

**Meeting:** Schools Forum  
**Date:** January 9th 2017  
**Subject:** Early Years National Funding Formula  
**Report of:** Director of Children's Services  
**Summary:** Guidance on new Early Years National Funding Formula

Contact Officer: Sue Tyler

Public/Exempt: Public

Wards Affected: All

Function of: Council

Reason for urgency  
(if appropriate)

#### **RECOMMENDATIONS:**

- 1. A short consultation be carried out with all early years providers from all sectors. This should be on the basis of Model 4 as the recommended operating model moving forward.**
- 2. Consideration is given by Schools Forum to increasing the contingency available, by adjustment of sums in each block**
- 3. A review of the current inclusion funding system within Central Bedfordshire is carried out later in the year.**

#### **Background**

- Following consultation the Department for Education (DfE) has issued information and guidance on the new Early Years National Funding Formula which begins to come into effect from April 2017 for the year 2017-18.
- This replaces the locally agreed Early Years Funding Formula which came into effect in April 2010. This consisted of a base funding level and component parts for social deprivation and quality as a minimum. Using the local funding formula to incentivise behaviour was seen as acceptable (for example encouraging the adoption of flexible hours).
- Considerable diversity has emerged to payments across the country, and the DfE is bringing the payment for three and four year olds into a nationally based system, in line with a similar system for payments for two year olds. One of the key drivers for the introduction of a national funding scheme is the new '30 hours allowance' which is to be rolled out nationally from September 2017.

## Current Position in Central Bedfordshire

4. The current funding formula has base rates for non-flexible and flexible working, as incentivising flexible working was a key component of the local funding formula at the time of its introduction.
- It also has a variance between Private, Voluntary and Independent providers (PVI), Nursery Schools and Lower/primary Schools. This differential arose as Nursery Schools were allowed an annual lump sum payment. Lower/Primary Schools also had a lower rate as administrative costs, utility charges and rate/rent charges were deemed to be covered in other aspects of the much larger funding footprint available to them.

Type	Base Rate per Hour	
	Non- Flexible	Flexible
Nursery School	£3.65	£3.70
Primary School	£3.65	£3.70
PVI	£3.90	£4.05

6. Social Deprivation is also paid with an additional 40p per hour paid for those in the 0-30% most disadvantaged areas, 15p per hour in the 31-60% disadvantaged, and no supplement for the remainder. (Based on IMD data at the time of the data collection each term.)
7. A quality factor is also available to PVIs, paid at the rate of 20p per child per hour for a qualified teacher (QTS) or early years graduate with Early Years Professional (EYP) status, 15p per hour for an early years graduate without EYP and 10p per hour for a level 4 qualification. Only the highest level is paid and only for one member of staff.
8. In the current year the average income received is £4.20 per hour for 570 hours which is the offer at present for three and four years olds based on 15 hours a week in term time.

## The National Funding Formula

9. The new formula allocates funding to local authorities for the existing 15-hour entitlement for all three- and four-year-olds along with the additional 15 hours making up the '30 hours' offer for children of eligible working parents.
- The funding rates for both the existing 15-hour entitlement and the additional 15-hour entitlement are the same.
- The formula consists of a universal base rate plus factors for additional needs, using measures of free school meals; disability living allowance and English as an additional language. It also includes an area cost adjustment multiplier to reflect variations in local costs. This uses the General Labour Market measure to indicate staff costs and Nursery Rates Cost Adjustment (NRCA) to indicate cost of premises.
10. For Central Bedfordshire the formula is at the national minimum funding rate of £4.30 per hour. The expectation from the DfE is that this will enable payment to providers of an average of at least £4 per hour.
11. The current formula for two year olds is maintained, and will be uplifted from the current rate of £5.09 per hour to £5.39 per hour in April 2017. It is not part of this formula.
12. The Early Years Pupil Premium (EYPP) will continue to be paid for all eligible children at a rate of £300 p.a. This will be treated as a separate funding stream and is not impacted by the National Funding Formula.

13. There are a number of new requirements as part of the National Funding Formula.
  - A minimum amount of funding to be passed through to providers.
  - A local universal base rate for all types of provider, to be set by local authorities by 2019-20 at the latest, removing differentials between types of providers.
  - Supplementary funding is provided for maintained nursery schools until 2010.
  - The mandatory and discretionary supplements local authorities are able to use have been changed.
  - A disability access fund has been introduced.
  - Local Authorities are required to establish a special educational needs inclusion fund.
14. The formula includes a new 'High Pass-Through' requirement, by which Local Authorities are required to pass through to providers at least 93% of the amount allocated to them during 2017-18, rising to at least 95% from 2018-19 onwards. The 7 and then 5% figures include any movement out of the early years block. In 2016/17 the pass through is approximately 99%.
15. Maintained Nursery Schools are able to continue to receive a higher level of funding.
16. As in the local formula certain supplements are to be included, one of which is mandatory and several of which are at the discretion of the Local Authority. The total value of supplements must not be more than 10% of the total value of planned funding to be passed through to providers.
17. Mandatory Supplement:  
It is a requirement that this supplement is used to recognise deprivation. The levels, and the proportion of it within the overall Supplement level of 10% is for local determination.
18. Discretionary Supplements: the following Supplements can form part of the overall supplement
  - Rurality/sparsity - to support providers serving rural areas
  - Flexibility - to support providers in offering flexible including wraparound care for parents, or to encourage a particular type of provider in an area
  - Quality – to support workforce qualifications, or system leadership
  - English as an additional language (EAL).

