

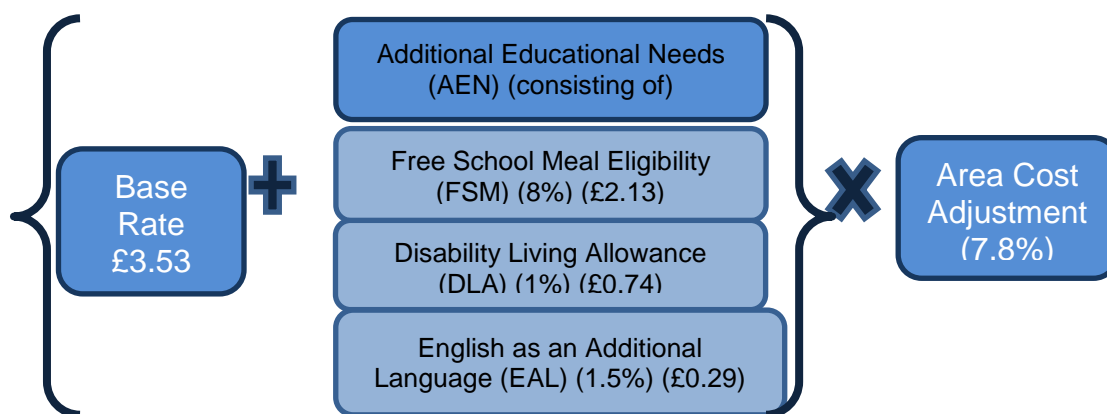
SCHOOLS FORUM**6th October 2016****Report of the Strategic Director for Children's Services****EARLY YEARS NATIONAL FUNDING FORMULA****1. Purpose of the Report**

To inform the Schools Forum of the government's consultation regarding a proposed Early Years National Funding Formula for introduction from April 2017.

2. Information and Analysis**2.1 Consultation/Allocation to LAs**

On 11th August 2016 the DfE published their proposals for an Early Years National Funding Formula (EYNFF). The consultation ran until **22nd September 2016** and a copy of the consultation questions together with the LA's response can be found at the Annexe at the end of this paper. The full consultation proposals and supporting papers can be found at: <https://consult.education.gov.uk/early-years-funding/eynff>

The EYNFF will cover the Universal 15 hours provision for 3 & 4 year olds and the Working Families additional 15 hours from September 2017. The hourly funding rate to LAs will be calculated as follows (figs shown are national rates & Derbyshire ACA):



The AEN proxy measures will be:

- FSM – proportion of children (KS 1 & 2) in local area receiving free school meals
- EAL – propose to use data about EAL prevalence at KS 1 & 2 as a proxy for the prevalence in early years as there is no EAL metric for under-fives
- DLA – a proxy measure for children with SEND as recommended in the Isos report

The proposed changes would result in a significant loss of funding to the early years sector in Derbyshire. Our updated 2016-17 Early Years Block DSG allocation, which reflects our spending plans, equates to **£4.87** per hour. Under the government's proposals no LA will see a reduction of more than 5% in its hourly funding rate in both

2017-18 and 2018-19. Derbyshire's indicative Early Years Block DSG funding rate for the next two years will therefore be around **£4.63** and **£4.39** per hour, being ~95% and 90% of the current £4.87 rate respectively. In addition to the above the Authority will receive an allocation of funding (not ring-fenced) to support nursery schools of £1.15m for the next two years. The estimated impact of the above changes can be summarised as follows:

	2017-18	2018-19
	£m	£m
5% reduction in hourly funding rate – April 2017	-1.500	-1.500
5% reduction in hourly funding rate – April 2018	-	-1.500
Nursery School funding	1.149	1.149
Net reduction in Early Years DSG	-0.351	-1.851

It should be noted that the proposed ultimate funding rate of £4.39 per hour for 2018-19 still includes £0.22p of protection. Derbyshire is one of only 15 LAs in receipt of this protection and it's unclear how long this additional support will be in place for. The £4.63 and £4.39 per hour funding rates will also drive the allocation of funding to implement the additional 15 hours of provision for Working Families from September 2017. Summaries of current and potential DSG income, together with current providers' rates, can be found at Appendices 1 and 2.

