

## SCHOOLS FORUM - 8 DECEMBER 2016

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| <b>Title of paper:</b>   | Early Years Funding 2017/18   |
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| <b>Summary</b>   |   |
| <p>New national Early Years (EY) funding arrangements are being implemented from April 2017 including a new national formula for allocating the EY block to Local Authorities and new regulations around the distribution of funding to providers.</p> <p>This paper is to brief Schools Forum on the proposed changes and consult over our planned approach to allocating early years funding for 2017/18.</p> <p>Final proposals will be subject to the government response to the national consultation and the resultant LA EY block allocation.</p> |   |
| <b>Recommendation(s):</b>  |   |
| <b>1</b>   | Give a view on the draft Early Years formula for funding providers for the early education entitlement for 3 & 4 year olds from April 2017  |
| <b>2</b>   | Approve Early Years Central Expenditure of <b>£1.195m</b> for 2017/18, subject to this complying with the final regulations   |

### **1 REASONS FOR RECOMMENDATIONS**

- 1.1 These proposed changes are designed to ensure we meet the new regulations as outlined in the Government consultation "An early years national funding formula" launched on 11 August 2016.
- 1.2 We consulted all early years settings on the proposed EY formula between the 8<sup>th</sup> and 23<sup>rd</sup> of November 2016.

### **2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)**

#### **2.1 National consultation proposals**

The national consultation proposals incorporate;

- **A new formula** for allocating Dedicated Schools Grant (DSG) for the EY Block to Local Authorities. This will also be used to fund the extended entitlement to 30 hours from September 2017.
- This new formula had a significant 10.5% weighting for additional needs which resulted in **Nottingham gaining £1.1m** based on the indicative consultation proposals.

- **New regulations** around the proportion of EY funding that can be retained for central spend (7% in 2017/18, falling to 5% in 2018/19).
- Amended rules around how funding is distributed to providers, including;
  - a universal base rate for all provider types
  - a maximum proportion (10%) that can be distributed via supplements to the base rate
  - an amended list of permissible supplements (rurality, flexibility, efficiency, delivery of additional 15 hours)
  - new funding for children eligible for Disability Living Allowance (DLA) to be pass-ported directly to providers
- **Transitional arrangements** until 2019/20 including supplementary funding for maintained nursery schools.
- **Funding will be capped at 15 hours** for pupils not eligible for the extended 30 hours entitlement

## 2.2 Draft local formula proposals:

The draft proposed revised formula is as follows:

| Formula element        | Hourly rate<br>£ | Eligibility criteria   |
|------------------------|------------------|--|
| Base rate              | 4.15             | Hourly base rate for all pupils/providers  |
| Deprivation supplement | 1.40             | Additional hourly supplement for pupils eligible for EYPP                            |
| Flexibility supplement | 0.10             | Addition to the hourly rate attracted by settings open at least 50 weeks of the year |

The supplements that are ceasing (quality, abatement, healthy eating) are no longer permissible.

Around **16% of our indicative new EY** funding allocation is for additional needs. It is estimated that the above formula will distribute 9% of funding to providers on the basis of supplements which is within the proposed 10% limit.

## 2.3 Local consultation response

We consulted early years settings over the draft proposed formula outlined in 2.2, with around 15% of providers (33) making a response. A full summary of consultation responses is provided in **Appendix 1**.

Only 42% of those responding agreed with the base rate of £4.15 on the basis that this is not high enough.

However, we are constrained by the level of funding that is coming into the local authority. The proposed local formula takes into account the proposed national formula for funding coming into the LA.

Under this, the LA receives a base rate of £4.11 plus the equivalent of £0.10/hour in funding for EAL (which we need to pass on to all providers as we can't have EAL as a supplement) and £2.48 per hour for an assumed number of deprived pupils. With 5% of funding retained for central services, to mirror the national formula for funding coming into the LA we would have base funding of £4.00 (95% of £4.21) and an hourly rate for deprivation of £2.36 (95% of £2.48).

In setting our base rate at £4.15 we are already using some of the funding received for deprived pupils to support the base rate. The rationale for this is that;

- deprivation is widespread in the City and not all deprived families qualify or register for EYPP;
- it ensures that all settings get at least as much funding before deprivation as previously;
- a maximum of 10% can be allocated through supplements

A priority is to try to ensure that the base rate we set now will be sustainable into the future so we can provide as much certainty to providers as possible.

Other aspects of the proposals were supported by a clear majority of respondents.

#### 2.4 Impact on providers

All providers will see an increase in the base rate (3.7% in PVCI settings, 15.6% in settings attached to maintained schools which previously had an effective £0.41 reduction to base funding through the abatement factor).

All providers will be able to gain from the significant hourly supplement for pupils qualifying for the Early Years Pupil Premium.

#### 2.5 Finalising our local formula proposals

Due to the timescales for setting the overall Schools Budget it is not practical to await the final government response and early years block allocation before designing and consulting on our local proposals.

We will update Schools Forum of any amendments necessary to align to the final government proposals/allocations in the January Budget report.

As outlined in our local consultation **our priority will be to make the base rate as close to the £4.15 as possible.** The deprivation supplement will be adjusted if necessary to balance to the available resources.

#### 2.6 Central expenditure

Under the national consultation proposals up to 7% of early years funding can be retained centrally in 2017/18, falling to 5% from 2018/19.

Approved EY central expenditure for 2016/17 is £1.092m. This was a reduction compared to the 2015/16 EY central expenditure budget of £1.159m.

