Early Years National Funding Formula consultation |                  |
| <b>FOR:</b>  | Information only |

### 1. Introduction and background

The Department for Education (DfE) launched its Early Years National Funding Formula consultation on the 11 August 2016. The deadline for responses to the consultation is the 22 September 2016. For some time the DfE have made clear their intention to run an Early Years funding consultation, however the timing and length of the consultation is not ideal as it is only 6 weeks in duration and almost 4 weeks of this is during the summer holidays.

The Government intends to publish their response to the consultation in the autumn. It is their aim that Local Authority (LA) DSG allocations will be published at the same time to allow LAs to go out to consultation with Early Years providers for implementation of the new funding arrangements from 1 April 2017.

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

The DfE are still to provide guidance on the operation of the 30 hour entitlement. In the summer the DfE held a consultation titled 'Childcare Free Entitlement Delivery Model' which closed on the 6 June 2016 and the response to this consultation is due to come out later in the autumn.

The government is committed to delivering their manifesto pledge which is to extend the free entitlement from 15 to 30 hours a week for working parents and this commitment underpins the proposals contained within this consultation and the future direction of travel for early years funding.

In this consultation launch, the government have painted a very positive picture and have stated that annually there will be £1 billion of extra investment and £300 million of this will be for a significant increase in funding rates. Whilst this is a very welcome investment in the sector, only a small proportion of the £1 billion will be targeted to increase the funding rates with the vast majority of this increase funding increased participation. I make this point at an early stage as it is crucial that providers in Kent have their expectations managed as the

message from the government could be misinterpreted that all of the £1bn will translate into improved funding rates.

In order to deliver free childcare for 30 hours the government acknowledges that providers cannot be compelled to do so and therefore funding will be the principal means of incentivising providers to do this. In order to achieve the increase in rates there are three elements to the strategy:

1. New money and investment in the funding rates.
2. An emphasis on passing as much funding as possible to providers and restricting funding retained by LAs to a maximum of 5% by 2018-19..
3. Making no distinction between providers so as to have consistency in funding rates. Currently the early years funding formula allows the inclusion of a factor for qualified teaching staff and it is proposed that this will not be allowed. Where LAs currently have such a factor, they are likely to see a shift in funding from maintained settings to PVI settings. The government thinking being that private providers are most likely to increase capacity in order to deliver the 30 hour entitlement.

## 2. The Current System

It is important to understand that there are two separate and very different stages in the operation of the early years funding:

- 1) the first is an amount allocated from government to LA through the Dedicated Schools Grant (DSG)
- 2) the second is how this funding is then allocated between providers and LA central services.

### **Stage 1 – What Kent receives from Government**

KCC currently receives a guaranteed unit of funding per pupil of £4,307.32 which when converted to a full time equivalent rate (\*15/25) and then divided by 570 (38 weeks x 15 hours) equates to an **average hourly rate of £4.53**.

As part of the rebasing of DSG in April 2016, £1m of Early Years funding was transferred to the High Needs block for SCARF funding (this is explained in more detail later in this briefing note). **The effect of this rebasing is to reduce the average hourly rate to £4.46.**

The funding that we receive is used to pay providers for the free entitlement and also to pay for some statutory central services. Based on the £4.53 rate, £4.28 is paid to providers and the balance is retained to pay for LA central services.

### **Stage 2 - Kent's current Early Years Funding Formula**

To understand the proposed changes and the implications it is first necessary to understand how Kent currently fund early year providers.

## **Funding allocated by LA's to Early Years Providers**

Each LA will have an Early Years local funding formula to distribute funding to its providers. The allowable factors used to distribute the funding are prescribed by the DfE, and the factors used in Kent's formula are:

### Base rate

A universal base rate of £3.91 per child hour paid to all types of providers. This element of the formula is targeted at the basic core costs that all providers incur.

### Flexibility factor

This factor is in recognition that settings provide flexible opening hours and is paid at a rate of £0.05 per hour. To receive this element the provider must as a minimum be open between the hours of 8am to 6pm and not restrict the free entitlement to pre-set sessions.