### **Provision for Disabled Children and Children with Special Educational needs (SEN)**

19. The National Funding Formula includes to measures being introduced from April 2017 to support children with disabilities or SEN.
  - a. The Disability Access Fund
  - b. The SEN Inclusion Fund.
  - c.
20. The Disability Access Fund (DAF) Eligibility:  
Any three- and four-year olds will be eligible for the DAF if they receive the 15 hours free offer and are in receipt of child disability living allowance. Four-year olds in primary school reception classes are not eligible for DAF funding. Children do not have to take up the full entitlement of 570 hours of early education in order to receive the DAF. Children in receipt of the DAF will be eligible where they take-up **any** period of free entitlement, however short.  
The settings attended by three- and four-year-olds eligible for the DAF will be entitled to receive a one-off payment of £615 per year. It is not based on an hourly rate and is an additional entitlement.

21. Early years providers are ultimately responsible for identifying eligible children, and they should be encouraged to speak to parents to find out who is eligible for the DAF. Providers will be able to use the parent declaration form template, which is due to be published alongside the updated Model Agreement in early 2017. The template is for parents whose child is attending their setting and is due to include a box for parents to tick if their child is in receipt of disability living allowance. Local authorities should be satisfied that the child in question is receiving disability living allowance, and this may include seeing evidence of the child's disability living allowance award letter. Local authorities should keep a copy of this evidence on file.
22. The DAF should not be offset against any other funding which an authority may ordinarily be providing for children eligible for the DAF.  
If a child eligible for the DAF is splitting their free entitlement across two or more providers, local authorities should ask parents to nominate the main setting. This setting will be where local authorities will pay the DAF for the child.  
If a child receiving DAF moves from one setting to another within a financial year, the new setting is not eligible to receive DAF funding for this child within the same financial year. DAF funding received by the original setting will not be recouped.  
In cases where a child who lives in one authority area attends a provider in a different local authority, the provider's local authority is responsible for funding the DAF for the child and eligibility checking.
23. SEN inclusion fund:  
All local authorities are required to establish an inclusion fund in their local funding systems for 3- and 4-year olds taking the free entitlement with SEN. The purpose of the fund is to support local authorities to work with providers to address the needs of individual children with SEN. This structure will also support local authorities to undertake their responsibilities to strategically commission SEN services as required under the Children and Families Act 2014.
24. The SEN Inclusion Fund is aimed at any 3 or 4 year olds who is taking up any number of hours, however small, of the free entitlement. Two year olds are not eligible for this part of the fund. Children with lower level or emerging SEN should be targeted. Children with more complex needs and those in receipt of an Education, Health and Care Plan (EHCP) continue to be eligible to receive funding via the high needs block of the DSG.
25. Local authorities are expected to combine sums from both early years and high needs blocks of the DSG. A consultation should be carried out as part of the 'Local Offer' with Early Years providers, parents and SEN specialists on the value of the fund, and the eligibility and process of allocation of the sums in the Inclusion fund.
26. Central Bedfordshire has a long-standing inclusion fund. This consists in the current year of £200K from the High needs Block, and £128K which was moved from the early years block into the High needs Block. This 'fund' is currently used both for funding to providers in the form of top up grants on a case by case basis as well as supporting specialist SEN services across the area.
27. At present work is going on by Councils to review provision for children with special educational needs and disabilities ahead of changes in the way national funding is distributed. It is therefore recommended that a review of the current inclusion funding system within Central Bedfordshire is carried out later in the year.

## **Local authority consultation**

28. Local authorities are required to consult providers on their local formula. Schools forums must be consulted on changes to local early years funding formulae, including agreeing central spend by 28th February, although the final decision rests with the local authority.

## **Models of Funding**

29. Details of the DfE allocation and potential models are attached for discussion. The DfE have estimated the take up of the additional hours offer from September 2017. All models have maintained allocations for Social Deprivation and Quality on the same basis as 2016/17. Each model has indicated advantages and disadvantages, along with details of the two compliance requirements in the new National Funding Formula, namely high pass-through and use of supplements (paras 14 & 16 refer).
30. A planned reduction in the average hourly rate to the PVI sector would be a high risk with both the additional 15 hour offer being rolled out in September, and the year on year increase in the living wage to 2020. Model 4 represents the option which will most likely safeguard the market. Model 3 represents a small risk but increases the contingency available.
31. The contingency each year has been in place because of the time lag in data used for the DfE funding allocation. The figures for each funding year are based on census data taken 15 months earlier. So the 17/18 allocation is based on the numbers of children in January 2016. In July each year the allocation is revised based on the January census of that year. So in July 2017 the allocation will be revised (and backdated) based on the January 2017 census.
32. A contingency of approx. £400,000 has been maintained each year to cover the differential in take-up. (Differentials can be due to fluctuating birth-rates, additional housing and movements in and out of the area). In the current year (2016/17) a contingency sum of £395K was available. Due to higher take-up this has all been used with an additional £140K to date. In September the additional 15 hours will add further potential volatility to the overall take-up figures, which may necessitate in a higher use of contingency.
33. In 2017 there is an option to consider movement between the three DSG blocks (early years, schools and high needs), and forum is asked to consider a movement from Schools block into the Early years block to ensure a contingency is available.

## **Recommendations**

- 34.
- a. A short consultation be carried out with all early years providers from all sectors. This should be on the basis of Model 4 as the recommended operating model moving forward.
  - b. Consideration is given by Schools Forum to increasing the contingency available, by adjustment of sums in each block
  - c. A review of the current inclusion funding system within Central Bedfordshire is carried out later in the year.

## **Appendices: Appendix A - Modelling documents**