The extended entitlement to early years education is being implemented from September 2017. This will require additional support to providers from the Early years team in the transition to offering the new 30 hour entitlement to eligible families. Proposed EY expenditure of £1.195m is a £0.102m increase which

represents 5% of the DfE estimate of our allocation for the extended entitlement in 2017/18.

At this level, based on the indicative allocation we will be in line with the 7% limit for 2017/18. Schools Forum are asked to approve the proposed EY expenditure of £1.195m, subject to this being compliant with the final regulations once published.

### **3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS**

- 3.1 We considered a slightly lower base rate at £4.10 but at this level it was feasible that certain PSCI providers previously qualifying for the £0.10 quality supplement could see a reduction in their funding for pupils not eligible for the deprivation supplement.
- 3.2 We considered a slightly higher base rate at £4.20 but to compensate for this the deprivation rate would have to be reduced to around £1-£1.20 per hour. This is less than 50% of the level of funding received into the LA for deprived pupils (£2.48/hour).

### **4 OUTCOMES/DELIVERABLES**

- 4.1 An agreed approach to setting the 2017/18 Early Years budget which meets the new regulations, as outlined in the national consultation proposals.

### **5 FINANCE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)**

- 5.1 These proposals will need to be reviewed when the government announce the final regulations and allocations to ensure they remain compliant and affordable.
- 5.2 Under the revised formula, with a significant deprivation supplement, the funding that will be allocated to providers will be less predictable than in the past and less aligned to the final funding coming into the LA. This means there is an increased risk of under/over allocation of EY funding. It is anticipated, subject to the final regulations, that under/over allocations will be able to be adjusted for against the subsequent year's EY budget. The deprivation rate may need to be decreased in future years if there is a significant increase in the proportion of pupils registered for EYPP.

### **6 LEGAL AND PROCUREMENT COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)**

#### **6.1 Legal Implications**

- 6.1.1 The Government's proposals referred to in this report were only recently the subject of consultation, the results of which, at the time of writing, the Government has yet to publish. Furthermore, the Government has yet to publish even draft regulations setting out how these proposals could operate in law.
- 6.1.2 In view of the above, it is advisable for Schools Forum either to make any decision on this matter contingent on subsequent developments or only to note the contents of this report. Either way, it is advisable that the matter is brought back to Schools Forum as soon as possible as the Government's position becomes clearer.

### **7 HR ISSUES**

7.1 No apparent direct impact on workforce issues

**8 EQUALITY IMPACT ASSESSMENT**

8.1 Has the equality impact of the proposals in this report been assessed?

No

An EIA is not required because:  
(Please explain why an EIA is not necessary)

Yes

Attached as an Appendix , and due regard will be given to any implications identified in it.

**9 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION**

9.1 None

**10 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

10.1 None

## Appendix 1

### Summary of Consultation Responses

| Question  | Yes | No  |
|---|-----|-----|
| <p>1. Do you support the proposal to set the universal base rate at £4.15/hour?</p> <p>Analysis of key reasons given for not agreeing with proposal:</p> <ul style="list-style-type: none"> <li>• 3 respondents quoted the shortfall between the proposed rate and their charge for paid hours</li> <li>• 2 respondents stated that it would be insufficient to cover costs</li> <li>• 11 respondents gave general statements about it being too low</li> </ul>   | 42% | 58% |
| <p>2. Do you support the proposal to allocate deprivation funding to pupils qualifying for the Early Years Pupil Premium (EYPP)</p> <p>Analysis of key reasons given for not agreeing with proposal:</p> <ul style="list-style-type: none"> <li>• 4 respondents raised the issue that many children living in deprivation circumstances don't qualify for EYPP</li> <li>• 2 respondents felt that deprivation funding should be based on area or catchment</li> <li>• 1 respondent questioned how the use/effectiveness of the additional funding would be audited or monitored</li> </ul>  | 70% | 30% |
| <p>3. These proposals are subject to the outcome of the national consultation. If final funding into the Local Authority is reduced, our first priority will be around providing stability in the base rate and making this as close to £4.15 as possible. The level of deprivation funding will be balanced to remaining resources. Do you agree with this approach?</p> <p>Analysis of key reasons given for not agreeing with proposal:</p> <ul style="list-style-type: none"> <li>• 5 respondents gave comments but these did not disagree with the specific approach outlined in Q3 but reiterated concerns linked to the other questions</li> </ul> | 73% | 27% |
| <p>4. Do you support our intention to retain the £0.10 flexibility supplement?</p> <p>Analysis of key reasons given for not agreeing with proposal:</p> <ul style="list-style-type: none"> <li>• 2 respondents raised issues about the criteria used for the flexibility supplement</li> <li>• 1 respondent felt the funding could be released for deprivation or additional needs instead</li> </ul>   | 82% | 18% |
| <p>5. We are proposing not to set hourly supplements for rurality, efficiency or the delivery of the additional 15 hours. Do you agree with this</p>  | 67% | 33% |

approach?

Analysis of key reasons given for not agreeing with proposal:

- 3 respondents felt that there should be a supplement related to the delivery of the additional 15 hours
- 1 respondent stated that there should be a supplement for efficient settings

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| <p>approach?</p> <p>Analysis of key reasons given for not agreeing with proposal:</p> <ul style="list-style-type: none"><li>• 3 respondents felt that there should be a supplement related to the delivery of the additional 15 hours</li><li>• 1 respondent stated that there should be a supplement for efficient settings</li></ul> |  |  |
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