This factor was included in the formula to incentivise certain providers to deliver the free entitlement, where it was not as economical as providing non-free entitlement childcare.

### Leadership qualification factor (Quality)

This factor recognises that the most significant single indicator of high quality provision is the qualification levels of staff in a setting.

To be in receipt of the Qualified Leader supplementary rate, a setting must have a nominated leader with either Qualified Teacher Status (QTS) or Early Years Professional Status (EYPS). The rates of funding are EYPS £0.30 / QTS £0.90 per child hour

### Disadvantage factor

This factor targets funding at the most deprived children. We use data from Mosaic (proxy indicator) to allocate funding to providers. Funding is targeted at the 25% of most deprived settings and eligible settings will receive funding between £0.01 (least deprived within the 25%) and £1.01 (most deprived within the 25%) per hour.

### Quality lump sum

Settings can receive a Quality Lump Sum (QLS) payment based on an Ofsted inspection judgement. If a setting is judged to be Good or Outstanding, they will receive a lump of £300 and £0.05 per hour for the number hours claimed in the previous year.

### Maintained Nursery Schools

Our maintained nursery school currently receives an annual lump sum of £87,036.

### Summary

All providers receive the same level of base funding. Depending on eligibility, supplements are added to the base rate. This means that the rate each provider receives is unique to their setting and circumstances. It is therefore necessary to use average funding rates from here on in as a basis for comparison with the national position and other local authorities.

### Early Years Average Funding Rates - 2016-17

The table below shows the current average Early Years funding rates (expressed as a rate per child hour) by type of provider

| Type of Provider           | Base rate    | Quality      | Flexibility  | Deprivation  | Quality lump sum | Nursery school lump sum | Overall average rate |
|----------------------------|--------------|--------------|--------------|--------------|------------------|-------------------------|----------------------|
| Maintained Nursery school  | £3.91        | £0.90        | £0.00        | £0.15        | £0.00            | £1.66                   | £6.62                |
| Maintained nursery class   | £3.91        | £0.90        | £0.00        | £0.19        | £0.00            | £0.00                   | £5.00                |
| PVI Nursery                | £3.91        | £0.16        | £0.01        | £0.05        | £0.03            | £0.00                   | £4.15                |
| Independent Nursery school | £3.91        | £0.72        | £0.00        | £0.00        | £0.01            | £0.00                   | £4.64                |
| Child Minder               | £3.91        | £0.01        | £0.04        | £0.04        | £0.23            | £0.00                   | £4.23                |
| <b>Overall Average</b>     | <b>£3.91</b> | <b>£0.27</b> | <b>£0.01</b> | <b>£0.06</b> | <b>£0.03</b>     | <b>£1.66</b>            | <b>£4.28</b>         |

### How many times do we pay providers?

Early year's providers are funded by the LA on 3 pupil counts, the autumn, spring and summer. The pupil counts vary considerably across the year. In autumn numbers are at their lowest point. Between autumn and spring we see a pupil increase of around 27%, between spring and summer we see a pupil increase of around 11% and finally between the summer and autumn we see a decrease of around 30%.

### 3. Early Years Consultation proposals - The Case for Change

1. Manifesto pledge to implement 30 hours of free childcare for 400,000 families from September 2017. Providers cannot be compelled to do this and therefore funding will be the principal means of incentivising them.
2. The current funding system allocates funding to LAs on historic spending patterns which is impossible to justify or explain. Hourly rates range from £3.24 to £9.17.
3. Some LAs retain far too much of their allocation as 'central spend'.
4. Some LAs unfairly differentiate the funding rates between different providers. This matters to the 30 hours delivery as the majority of 30 hour places will be delivered by the private & voluntary sector.
5. The significant investment in Early Years will only exacerbate the inequities in funding, unless 2, 3 and 4 above are resolved.

#### 4. The Early Years National Funding (Government to LA)

The proposal is to have an objective transparent formula that passes funding from government to LA.

