



Schools Forum

Date: 19 January 2017

Time: 8:30 am

Venue: Shrewsbury
Training and Development
Centre

Paper

Public

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Early Years National Funding Formula Consultation

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Summary

- 1.1 The free childcare entitlement for three- and four-year-olds from 'working families' will increase in September 2017 from 15 to 30 hours each week.
- 1.2 The Government has recognised that the current early years funding system, which funds the provision of the free entitlement for two-, three- and four-year-olds, is based on historic expenditure. This has led to significant variations in funding for local authorities which does not reflect provider costs nor market prices. The Government has been clear that the current funding system is neither fair nor justifiable.
- 1.3 In order to support the roll out of this increased entitlement the Government is implementing a new early years national funding formula which will allocate funding to local authorities for the existing 15 hour entitlement for all three- and four-year-olds and the additional 15 hours for three- and four-year-old children of eligible working parents. The funding rates for both the existing 15 hour entitlement and the new additional 15 hour entitlement will be the same and the new formulae will be in place by April 2017, i.e. the start of the financial year in which the increased entitlement will begin.
- 1.4 The same formula will also allocate funding for the 15 hour entitlement for the 40% most disadvantaged two-year-olds although the rate of funding will be higher for the two-year-old entitlement.

Recommendation

- 2.1 Forum is asked to provide a response to the consultation questions relating to the elements of the new early years national funding formula over which the local authority has some control.

REPORT

Background

- 3.1 The local authority receives its funding for the provision of the two-, three- and four-year-old free entitlement places as a separately specified, non ringfenced element of the overall Dedicated Schools Grant (DSG). The total amount received each year is based on the numbers of children accessing provision at the time of the annual early years census in the January preceding the start of the financial year (5/12ths) and the January within the financial year (7/12ths).
- 3.2 Shropshire Council's current allocation is based on a funding rate of £3.40 per hour per child (phpc) for three- and four-year-olds and £4.96 for two-year-olds and this formula generated a total of £9,149,077 in total in 2016-17, £7,325,432 in respect of three- and four-year-olds and £1,870,645 in respect of two-year-olds.
- 3.3 The local authority currently retains £222,460 of funding for three- and four-year-olds - around 3% of the total allocation in 2016-17 - to cover the costs of the administration of funding and securing sufficient provision across the county.
- 3.4 A further £500,000 - around 7% of the total allocation for three- and four-year-olds - is deducted at source to cover the cost of the provision of sustainability funding to providers who are unable to generate sufficient income from the pupil led formula to cover their costs. These providers are commonly in the more rural areas of the county.
- 3.5 The authority is also currently required to provide a deprivation supplement within the current funding formula and a sum of £300,000 (around 4% of the total allocation for three- and four-year-olds) is deducted at source to cover the costs of deprivation funding across the county. This amount is distributed to providers across the county using IDACI (income deprivation affecting children index) data to identify where the most disadvantaged children are accessing early years provision.
- 3.6 The remaining sum is then distributed directly to providers via the pupil-led formulae.
- 3.7 The funding allocation for two-year-olds is passed on to early years providers in its entirety via the pupil led formula in recognition of the need to provide as much support as possible to children from more disadvantaged backgrounds.
- 3.8 Current rates of reimbursement to providers for the provision of free places to three- and four-year-olds vary from £2.90 phpc to £3.17 phpc in the private voluntary and independent (PVI) sector depending on the circumstances of the provider. Local authority maintained nursery provision is funded at £3.56 phpc recognising the requirement to have a qualified teacher leading provision.

- 3.9 Places for two-year-olds are paid at a rate of £4.96 phpc, a national rate set by the Department for Education (DfE) and acknowledging the higher adult:staff ratios required for two-year-olds compared to older children.
- 3.10 Providers are funded termly using a pupil-led formula based broadly on the principles of the school funding formula. The formula seeks to reimburse providers at cost for the places they provide, i.e. to cover cost and not reflect any element of profit. Many providers will generate other income by offering additional hours and/or additional care, for example for under 2s or for older children in out-of-school hours or holiday clubs.