3.2 Central spending

The government propose that the amount of Early Years spending LAs can retain centrally will be capped at 7% in 2017-18 and 5% thereafter. A summary of our current spending, and a comparison with other LAs, is set out in Appendices 3 and 4.

Looking at our own spending, it might be appropriate to reclassify some of the Pre School Service's costs against the High Needs Block: whilst this would reduce the central percentage it would also add pressure on to the High Needs Block. Even with this refinement, it is likely that Derbyshire will have to reduce its central spend and delegate responsibility for some costs to nursery schools, particularly when the threshold falls to 5% in 2018-19.

The DfE have confirmed that decisions on central Early Years spend, within the nationally prescribed threshold, will become a matter for the Authority.

3.3 Allocation formula to schools

The DfE require LAs to have moved to a "universal base rate" of funding which is 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 parents. In addition to the base rate LAs can utilise supplements to channel resources for a number of purposes, the allowed formula supplements are:

- (a) Deprivation - the only mandatory supplement, LAs can choose the indicator;
- (b) Rurality/sparsity – to support lack of economies of scale – could use distance to nearest provider of a similar type;

- (c) Flexibility – to stretch the offer to encourage holiday/wrap around care, possibly by encouraging greater partnership working;
- (d) Efficiency – to encourage providers to exploit efficiencies identified in the *Cost of Childcare Review*;
- (e) Delivery of additional 15 hours free childcare (Sept 2017) – LAs can pay a supplement to encourage participation.

The above formula supplements must account for no more than 10% of the funding delegated. Derbyshire's current Early Years formula multipliers and allocations are as follows:

	Nursery Schools		Nursery Units		PVI Settings		TOTAL
	Rate	Allocation (£m)	Rate	Allocation (£m)	Rate	Allocation (£m)	Allocation (£m)
Basic hourly rate	£3.92	1.503	£3.92	8.889	£3.92	13.534	23.926
Additional nursery school/unit allowance	£0.70	0.267	£0.61	1.382	-	-	1.649
Sub total	£4.62	1.770	£4.53	10.271	£3.92	13.534	25.575
Lump Sum	£89,814	0.718	-	-	-	-	0.718
Social Dep'n	£25.29	0.073	£25.29	0.516	£25.29	0.316	0.905
ER School SENTA	£692.96	0.175	-	-	-	-	0.175
Rates	-	0.054	-	-	-	-	0.054
Total	-	2.790		10.787		13.850	27.427

If the additional hourly rate paid to nursery schools and units were regarded as part of the basic rate, then the value of Derbyshire's formula supplements would equate to 6.75% of the total i.e. within the prescribed threshold. However, the consequence of this treatment is that there would be effectively differential basic rates for nursery schools, units and PVI providers (£4.62, £4.53 and £3.92 per hour respectively). These rates must be equalised and brought into a universal rate by 2019-20 at the latest.

Of the formula supplements, the most vulnerable appears to be the lump sum, although the LA may be able to classify some of this support on the grounds of sustainability.

3.4 Support for Children with SEND

Two models for allocating additional SEND funding are proposed:

- (a) '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 EY 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.
- (b) 'Inclusion Fund': it is proposed that LAs set up a specific fund to support children with SEN but not at the level of requiring an EHCP or Statement (the funding of these would continue as now). LAs would pool funding from their Early Years and/or High Needs Blocks and use most of it in the form of 'top ups' on a case by case basis. If LAs wish to use part of their Inclusion Fund to support, for example, specialist services free at the point of use then the DfE is minded to deem such funding as delegated, i.e.

counting towards the 95% 'pass-through' target. There is an expectation that the Inclusion Fund would link to the LA's published 'Local Offer and be allocated clearly and transparently.