It features three funding factors that determine the funding per child that each local authority receives:

- i) A universal base rate of funding for each child.
- ii) An additional needs factor, reflecting the extra costs of supporting children with additional needs to achieve good early learning and development outcomes.
- iii) An area cost adjustment, reflecting the different costs of providing childcare in different areas of the country.

##### Base rate

The majority of funding (89.5%) will be allocated through this factor.

##### Additional Need factor

The additional need factor will be based on the three following metrics.

- a) Free School Meal eligibility, which the DfE propose to weight to 8%
- b) English as an Additional Language, which the DfE propose to weight to 1.5%
- c) Disability Living Allowance, which the DfE propose to weight to 1%.

##### Area Cost Adjustment

An area cost adjustment to reflect cost differentials between local authorities. This will comprise of two components, a factor for staffing costs that correlates to the general labour market and a factor for premises, which will be the rateable value of nursery premises as this a good proxy indicator of premises costs.

#### **Breakdown of Kent's funding rate**

The table below provides a breakdown of how Kent's proposed funding rate for 2017-18, as per the DfE consultation, has been calculated.

| Factors                                  | Hourly rate per pupil before Areas cost adjustment | % of eligible Kent pupils | Area cost adjustment, between 1 and 1.9 | Full rate per pupil after Areas cost adjustment |
|--|--|---------------------------|---|---|
| Universal base rate (89.5%)              | £3.53  | 100.0%                    | 1.16                                    | £4.09   |
| <b>Additional need factors</b>           |  |                           |   |   |
| Free School meals (8%)                   | £2.13  | 12.4%                     | 1.16                                    | £0.31   |
| English as an additional language (1.5%) | £0.29  | 11.2%                     | 1.16                                    | £0.04   |
| Disability Living Allowance (1%)         | £0.74  | 5.7%                      | 1.16                                    | £0.05   |
|  |  |                           |   | <b>£4.48</b>                                    |

## The National Picture

Appendix 1 provides details of the average early years funding rates (EYFR) in 2016-17 and 2017-18 by LA area. In 2016-17 the national average EYFR is £4.51 and in 2017-18 it is proposed that the national average EYFR rate will be £4.71 a 20p (4.5%) increase. In comparison, Kent's EYFR in 2016-17 is £4.53 and in 2017-18 it will be £4.48, a decrease of £0.05 (1.2%).

Across all South East LA's the average EYFR rate in 2016-17 was £4.38 and it is proposed that the average EYFR rate in 2017-18 is £4.68 a £0.30 (6.8%) increase.

Appendix 2 provides a breakdown of the factors that make up the rate for South East local authorities. Kent additional factors for FSM, EAL and DLA are pretty much average for the South East. However the area cost adjustment for Kent is 1.16 and this is below the average for the South East of 1.24 and therefore this is the main reason why we are below the average.

### LA comments

We welcome the introduction of a transparent objective formula and in general agree with both the 89.5% minimum threshold for the basic entitlement and the methodology used in calculating the rate.

However it is disappointing that we have seen a reduction in the average funding rate from £4.53 to £4.48. The obvious implication of a reduction in funding is that it will make it even more challenging to deliver the manifesto pledge of providing childcare for 30 hours as the main incentive to facility this would be an increase in the funding rate for providers.

## 5. Amending the LA role

The rationalisation of the formula from government to LA will achieve significant improvement in targeting the funding, however this cannot in itself ensure that providers will receive sufficient funding in order to deliver 30 hours of free childcare. In order to meet the target there will be three key changes to how LAs distribute funding, the changes are:

1. Require LAs to make their local funding formula fairer to different types of providers. This means that all else being equal a child in a private or voluntary setting will receive the same level of funding per child as a child in a nursery class in a primary school.
2. The variation between LA's local formula will be reduced so that it is clearer and simpler for providers.
3. Tackling LAs that retain excessive funding centrally, by limiting this to 5% by 2018-19.

