Schools Forum 23rd September 2016

Agenda Item: Early Years National Funding Formula 2017/18

1 Introduction

1.1 On 11 August 2016, the DfE published a consultation on an early years national funding formula, with a closing date for consultation responses of Thursday 22 September.

2 Summary of the consultation

2.1 A summary of the main points of this consultation is as follows;

National funding formula at LA level rather than setting level

2.2 This contrasts with the approach to mainstream schools, for which the plan consulted on early in the year was a national funding formula at school level.

2.3 The proposed formula for allocating funding to LAs consists of:

- a uniform base rate per child, which will represent 89.5% of the funding;

- eligibility for free school meals, representing 8% of the funding. This will be based on the percentage eligible in each LA in KS1 and KS2;

- eligibility for Disability Living Allowance (DLA), a proxy measure of SEN, representing 1% of the funding;

- Number of children with English as an additional language (EAL), representing 1.5% of the funding. This will be based on the percentage eligible in each LA in KS1 and KS2.

Please note that these percentages apply to the amount available nationally – an LA with relatively high deprivation would receive more than 8% of its early years funding based on this factor and vice versa.

2.4 The Early Years Pupil Premium (EYPPG) will continue to be allocated, as now, in addition to the national funding formula

2.5 For eligible local authorities, mainly in London, the resulting allocation per pupil will be multiplied by an Area Cost Adjustment (ACA). The ACA will be based on a general labour market measure of staffing costs, which accounts for 80% of the ACA and premises costs as measured by rateable values, which accounts for 10% of the ACA. The remaining 10% of costs are assumed to be unaffected by the location of the setting.

2.6 The result of this is an ACA of 1.10 for T&W, compared to ACAs as high as 1.9 for LAs in London.

2.7 The national funding rates will apply equally to the first 15 and newly funded next 15 hours for working parents.

Further national restrictions on how LAs then distribute these funds

2.8 LA will be obliged to pass 93% of the funding to providers in 2017/18 and 95% thereafter. These percentages include both funding distributed via the local funding formula, and any funds provided directly to providers for SEN. It also includes any contingency funds LAs decide to hold back to fund in-year demographic growth in settings (i.e. funds eventually passed through to providers).

2.9 LAs will also be obliged to set a uniform base rate for all types of provider. This will be a significant change for many LAs and the DfE proposes only making it mandatory from 2019/20. However as T&W already has a uniform base rate for all providers, we already meet this future requirement, although we also have a lump sum just for our two nursery schools and it is not entirely clear what the DfE plans in this area.

2.10 Supplementary funding will continue to be able to be provided for nursery schools "*for at least two years. This...will provide much needed stability to the nursery school sector whilst they explore how to become more sustainable in the longer term, including exploring scope for efficiencies* " (paragraph 149 of the consultation document). Over this period of time, LAs with nursery schools will be allocated additional funding. The illustrative allocation for T&W for 2017/18 is £256,164, somewhat less than the additional funding we allocate to our two nursery schools (currently 2 x £148,329 = £296,658). It is also unclear whether, if this supplementary funding ceased to be allocated to LAs, an LA could decide to continue to provide additional funding to its nursery schools. With regard to nursery schools, paragraph 149 also states that "*We will consult on further detail in due course*".

2.11 It is proposed to limit the supplements that LAs can use to the following:

- Deprivation (a mandatory supplement);
- Rurality/sparsity as judged by distance;
- Flexibility;
- Efficiency ("*to reward and recognise providers who make optimum use of their income to provide high quality childcare, to invest in their workforce and to develop and share strong business models with other providers*" paragraph 177);
- Provision of 30 hours free childcare.

2.12 With the exception of the nursery school lump sum, the only supplements currently used by T&W are for deprivation and flexibility. The DfE is also proposing that all supplements should not exceed 10% of the total funds allocated. T&Ws deprivation and flexibility supplements currently account for 11% of total funds allocated, slightly above the proposed limit. Such a restriction could therefore lead us to need to amend, albeit not radically, our local Early Years Single Funding Formula (EYSFF).

Potential devolution of Early Years DSG to LAs

2.13 There is currently a consultation on "*rolling existing grants to local authorities into the business rates retention system*" as LA retention of business rates would provide more income than currently; "*any consideration of this grant for devolution would take place after successful delivery and establishment of the manifesto commitment to 30 hours free childcare from September 2017*."

2.14 It is unclear whether such devolution would lead to the proposed national rules around distribution of funding reverting back to individual local authority decisions. If not then a national formula would be funded from local resources, which will be different in each area.