4. Potential implications

The current funding rates of schools and PVI providers show a wide disparity, a position which mirrors that in many other LAs. A comparison with our statistical neighbours shows the average funding rates:

LA	LA Name	PVI	Nursery	N. Class
		£	£	£
830	Derbyshire	4.00	7.40	4.77
860	Staffordshire	3.59	7.82	3.22
881	Essex	4.23	6.31	4.38
885	Worcestershire	3.58	5.95	3.24
886	Kent	4.11	6.75	5.01
888	Lancashire	4.15	7.90	4.70
891	Nottinghamshire	3.81	-	3.76
909	Cumbria	3.56	7.02	3.43
925	Lincolnshire	3.65	6.41	3.96
928	Northamptonshire	3.99	4.41	4.96

Derbyshire nursery schools are effectively funded at between £6.56 and £9.82 per hour, nursery units receive between £4.53 and £5.44 per hour, with the PVI sector receiving £3.92 plus an element for social deprivation. Appendix 1 has a graphic representation of these relative rates and a comparison with future Early Years funding levels. The net reduction in funding for 2017-18 and 2018-19, coupled with changes in the distribution formulae, is set out in Appendix 2 and will mean that some schools will inevitably lose funding whilst PVI providers will see a modest increase in their basic rate.

An initial look at the long term potential funding position suggests that the settlement will allow Derbyshire to have a universal hourly rate of around £4.10 by 2019-20, the table below gives a summary of the potential income and expenditure:

Item	Count	Value	Allocation	Comments
INCOME:		£	£m	
Universal 15 hrs	10,904.50	4.39	27.286	
Nursery school grant			1.149	To be confirmed
Additional 15 hrs	4,184.80	4.39	10.472	
TOTAL INCOME			38.907	
EXPENDITURE:				
Universal hrs – all providers	10,904.50	4.10	25.484	
Supp. indicators – nursery schls			0.845	Lump sum/dep'n
Supp. indicators – nursery units			0.516	Deprivation
Supp. indicators – PVI			0.316	Deprivation
Stubbin Wood			0.008	Deprivation
Additional 15 hrs – all providers	4,184.80	4.10	9.780	
Central spend			1.950	(A)

TOTAL EXPENDITURE			38.899	(B)
BALANCE			0.008	
Central Spend % (A/B)			5.01%	Limit is 5%
Supp. indicators % of total delegated			6.50%	Threshold is 10%

The above position would result in the following:

- a) Nursery schools and nursery units would see a reduction in their enhanced rate from £4.62 and £4.53 per hour in 2016-17 to £4.10 per hour over a three year period: in other words an annual reduction of ~ £0.17 and £0.14 per hour for each of the next three years.
- b) The PVI rate would rise from £3.92 per hour to £4.10 over the same period, an increase of £0.06 per hour per year.
- c) £0.45m of central costs would have to be removed, this could be achieved by:
 - (i) charging nursery schools for insurance, capital maintenance, catering, behaviour support etc.; and/or
 - (ii) reducing the level of subsidy received by ECaT; and/or
 - (iii) charging some of the costs of the Pre School Support Service to the High Needs Block.

The potential 2019-20 universal funding rate of ~£4.10 per hour assumes that Derbyshire continues to receive both the nursery schools grant (£1.15m) and the residual protection (£1.40m). These sums are equivalent to £0.18 and £0.22 per hour and the loss of these protections would mean the universal rate would have to be cut.

By way of context, each 10p increase in the hourly rate costs around £0.86m (~15,000 children per day (inc additional 15 hours) x 38 weeks x 15 hours). Any increases in the basic hourly rate could only be achieved by significant reductions in central spend and/or the value of formula supplements. Further reductions in the supplements would bring into question the financial viability of some school-based provision.