## 6. Clearer and simpler funding formula from the LA to the provider

The LA formula will comprise of two components, a single base rate and a prescribed list of approved supplements determined by the DfE. In future all LAs will have a single base rate which must apply to all providers. Currently some LAs have multiple base rates that differentiate between providers. In Kent we currently have one base rate for all providers, so

already comply with this proposal. It is proposed that a minimum of 90% of funding will be allocated to providers through the base rate factor and a maximum of 10% of the funding allocated to providers can be allocated through supplements. Our current formula distributes 92% through the base rate and 8% through supplementary factors.

### **Supplementary Factors**

It is proposed that the following supplements are allowable in the LA formula for 2017-18.

#### Deprivation

This is a mandatory factor and must be included in the formula and the amount distributed must be within the 10% maximum that can be allocated through all supplements. The data used to distribute this supplement will be at the LAs discretion. Examples of possible data sources that could be used are Mosaic, Income Deprivation Affecting Children's Index (IDACI) and the Indices of Multiple Deprivation (IMD).

#### Rurality / Sparsity

This is an optional factor but if used the amount distributed must be within the 10% maximum that can be allocated through all supplements. This factor can be used to target funding to rural areas where childcare providers bear higher costs than urban areas. If this factor is used it must be judged by distance.

#### Flexibility

This is an optional factor but if used the amount distributed must be within the 10% maximum that can be allocated through all supplements. In essence this factor is provided to providers who offer flexible childcare which fits around parents' working patterns, and is provided to encourage provision of a 'stretched offer' including holiday care, 'wraparound' to extend the day or out-of-hours provision. If a LA chooses to use this factor it will have considerable discretion at which group of providers it targets funding.

#### Efficiency

This is an optional factor but if used the amount distributed must be within the 10% maximum that can be allocated through all supplements. The review and subsequent report carried out by the [DfE Cost of Childcare](#) makes specific reference to improved efficiencies in settings. It is reported that many setting could better utilise there staffing ratios in order to become more efficient. This supplement would reward settings for applying these types of efficiencies in their setting.

#### Delivery of the additional 15 hours free childcare

This is an optional factor but if used the amount distributed must be within the 10% maximum that can be allocated through all supplements. As the description implies, providers could be rewarded/incentivised for delivering the additional 15 hours free entitlement.

### **Maintained Nursery School Protection**

For the period 2017-18 and 2018-19, the DfE have confirmed in their proposals that additional lump sum funding will be provided for maintained nursery schools at an amount of £141,517 per annum in order to manage the transition to the new formula in full by 2019-20.

## General overview of provider funding rates for 2017-18

The table below provides an overview of the potential impact on providers using the proposed new average funding rates. It is not possible to speculate at this point if supplements will be used and what share of the funding will be allocated specifically through these factors.

At this point we have estimated the average hourly rate for distribution will be £4.21, this is £0.07 lower than 2016-17. In arriving at this rate we have assumed central costs will remain at the same level and there will be a small contingency retained of 1%.

| Type of provider           | Avg rate 2016-17 | Avg rate 2017-18 | Move-ment in funding | % move-ment | Avg size (PTE) | Funding 2016-17 | Funding 2017-18 | Difference in funding by type of provider |
|----------------------------|------------------|------------------|----------------------|-------------|----------------|-----------------|-----------------|---|
| Maintained Nursery School  | £6.64            | £4.21            | £2.43                | -37%        | 92             | £348,409        | £220,694        | £127,715                                  |
| Maintained Nursery class   | £5.00            | £4.21            | £0.79                | -16%        | 40             | £113,553        | £95,540         | £18,013                                   |
| PVI Nursery                | £4.15            | £4.21            | £0.06                | 1%          | 27             | £62,976         | £63,771         | £795                                      |
| Independent Nursery School | £4.64            | £4.21            | £0.43                | -9%         | 31             | £82,338         | £74,583         | £7,755                                    |
| Child Minder               | £4.23            | £4.21            | £0.02                | 0%          | 1              | £2,429          | £2,417          | £12                                       |

Figures subject to rounding

### LA Comments

Currently the early year's formula can include a quality factor in recognition of the qualification levels of staff in a setting. In future this will not be allowed and the following statement has been made in the consultation document.

