

Autumn 2016**1. Executive Summary**

The DfE has set out its proposals to introduce an Early Years National Funding Formula (EYNFF) for 3 and 4 year olds. The transition to the new way of funding Early Years children will start in April 2017. The same formula will also fund the Working Families additional hours from September 2017.

Bearing in mind that the DfE's proposals are still at a consultation stage, the headline implications for Derbyshire appear to be as follows:

- Our Early Years funding **from** the Government will reduce over **at least** the next 2 years
- The amount of funding that Derbyshire holds centrally will have to be **cut** by around £0.53m, potentially affecting services
- The existing differential hourly rates for Nursery Schools, Nursery Units and Private, Voluntary & Independent (PVI) providers will have to be **brought into line** by 2019-20
- Some of Derbyshire's existing Early Years formula factors for schools may **not be allowed**
- Initial modelling suggests that the proposals will result in Derbyshire's hourly rate for all types of providers being **around £4.10 by 2019-20**

At the end of this document are several questions on which the Authority would welcome views from all types of Early Years providers.

Your views should be submitted on the attached pro-forma by the end of **Wednesday 30th November 2016 at the latest**.

2. Background Information

For reasons of brevity, this paper does not discuss the DfE's consultation proposals in depth.

Anyone wishing to look at the full detail can find the DfE consultation document at:
<https://consult.education.gov.uk/early-years-funding/eynff>

A detailed summary, produced for the Schools Forum, can be found at:
http://www.derbyshire.gov.uk/council/policies_plans/educ_plans_and_policies/lms_scheme/derbyshire_schools_forum/meetings/derbyshire_schools_forum_6_october_2016.asp

A very brief summary can also be found in Appendix 1 of this document

3. The Potential Implications for Derbyshire in more detail

3.1 Reduction in Early Years funding from the Government: 'Early Years DSG'

- Derbyshire's current 2016-17 Early Years DSG income is effectively **£4.87** per hour
- From April 2017 this rate will fall by 5%, the maximum loss allowed, to **£4.63** per hour
- There will be a further 5% reduction from April 2018 to **£4.39** per hour
- However, Derbyshire's core EYNFF multiplier is only **£4.17 per hour***

*As the DfE is proposing that no Local Authority (LA) will see a reduction of more than 10% of its current funding level, the difference between the £4.39 and the £4.17 (i.e. £0.22) is protected.

This additional protection is because Derbyshire has historically funded Early Years at a higher level than many other LAs. Consequently we are one of only 15 LAs nationally to trigger this support. There is, of course, a strong possibility that this £0.22 will also be removed from Derbyshire's funding at some point.

- In addition, Derbyshire will receive a Nursery School grant for at least 2017-18 and 2018-19 of £1.149m. The proposal does not say whether or not this funding will continue beyond 2018-19.

The estimated overall net loss of Early Years funding for the next two years is estimated to be £1.85m. The situation beyond this point is unclear.

Table 1: DfE's Proposed Reduction in Derbyshire's Early Years Funding

	2016-17 TOTAL £30.3m	2017-18 TOTAL £29.9m	2018-19 TOTAL £28.4m	2019-20 POTENTIALLY £25.9m ?
£30m	Current Early Years Funding (£30.3m)	2017-18 Residual Protection @ £0.24 per Hour (£1.5m)		
£29m				
£28m		Residual Protection @ £0.22 per Hour (£1.4m)	Residual Protection @ £0.22 per Hour (£1.4m)	?
£27m		Nursery Grant (£1.1m)	Nursery Grant (£1.1m)	?
£26m		Core Early Years Funding £4.17 per Hour (£25.9m)	Core Early Years Funding £4.17 per Hour (£25.9m)	Core Early Years Funding £4.17 per Hour (£25.9m)
£25m				
£24m				
£23m				
£22m				
£21m				
£20m				
£19m				
£18m				
£17m				
£16m				
£15m				
£14m				
£13m				
£12m				
£11m				
£10m				
£9m				
£8m				
£7m				
£6m				
£5m				
£4m				
£3m				
£2m				
£1m				
£0m				

3.2 Limits on how much funding can be held centrally by Derbyshire

The Government is anxious that as much funding as possible is delegated to Early Years providers. As a consequence, the amount of Early Years funding that LAs will be allowed to retain centrally will be capped at 7% of the overall funding in 2017-18 and 5% thereafter.