The DfE have indicated that the funding to support nursery schools is guaranteed for the next two years *“and 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.”* In the interim the Forum may wish to support the commissioning of a wider review of early years provision in Derbyshire to inform longer term decision making.

Further work needs to be undertaken on modelling the potential changes. Once the DfE have announced their final decisions, a local consultation will follow with schools, PVI providers and the Schools Forum to consider what changes should be made to Derbyshire's Early Years spending for 2017-18.

5. Other Considerations

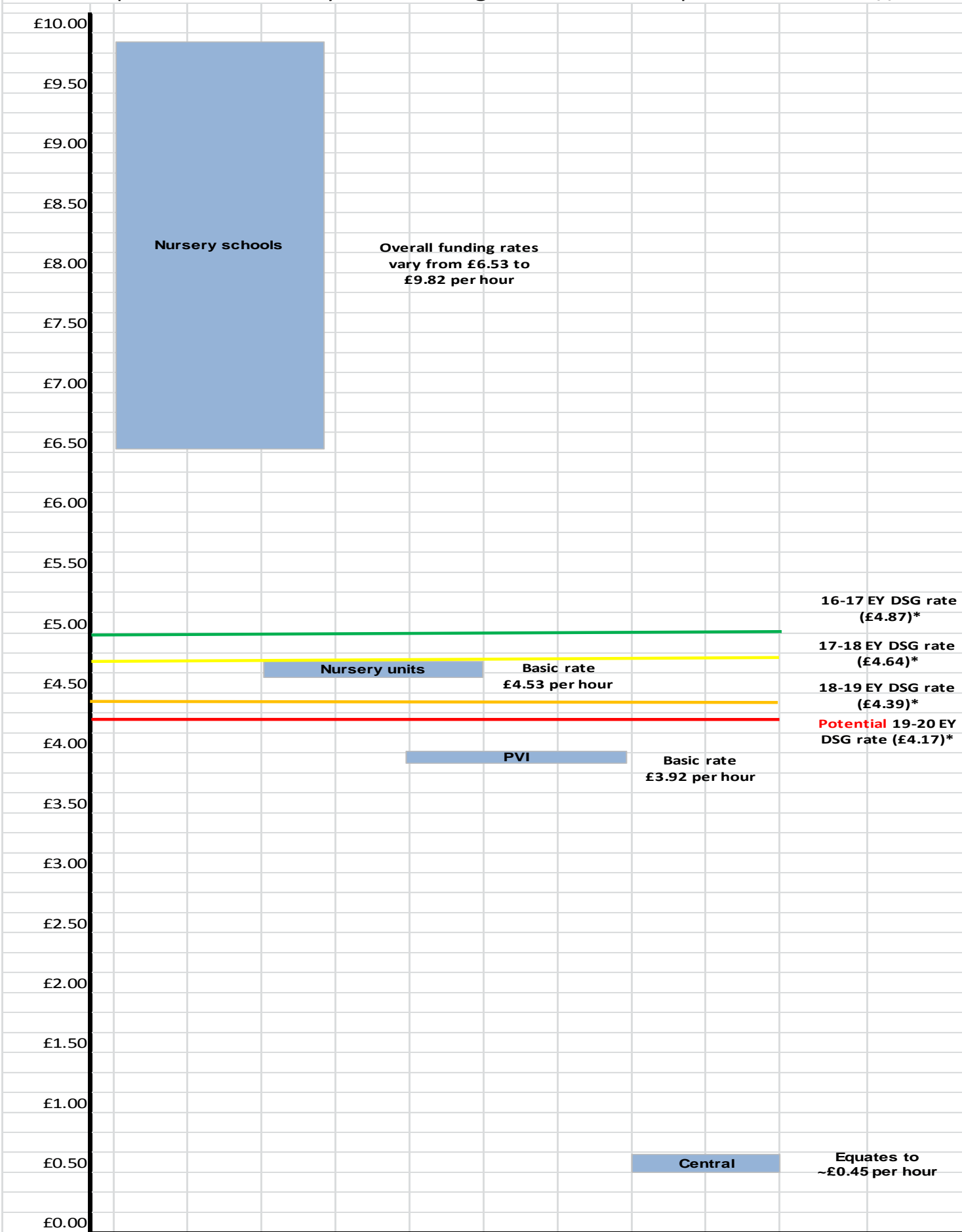
In preparing this report the relevance of the following factors has been considered: prevention of crime & disorder, equality of opportunity, human resources, legal & human rights, environmental, financial, health, property and transport considerations.