'We recognise that funding is an important element of improving quality, however good quality provision should be expected of all providers in the sector. Quality is an expectation of government and parents, rather than an optional extra. This should not only be guaranteed by the use of supplements'.

Putting a side whether or not the new direction of travel is agreeable it would seem that maintained settings may be in a position of disadvantage in respect of managing their costs as there is different regulations in respect that maintained settings must employ qualified teachers where as other providers do not need to.

There are two main concerns, 1) the likely reduction in maintained setting funding rates which are £2.43 per hour for Northfleet Nursery and £0.79 per hour for a maintained nursery class and 2) will the increase of £0.06 per hour be sufficient to incentivise private nurseries to deliver the 30 hour free entitlement.

It will be determined at a later date if supplements are to be used in Kent's local formula and how much will be allocated through these supplements. The inclusion of a deprivation indicator as a mandatory factor seems to be sensible. We do however have concerns regarding the remaining supplements, both in respect of the underlying principles for



targeting funding in this way and also the collection of data and practical identification of a robust and reliable data source.

For example the efficiency factor could be interpreted as maximising the pupil staff ratio. It is unclear how would you collect and use an objective measure to identify this. It would appear that the DfE are struggling with this concept as no suggestion has been made in the consultation on how this would be done.

## 7. Managing the Transition

The transition to the new formula impacts in two areas the first is transition protection for the funding rate and second is limiting central costs to 5%.

### Move to new funding

No LA will see a reduction of more than 10% in its funding rate. The reduction will be capped at a maximum of 5% in 2017-18 and then a further maximum reduction of 5% in 2018-19.

### Central Costs

By 2018-19 LAs will not be able to retain more than 5% of Early Years Funding for central services, and this will be phased in over two years. The threshold for 2017-18 will be 7% moving to 5% in 2018-19.

Kent currently retains £4.811m per annum, and this largely supports the statutory work within the Early Years and Childcare team.

It is not clear from the consultation document precisely how these proposed thresholds will be calculated. Specific issues that are unclear are in relation to the timing of DSG payments for the 15 hours free entitlement, whether the increase to 30 hours allocation is included.

We estimate that the amount of funding that can be retained in future without breaching the threshold is within a range as follows:

|   | 2017-18 (7%) | 2018-19 (5%) |
|---|--------------|--------------|
| Worst case scenario (based on 15 hours 3&4 year old budget only)              | £4.2m        | £3.0m        |
| Best case scenario (based on 30 hours 3 & 4 year old budget plus 2 year olds) | £6.2m        | £4.4m        |

Source data in file: Modelling the SFF (Recovered) workbook

### **LA comments**

Depending on confirmation of what is included within the calculation of the total budget to which the thresholds are applied will determine the extent of the issue for Kent. A review of what the £4.811m is currently spent on and drawing up a priority list of expenditure that could be stopped to ensure compliance will need to be produced.

## 8. Support for Children with Special Educational Needs

The DfE believe that the current funding system does not serve children with Special Education Needs and Disabilities (SEND) consistently well. They are therefore determined, in rolling out the 30 hours childcare, to tackle this so that families and children with SEND can access and benefit from the free early education and childcare that they are entitled to.

The DfE therefore propose to introduce Disability Access Funding to ensure that providers will automatically receive additional funding for every child in their setting in receipt of Disability Living Allowance.

They also want to encourage all local authorities 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.

### LAs Comments

**SEN Inclusion Fund** - The LA currently allocates around £1.4m of SCARF funding (Severe and Complex Accessibility and Resource Funding - the name of the process used to provide additional funding to early years providers for pupils who require additional support with their learning) to EY providers from the high needs block for early years children and this funding is our equivalent SEN Inclusion Fund. Any changes to the method of distribution and total amount would need to be discussed between early years and SEN teams.