The table in Appendix 2 sets out the amounts that Derbyshire currently holds centrally and the purpose for which it is held. Based on the projections to date it seems likely that we will have to reduce our central spend to around £1.95m to stay within the proposed 5% cap, i.e. a cut of around £0.53m.

3.3 Impact on Derbyshire's funding to Early Years providers

Under the existing formula, Derbyshire effectively operates three basic hourly rates:

- All providers currently receive £3.92 per hour
- Nursery Schools and Nursery Units receive an additional £0.70 and £0.61 per hour respectively to recognise their higher cost bases, e.g. the requirement to employ qualified teachers and a Headteacher.

These differential hourly rates will have to be brought into line by 2019-20 at the latest.

On top of the basic hourly funding, Derbyshire currently uses supplements to allocate the following additional resources:

- **Deprivation funding** for all qualifying providers, based on Index of Multiple Deprivation (IMD) data and using a common multiplier of £25.29 per qualifying hour on the May census. This supplement can continue under the DfE's proposals.
- **Nursery Schools** receive additional funding for Special Educational Needs & Disabilities (SEND), Rates and a Lump Sum allocation.

It is expected that the SEND allocations can be retained and funded via a different route. However, it is unclear whether or not the Lump Sum and Rates allocations will be allowed.

3.4 Challenges facing the Early Years sector in Derbyshire

Given the changing landscape and the uncertainty over funding levels beyond 2018-19, the Authority intends to undertake a review of its Early Years provision in conjunction with its partners and stakeholders. This will inform financial and other decisions from 2018-19 onwards.

In the meantime, however, initial steps need to be taken to start the progression towards a common hourly rate; failure to do so in 2017-18 would potentially mean more significant changes in 2018-19 and 2019-20 with sharper gains and losses.

There is also an anticipated financial shortfall of £0.351m to deal with in 2017-18.

4. Potential Way Forward

4.1 Based on the following assumptions, we have calculated that the common hourly rate for all providers will be approximately £4.10 by 2019-20:

- That the DfE's changes go ahead exactly as per their proposals;
- Derbyshire retains 5% of the Early Years funding for central services;
- The existing Deprivation supplement does not change; and
- We are allowed to continue to use a Lump Sum for Nursery Schools

Full details of the £4.10 calculation can be found in the Schools Forum paper (see the link in Section 2 above).

One way of moving towards the requirement to have a common hourly rate is shown in the table below.

Table 2: Potential Transition to a Common Hourly Rate by 2019-20

Year	Basic Rate		
	Nursery Schools	Nursery Units	PVI Providers
2016-17 Actual Hourly Rate	£4.62	£4.53	£3.92
2017-18 Estimated Hourly Rate	£4.45	£4.53	£3.98
Change	(£0.17)	(£0.00)	£0.06
2018-19 Estimated Hourly Rate	£4.27	£4.31	£4.04
Change	(£0.18)	(£0.22)	£0.06
2019-20 Estimated Hourly Rate	£4.10	£4.10	£4.10
Change	(£0.17)	(£0.21)	£0.06
<i>Overall Change over 3 Years</i>	<i>(£0.52)</i>	<i>(£0.43)</i>	<i>£0.18</i>

The above rates would also be used to fund the additional 15 hours for eligible Working Families with effect from September 2017.

Using a very simple example, the effects for the different types of provider might be as follows:

Assume: 10 children all attending 15 hours per week for 38 weeks 10 x 15 x 38 = 5,700 hours per year			
	Nursery Schools	Nursery Units	PVI Providers
Using 2016-17 Actual Hourly Rate (see Table 2 above)	£26,334	£25,821	£22,344
Using 2019-20 Estimated Hourly Rate (i.e. £4.10)	£23,370	£23,370	£23,370
(Loss)/Gain	(£2,964)	(£2,451)	£1,026

Key points of the above model:

- **Nursery Schools:** gradual reduction in the basic hourly rate, the impact will vary with larger schools losing proportionately more than smaller schools. The range of losses would be between 1.7% and 2.8% per annum. However, if the Authority is not allowed to continue with the current Lump Sum formula factor this money would have to be distributed in a different way resulting in much greater losses.