6. Strategic Director's Recommendations

That the Schools Forum:

- (i) Notes the report;
- (ii) Offers its views on the DfE's consultation proposals;
- (iii) Notes the potential implications for Derbyshire;
- (iv) Considers whether or not to commission a review of Early Years provision in Derbyshire; and
- (v) Agrees to consider further reports following the wider consultation with providers later in the year.

JANE PARFREMENT
Strategic Director for Children's Services



* N.B. The above income rates per hour exclude the £1.15m nursery school grant. Sector rates exclude deprivation

Potential changes in Early Years DSG				Appendix 2				
£31m	Total £30.3m		Total £29.9m		Total £28.4m		Total £25.9m	
£30m	Current restated Early Years DSG - £30.3m		2017-18 Residual Prot'n £0.24 per hr (£1.5m)					
Residual Protection £0.22 per hr (£1.4m)			Residual Protection £0.22 per hr (£1.4m)		?			
Nursery Grant (£1.1m)			Nursery Grant (£1.1m)		?			
Core EY Funding £4.17 per hr (£25.9m)			Core EY Funding £4.17 per hr (£25.9m)		Core EY Funding £4.17 per hr (£25.9m)			
£29m								
£28m								
£27m								
£26m								
£25m								
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£19m								
£18m								
£17m								
£16m								
	2016-17		2017-18		2018-19		2019-20	
File DSG MTFP version 11 as at 23 September 2016.xls								

File DSG MTFP version 11 as at 23 September 2016.xls

Summary of delegated and central Early Years spend – 2016-17

Appendix 3

Item	Type	£k	Notes
Payments to providers – 3 & 4 yr olds	Delegated	27,812	-
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 etc.
Every Child a Talker	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 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		30,293	
Central %		7.8%	

S251 2015-16 EY Planned Spend					Appendix 4				
Rank	Authority	Central	Total	Total	Rank	Authority	Central	Total	Total
		£	£	%			£	£	%
27	Northamptonshire	0	26,365,792	0.00%	13	Cumbria	719,561	14,095,440	5.10%
26	Suffolk	0	24,881,727	0.00%	12	Warwickshire	1,553,441	21,888,107	7.10%
25	Lancashire	11,000	47,825,415	0.02%	11	Hampshire	4,052,170	55,428,668	7.31%
24	Worcestershire	34,537	16,749,770	0.21%	10	Buckinghamshire	1,591,404	20,970,625	7.59%
23	Surrey	124,400	45,260,347	0.27%	9	Derbyshire	2,379,000	30,941,012	7.69%
22	Hertfordshire	150,000	53,115,497	0.28%	8	Leicestershire	1,617,183	20,416,128	7.92%
21	Essex	829,032	45,036,463	1.84%	7	Kent	4,710,454	58,986,328	7.99%
20	Somerset	325,600	17,000,600	1.92%	6	North Yorkshire	1,715,677	20,109,881	8.53%
19	Nottinghamshire	624,112	26,471,403	2.36%	5	Norfolk	2,697,130	26,783,000	10.07%
18	West Sussex	735,100	28,389,398	2.59%	4	East Sussex	1,642,115	15,780,301	10.41%
17	Cambridgeshire	725,000	21,659,022	3.35%	3	Staffordshire	2,806,430	25,263,470	11.11%
16	Lincolnshire	866,050	23,511,425	3.68%	2	Oxfordshire	4,822,158	29,172,833	16.53%
15	Devon	861,840	22,441,839	3.84%	1	Gloucestershire	3,824,322	21,720,026	17.61%
14	Dorset	585,300	11,889,600	4.92%					
						Shire LA total	40,003,016	772,154,117	5.18%
							Min		0.00%
							Max		17.61%