Proposals

- 4.1 The DfE has acknowledged that the current early years funding allocations are unfair and are not based on any data relating to cost of provision or historic spend. They have also accepted that funding rates vary significantly across the country without any basis for this variation. Through the proposed new formula they have sought to increase funding to the lowest paid local authorities and provide a more even allocation of funding across the country.
- 4.2 The proposals for 2017-18 are that the funding rates, on which the allocation of funding to Shropshire for three- and four-year-old provision is based, will increase to £4.30 phpc whilst the funding rate for two-year-old will increase to £5.09 phpc.
- 4.3 The intention is for all providers to be funded in the same way from April 2017 onwards. The majority of the new funding formula, at least 90% in total, must be made up of a single base rate and local authorities will have some discretion over the use of certain supplements within the remaining 10% of the formula.
- 4.4 The DfE have determined that local authorities can only retain a maximum of 5% of the total two-, three- and four-year-old allocation for central expenditure and that, therefore, at least 95% of the allocated funding must be passed on to providers. Shropshire Council is proposing that the authority continues to limit the amount retained centrally to 3% of the total allocation of funding for three- and four-year-olds and that it continues not to retain any element of the funding for two-year-olds.
- 4.5 The DfE have made the inclusion of a deprivation supplement mandatory within the new funding formula. For 2017-18 the local authority is proposing to retain the current basis for the calculation of deprivation funding to individual settings. It is also proposed to continue to allocate £300,000 of the overall funding block to the deprivation supplement. This figure represents approximately 2.5% of the total indicative early years funding for the three- and four-year-old entitlement for 2017-18.
- 4.6 However it is recognised that the funding methodology for the deprivation supplement needs to be fully reviewed to ensure that it remains robust and continues to passport funding to the children who need it most. It is proposed that this will be fully reviewed over the course of the next 12 months with a view to implementing a new deprivation supplement at the start of the financial year 2018-19.

- 4.7 Deprivation will be the only mandatory supplement in 2017-18. The DfE has allowed local authorities discretion to use any number of the following supplements as long as the total amount used on funding supplements does not exceed 10% of the total funding formulae:
- a) Rurality/sparsity
A rurality/sparsity or sustainability supplement is permitted to allow local authorities to support providers serving rural areas less likely to benefit from economies of scale.
 - b) Flexibility
A flexibility supplement is permitted to support providers in offering flexible provision for parents. This could, for example, be childcare wraparound care, out-of-hours provision or to encourage a particular type of provider in an area (such as to meet a need for childminders in an area).
 - c) Quality
A quality supplement is permitted to either:
 - support workforce qualifications, or;
 - support system leadership (supporting high quality providers leading other providers in the local area)
 - d) English as an additional language (EAL)
An English as an Additional Language (EAL) supplement is permitted.
- 4.8 Shropshire Council are proposing to continue to allow for rurality/sparsity as a sustainability supplement within the local funding formula. This is important to sustain provision in more rural areas where numbers of children on roll will not always generate sufficient income to cover the core costs of the local providers. Early years provision forms an important part of many small, rural communities across the county and so the local authority aims to sustain as much existing provision as is possible.
- 4.9 Within the current early years funding formula the local authority allocates around £500,000 in total toward the sustainability supplement. The extension of the free entitlement makes it difficult to predict the need for sustainability funding in the new financial year. In order to allow flexibility to support providers as far as possible, it is proposed to continue to allocate the same total amount of funding to the sustainability supplement in 2017-18. This figure represents approximately 4% of the total indicative early years funding for the three and four-year-old entitlement for 2017-18.
- 4.10 In order to ensure that as much of the remaining funding as possible is passed onto the wide range of providers across the county, it proposed not to include any further supplements within the local formula. The implementation and monitoring of additional systems, policies and procedures required to include other supplements would result in greater amounts of administration than would be worthwhile. The intention is to instead allocate the maximum amount of funding possible to each individual child and then leave providers to determine how best to use that funding to meet the needs of the children within the setting.

4.11 Summary table of current funding and future proposals:

	2016-17	Indicative 2017-18
Allocation for 3 and 4 year olds	£7,325,432	£11,740,208
Centrally retained (3% in 2017-18)	£222,460	£352,206
Total funding passed on to providers	£7,102,972	£11,388,002
Sparsity/sustainability (4.5 % in 2017-18)	£500,000	£500,000
Deprivation (2.5% in 2017-18)	£300,000	£300,000
Amount allocated through hourly per pupil funding	£6,302,972	£10,688,002
Allocation for 2 year olds	£1,870,645	£2,005,047

Conclusion

- 5.1 The views of Forum are welcomed to the early years national funding formula consultation questions set out in the Appendix to this paper in order to help inform our plans for implementation of the new formula.