**Disability Access Funding** - The LA has a number of reservations about this proposal. The total amount allocated nationally will be £12.5m, and Kent's estimated share would be around 2% so £250k.

The concerns are

- It is a lengthy process to apply and access Disability Living Allowance (DLA) therefore it is likely that many children entitled will not have claimed yet.
- Typically children with physical disabilities access DLA as other types of disability take longer to diagnose. Therefore some high needs children will not be included.
- It could well be the case that funding for these children is already being targeted through the inclusion fund (SCARF).
- From a practical perspective, would this be paid in arrears or in advance? What about children who don't access the place all year or who access more than one setting?

## 9. Two year old funding

There are no proposed changes to how 2 years old funding currently operates, and therefore no move to a national funding formula for 2 year olds. In Kent we currently receive £4.93 per hour from government and we pay eligible providers £4.94 per hour.

Appendix 3 provides details of the national funding rates by LAs for 2 year olds. The average rate nationally per hour has increased from £5.03 to £5.39, an increase of £0.36 (7.1%). This increase % has been applied to the individual rates for all LAs. It is proposed through the consultation that Kent's individual rate will increase from £4.93 to £5.28 an increase of £0.35 (7.1%) per hour. If we pass-ported all of this increase onto providers, a setting with six two year olds this would represent an annual increase of £1,197 or nearly £200 per pupil.

## LA comments

The 7.1% increase for Kent is much better news than the 3 & 4 year old funding settlement. Before passing the full increase on to providers, consideration may need to be given to two things.

- 1) Whether some of this funding could be used to increase the 3 and 4 year old funding rate. A £0.02 increase for 3 and 4 year olds would still leave a £0.22 increase for two year olds. We are waiting for a response from the DfE to see if the 2 year old and 3&4 year old funding rates are ring fenced, therefore regulations would need to allow flexibility before this option could be explored.
- 2) Central costs for two years are currently recorded against three and four year olds. Consideration may be given to charging 2 year old central costs against 2 year olds. This would decrease the 3 & 4 year old central cost spend against the 3 and 4 year olds allocation and would also free up some funding to distribute through the 3 and 4 year old funding formula.

## 10. Summary

1. Under these proposals, Kent would see a reduction in the hourly funding rate for 3 and 4 year olds from government to LA. The current funding rate KCC receives is £4.53 compared to the funding rate under the consultation proposals of £4.48 in 2017-18, a decrease of £0.05 per hour or 1.1%.
2. The overall average funding rate for providers in Kent will decrease.
3. Maintained nursery classes, independent schools and especially Northfleet Nursery school will see reductions in funding.
4. Private nursery providers and childminders are likely to see an average increase of around 1% in their rate due to the redistribution of funding from maintained to private resulting from the removal of the quality factor in the formula.
5. It will be even more challenging for Kent to deliver the 30 hour entitlement without being able to incentivise providers with an increase to their funding rates.
6. The proposed restrictions to the amount of funding the LA is able to centrally retain will impact on Kent. The extent of the impact is yet to be confirmed but could be as much as £1.8m by 2018-19.
7. Under the consultation proposals, Kent will see an increase in the hourly funding rate for 2 year olds from government to LA. The current funding rate is £4.93 and the proposal is to increase this to £5.28 in 2017-18, an increase £0.35 (7.1%). However there are no proposals within the consultation to move to a national funding formula for 2 year olds which feels like a missed opportunity.
8. When the response to the consultation is published by the government in the autumn, it is important that we act promptly in determining the funding rate for April 2017. In preparation for this we need set up a working grouping consisting of LA officers from Early Years, Finance, Management Information and SEN as well as

appropriate representation from early year's providers. In addition to this, plans should be made in respect of consultation with Early Years providers.

## **11. Recommendation**

Members of the Forum are asked to

- 1) NOTE the contents of this report and the Council's draft consultation response
- 2) CONSIDER whether they wish to add their name to the Council's response or submit their own