- **Nursery Units:** no change in funding for 2017-18, reductions in the hourly rate would commence from April 2018 i.e. when the mainstream National Funding Formula (NFF) begins to be phased in. It is hoped that some schools will gain from the NFF and that these gains would help alleviate some of the Early Years losses. Overall, the Early Years losses would average between 2.6% and 3.4% per annum and equate to less than 1% per annum over the period when expressed as a percentage of overall schools' funding.
- **PVI Providers:** would see an increase of around 4.6% over the 3 year period.

Any increase to the £4.10 hourly rate could only be achieved by reducing the level of formula supplements and/or by reducing the level of central spend. Every additional 10p on the basic rate, including the additional 15 hours for Working Families, would cost around £0.86m.

4.2 It is estimated that the funding which Derbyshire holds centrally (see Appendix 2 for details) will have to reduce by £0.531m by 2019-20.

As a step towards this reduction, it is proposed that Nursery Schools will be charged for some or all of the following responsibilities over the next two years. These services have, until now, been funded centrally:

- Catering
- Broadband
- Capital Maintenance
- DBS Background checks on employees
- Insurance
- Special staff costs, e.g. maternity
- Trade Union Facilities time

This will bring Nursery Schools into line with other types of schools in terms of responsibilities. However, it will also result in a pressure on their budgets. Where possible the Authority will include Nursery Schools in the re-pooling of risk arrangements which are currently available to primary and secondary schools.

It should be noted that Derbyshire's spend on Nursery Schools for 2017-18 before any changes in the basic rate exceeds the funding from the government as shown below:

Budget	£m	£m
Delegated budgets 2016-17 (as a proxy for 2017-18)	2.790	
Less SEN support from High Needs Block	(0.175)	
Adjusted delegated budgets		2.615
Nursery School central budgets (see Appendix 2)	0.164	
Nursery School contingency	0.115	
Estimated share of central Early Years budgets	0.104	
Total estimated share of wider Early Years central budgets		0.383
Total Nursery School budgets before any changes		2.998
Funded by:		
DSG EY income (383,417 Nursery School funded hours @ £4.63 per hour)	1.775	
Proposed 2017-18 Nursery School Guarantee	1.149	
Total Nursery School DSG Funding		2.924
Excess of spend over funding – before local changes		0.074

As the Early Years funding from the government falls to £4.39 per hour, or even lower, this will reduce the funding available to support Nursery Schools, despite the Nursery School Guarantee. The year on year reduction in the rate will reduce the funding for Nursery Schools from the government by about £92,000 (i.e. 383,417 hours x £0.24 (change in rate)).

Locally, the phased transition to a common hourly rate will reduce the funding from the Authority by around £66,000 per year. The proposed delegation of responsibility for some central costs to Nursery Schools will close the balance of the gap and ensure that the Nursery School sector's budgets allocated by the Authority remain broadly in line with government funding levels.

5. Consultation Questions

- (i) Do you agree with the proposed phasing towards a common hourly rate as set out in Table 2? (Section 4.1)
- (ii) Bearing in mind Derbyshire's reduced levels of funding, do you agree with the proposed common hourly rate of £4.10 per hour? (Section 4.1)
- (iii) If you consider the common hourly rate in (ii) above is too low, what measures should the LA consider to increase this?

For example, if you think that there should be a reduction in central spend – please specify which area(s). Similarly for a reduction in formula supplements – please specify which factor (Deprivation or Nursery School Lump Sum) and how much.

- (iv) Do you agree with the proposal that Nursery Schools should be responsible for some or all of the costs set out in Section 4.2?
- (v) If not, what alternative reductions in central spend should the Authority consider to comply with the DfE's central spend limits? (Appendix 2)
- (vi) Would you support a review of the Authority's Early Years provision? (Section 3.4)
- (vii) What areas should the Authority's review focus on?
- (viii) Please add any other comments you wish to make in respect of the issues raised in this consultation or the DfE's proposals.