Disability Access Fund

2.15 The government proposes to allocate £12.5 million nationally for this, to be passed on to providers by LAs as an annual lump sum "*for each child in receipt of Disability Living Allowance (DLA) taking up a place in their setting*" (paragraph 194). It is not clear how much this would equate to for each eligible child and it is "*not intended to cover the total costs of providing childcare for a disabled child in receipt of DLA*".

Inclusion Fund for Children with SEN

2.16 "*To establish an inclusion fund we propose that local authorities should pool an amount of funding from either one or both of their early years and high needs allocations*" (paragraph 203). Any monies from this fund not passed directly to providers would not count towards the 93%/95% of early years funds that would have to be passed to providers. "*Local authorities may wish to move to offering more of these specialist services with a charge to providers*" (paragraph 204).

2.17 For T&W, in the context that hardly any of early years funds are held back (the significant sums not in the EYSFF have been transferred to the high needs block), such restrictions around the fund would probably not significantly restrict any approach we might wish to take.

2.18 With the exception of the overall restrictions around the 93%/95%, the distribution of the fund will be at local discretion "*in consultation with early years providers, SEN specialists and parents in the local area*" (paragraph 208).

Transitional protection

2.19 This doesn't apply to T&W but the DfE "*propose to limit local authorities' reductions in their hourly rates at 5% in 2017/18 and 5% in 2018/19*". It appears that after this, LAs more than 10% above the new formula will retain any remaining differential.

2.20 This is an odd proposal as it would leave some LAs with a 'permanent' allocation of early years funds above the level of the national funding formula. The DfE has not stated why they are proposing this other than in the interests of 'stability'..

Funding impacts on LA and providers

2.21 According to DfE figures, 75% of LAs will gain funding from the new formula and T&W is one of this majority. The indicative figures suggest an increase for T&W of just over 8%, or £0.33 per hour for 3 and 4 year old funding.

2.22 Although there are no proposed changes in the distribution methodology for 2 year old funding, which is simply an amount per hour, this too is proposed to increase, for T&W from £4.85 per hour to £5.20 per hour, an increase of £0.35 per hour or just over 7%.

2.23 Based on a number of assumptions, outlined in paragraph 230 of the consultation document, the DfE have estimated an hourly 3-4 year olds rate for providers in each LA for 2017/18. For T&W this is estimated at £4.12 per hour. Based on an average hourly rate for settings in 2016/17 of £4.00 per hour, then assuming the £0.33 per hour above is allocated to settings, the DfE estimate appears to be conservative.

3 Commentary

3.1 In many respects this is a broadly positive set of proposals. A formulaic basis for distributing DSG to LAs is long overdue, in the Early Years block as well as the other blocks. The proposals offer an uplift in funding for T&W and the further restrictions on local flexibility do not seem likely to significantly constrain T&W given our existing policy.

3.2 On a less positive note, pending the consultation on further detail that is promised, the consultation creates a medium term cloud of uncertainty over the future of nursery schools, as is it is not clear whether or not additional funding will be able to be allocated to these settings after 2018/19. Without such funding, nursery schools are not financially viable as currently structured.

3.3 The increases in funding also need to be seen in the context of increases in the minimum / living wage, as follows:

From	Living Wage ((for workers aged 25+)	Adult Rate (for workers aged 21+)	Development Rate (for workers aged 18-20)
1 April 2020 (estimated - based on 60% of estimated median wage)	£9.00	?	?
1 April 2016	£7.20	£6.70	£5.30
1 Oct 2015	£6.70	£6.70	£5.30
1 Oct 2014	£6.50	£6.50	£5.13
1 Oct 2013	£6.31	£6.31	£5.03
1 Oct 2012	£6.19	£6.19	£4.98
1 Oct 2011	£6.08	£6.08	£4.98

3.4 Clearly, any increases in the future are subject to any change in government policy, and the impact upon settings depends upon the wage scales of their staff and its age profile.

3.5 Nonetheless, for workers over 25, between October 2014 and now the minimum/living wage has already increased by 70p per hour or nearly 11%. This is particularly significant for PVIs as they tend to operate without a qualified teacher. This means that they have a higher number of lower paid staff, as they work to the 1:8 statutory ratio for 3 and 4 year olds, rather than the to 1:13 ratio which applies to settings with a qualified teacher. PVIs tend to have more staff on or close to the minimum wage.

3.6 Auto enrolment of workers age 22 or over and earning more than £10,000 per annum into a pension scheme is also likely to increase the cost base for providers, again, particularly for PVIs.

3.7 Thus it is difficult to perceive the government's proposals as amounting to a significant 'post inflation' increase in funding. The welcome increase in funding is more likely to be a necessary minimum to support the financial stability of the early years sector.

3.8 T&W will submit a response to the consultation which will be shared with the Forum on the 23rd.

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