File Funding Reform for 2017\Comparison of shire LA central spend 20152016.xls

Early Years National Funding Formula Consultation questions/response

Annexe

Question	Response
Q9. Should there be an early years national funding formula (to distribute money from central government to each local authority)?	Yes
Q10. Considering a universal base rate of funding which does not vary by area.... <ul style="list-style-type: none"> Should a universal base rate be included in the early years national funding formula? Is 89.5% of overall funding the right amount to channel through this factor? 	<p>Yes</p> <p>Unsure</p>
Q11. Considering an additional needs factor.... <ul style="list-style-type: none"> Should an additional needs factor be included in the early years national funding formula? Do we propose the correct basket of metrics? Do we propose the correct weightings for each metric? 	<p>Yes</p> <p>Yes</p> <p>Unsure</p>
Q12. Considering an area cost adjustment.... <ul style="list-style-type: none"> Should the early years national funding formula include an area cost adjustment? Should that adjustment be based on staff cost (based on the General Labour Market measure) and on nursery premises costs (based on rateable values)? 	<p>Yes</p> <p>Unsure</p>
Q13. If you have any comments or recommendations for alternative metrics or weightings to be used in the EYNFF, please explain here:	Derbyshire ACA uplift of 7.8% is one of the lowest in the country and lower than most of our statistical neighbours. Nottinghamshire, the LA which most closely resembles Derbyshire, has an uplift of 10.8%: had Derbyshire received the same uplift then its overall funding would remain unchanged but its "secondary protection" figure, currently £1.4m, would be halved. Derbyshire is the only shire in its statistical neighbour group to receive this secondary protection and only one of 15 LAs nationally. Adjusting our ACA would reduce this protection. Some clarity over how long secondary protection funding will be in place for would be helpful in formulating our long term plans.
Q14. To what extent do you agree with the proposed funding floor limit, so that no local authority would face a reduction in its hourly funding rates of greater than 10%?	Strongly disagree (too steep too soon)
Q15. To implement the increased hourly rate for the two-year old free entitlement..... <ul style="list-style-type: none"> Should we retain the current two-year old funding formula? 	Yes

<ul style="list-style-type: none"> Should we use the additional funding secured at the spending review to uplift local authorities' allocations based upon this? 	Yes
<p>Q16. Considering the Dedicated Schools Grant....</p> <ul style="list-style-type: none"> Should the free entitlement be capped at 30 hours for children of eligible working parents and 15 hours for all other children? 	Yes
Q17. Should Government set the proportion of early years funding that must be passed on to providers?	No (s/be LA decision)
Q18. Do you think that 95% is the correct minimum proportion of the money that should be passed from local authorities to providers?	No, 95% is too high
Q19. If you would like to explain a response you've submitted on this page in more detail, please do so here:	The level of central spend should be a matter for local determination. In terms of the 10% protection limit (Q14) - this is too steep, a 3 or four year transition period would allow more time to realign spending.
Q20. Should local authorities be required to give the same universal hourly base rate to all childcare providers in their area?	No
<p>Q21. Considering funding supplements that local authorities could choose to use (above the universal base rate)...</p> <ul style="list-style-type: none"> Should local authorities be able to use funding supplements? Should there be a cap on the proportion of funding that is channelled through supplements? 	<p>Yes</p> <p>No</p>
Q22. If you agree that there should be a cap on the proportion of funding that is channelled through supplements, should the cap be set at 10%?	No
<p>Q23. Should the following supplements be permitted?</p> <p>Deprivation, sparsity/ rural areas, flexibility, efficiency, additional 15 hours</p>	Yes to all bar efficiency
Q24. When using funding supplements, should local authorities have discretion over the metrics they use and the amount of money channelled through each one?	Yes
Q25. If you agree that efficiency should be included in the set of supplements, do you have a suggestion of how it should be designed?	We remain unconvinced about the use of an efficiency factor because of the difficulty in accurately measuring efficiency and the limited capacity of LAs to carry out the necessary work
Q26. If you agree the delivery of the additional 15 hours of free childcare should be included in the set of supplements, do you have a suggestion of how should it be designed?	No
Q27. If you think any additional supplements should be permitted which are not mentioned here, please set out what they are & why you believe they should be included.	None