BRIEF SUMMARY: EARLY YEARS NATIONAL FUNDING FORMULA (EYNFF) PROPOSALS

Funding Allocations to Local Authorities

The EYNFF will cover the Universal 15 hours of provision for 3 & 4 year olds and the Working Families additional hours from September 2017. The hourly funding rate from the Government **to Local Authorities** will be calculated as:

- A National Base rate of £3.53 per hour

Plus:

- 'Additional Educational Needs' (AEN) funding based on proxy counts of children entitled to Free School Meals, with English as an Additional Language and/or in receipt of Disability Living Allowance

Multiplied by:

- An Area Cost Adjustment (to account for labour and premises variations across the country)

= The result of the above calculation for Derbyshire is £4.17 per hour.

The Government recognises that allocating resources to LAs via a new formula will create budget turbulence. They are therefore proposing some protection arrangements:

- A phased reduction to ensure that individual authority allocations cannot reduce by more than 5% per annum for each of the next two years, i.e. the maximum loss by 2018-19 is 10% of current funding levels.
- For formula losses in excess of 10% there will be a level of protection within the core hourly rate
- A grant to LAs with Nursery Schools to reflect the fact that these are generally more expensive than other forms of Early Years provision. This additional grant is guaranteed for the next two years and according to the DfE's consultation will *"provide much needed stability to the nursery school sector while they explore how to become more sustainable in the longer term, including exploiting scope for efficiencies."* The extent of any financial support beyond 2018-19 is unclear.

Central Funding

The Government is anxious that as much funding as possible is delegated to Early Years providers. As a consequence, the amount of Early Years funding that LAs will be allowed to retain centrally will be capped at 7% of the overall funding in 2017-18 and 5% thereafter.

Funding Allocations to Early Years Providers

The DfE will require LAs to have a 'common base rate' of funding, i.e. the same for all providers, by 2019-20 at the latest. This rate will apply to both the Universal provision and the

additional 15 hours for Working Families.

LAs can also utilise supplements to channel resources for a number of purposes. The allowed formula supplements are:

- Deprivation: the only mandatory supplement, LAs can choose the indicator;
- Rurality/Sparsity: to support lack of economies of scale. Could use distance to nearest provider of a similar type;
- Flexibility: to stretch the offer to encourage holiday/wrap around care, possibly by encouraging greater partnership working;
- Efficiency: to encourage providers to exploit efficiencies identified in the *Cost of Childcare Review*;
- Delivery of additional 15 hours free childcare (from Sept 2017): LAs can pay a supplement to encourage participation.

The overall total of the above formula supplements cannot account for more than 10% of the funding delegated.

Support for Children with Special Educational Needs & Disabilities (SEND)

Two models for allocating additional SEND funding are proposed:

- **Disability Access Funding:** supporting disabled children to access the free entitlement. Targeted funding will be made available (£12.5m nationally) to support providers to make initial reasonable adjustments and build capacity to support disabled children.

The funding would be ring-fenced and paid to settings via the existing Early Years Pupil Premium framework. It would be payable for each child in receipt of Disability Living Allowance and paid as a lump sum rather than an hourly rate. However, on receipt, the provider can make decisions about how the funding is deployed.

- **Inclusion Fund:** it is proposed that LAs set up a specific fund to support children with SEND but not at the level of requiring an Education Health & Care Plan (EHCP) or a statement (the funding of these would continue as now). LAs would use funding from their Early Years and/or High Needs income and use most of it in the form of 'top ups' on a case by case basis.

SUMMARY OF CENTRAL EARLY YEARS SPEND 2016-17**APPENDIX 2**

Item	Type	£'000	Notes
Central Nursery School Budgets	Central	164	Covers costs equivalent to those met by schools following April 2013 changes e.g. Insurance, Licences, Broadband, Catering, Capital Maintenance, Maternity Cover
Every Child a Talker Service	Central	155	Support for initiative, approved at Schools Forum February 2016
Early Years Improvement Service	Central	922	Provides support and quality review of PVI settings
Pre School EY Service for Children with SEN	Central	593	Cost of EY Service
Early Years Central Support Costs	Central	532	Contribution to Council overheads and support from services which support EY functions
Contingency fund	Other	115	To cover potential claims
Total Spend		2,481	
Central Spend %		7.8%	