Q28. Finally, for this page, if you want to explain a response you've submitted on this page in more detail, please do so here	Re Q20 - it may be appropriate to fund some child-minder provision at a lower rate to reflect the lower costs of delivery than in other settings
Q29. Should there be a Disability Access Fund to support disabled children to access their free entitlement?	The Disability Access Fund should be a centrally held fund so that limited resources can be targeted to best effect.
Q30. Should eligibility for the Disability Access Fund be children aged 3 or 4 who are a) taking up their free entitlement and b) in receipt of DLA?	Yes
Q31. When it comes to delivering the funding for the Disability Access Fund, is the most appropriate way the existing framework of the Early Years Pupil Premium?	No, should be a central resource
Q33. To what extent do you agree that a lack of clarity on how parents / childcare providers can access financial support results in children with special educational needs not receiving appropriate support? (this refers to those who do not already have a EHCP)	Agree
Q34. When it comes to establishing an inclusion fund.... <ul style="list-style-type: none"> Should local authorities be required to establish an inclusion fund? Would an inclusion fund help improve the supply of appropriate support children receive when in an early years setting? 	Strongly agree Strongly agree
Q35. If you envisage any barriers, arising from existing practice or future proposals, to introducing a new requirement on local authorities to establish an inclusion fund, please tell us what they are and how they might be overcome.	The different ways in which providers are supported, reminded and encouraged to meet their responsibilities under the Eq. Act means it is important to have robust transition routes for children moving into school from the PVI sector. The LA have embedded a transition project using existing officers to deliver this.
Q36. When it comes to the SEN inclusion fund, should local authorities be responsible for.... <ul style="list-style-type: none"> The children for which the inclusion fund is used? The value of the fund? The process of allocating the funding? 	Yes Yes Yes
Q37. Where specialist SEN or SEND services are delivered free at the point of use, should they be considered as funding passed directly to providers for the purposes of the 95% high pass-through?	Agree
Q39. To what extent do you agree with the transition approach proposed for the Early Years National Funding Formula?	Disagree

Q40. To what extent do you agree with the transition approach proposed for the high pass-through of early years funding from local authorities to providers?	Disagree
Q41. To what extent do you agree that our proposals on the high pass-through of funding from local authorities to childcare providers make the existing Minimum Funding Guarantee for the early years unnecessary?	Strongly disagree
Q42. To what extent do you agree with the transition approach proposed for introducing the universal base rate for all providers in a local authority area?	Agree
Q43. If you want to explain a response you've submitted on this page in more detail, please do so here:	The major concerns are the overall loss of funding of 5% per year for the next two years coupled with the turbulence arising from changes in the distribution formula between institutions. The combined impact of a reduced share of a reduced total resource indicates the need for an MFG type protection arrangement at individual institution level. Phasing the aggregate losses over three years rather than two would help soften the impact and still allow the government to achieve its objective of a universal rate within each LA by 2019/20.
Q44. Please provide any representations / evidence on the impact of our proposals for the purposes of the Public Sector Equality Duty (Equality Act 2010).	-

Your response ID is ANON-8PBM-MPE7-G. Please have this ID available if you need to contact us about your response.