
Early Years Funding Consultation

Report being considered by: Schools Forum

On: 10/10/2016

Report Author: Claire White

Item for: Discussion **By:** All Forum Members

1. Purpose of the Report

- 1.1 To brief members of the Forum on the early years funding consultation and implications for West Berkshire providers if the proposals set out in the consultation are implemented.

2. Recommendation(s)

- 2.1 To note the implementation work required and possible implications on funding for 2017/18.

Will the recommendation require the matter to be referred to the Council or the Executive for final determination?	Yes: <input type="checkbox"/>	No: <input checked="" type="checkbox"/>
---	-------------------------------	---

3. Introduction

- 3.1 The Government launched its plans for an early year's national funding formula (for three and four year olds) on 11th August 2016 (see <https://consult.education.gov.uk/early-years-funding/eynff> to download/read the document). Responses were due by 22nd September 2016.
- 3.2 An additional £1 billion is being invested into free childcare, and this includes extending the free entitlement to childcare from 15 to 30 hours a week for working parents, and increasing the funding rates.
- 3.3 All local authorities are currently funded at different rates for three and four year olds, ranging from £3,080 per (FTE) child in Solihull to £8,713 per (FTE) child in Camden. West Berkshire receives £3,911. The funding received is based on the number of children recorded in the January census week (5/12 from the previous January, 7/12 from the current year January). The final allocation is confirmed and adjustment made in the June following the end of the financial year.
- 3.4 Local authorities (LAs) distribute the funding to providers based on their own local formula, using a wide variety of methodologies. It is largely paid as an hourly rate according to the actual number of hours of provision. Thus the funding received (based on a proxy number in January) does not match the funding distributed and some LAs "profit", others lose.

4. Main Changes Proposed

- 4.1 The funding to be allocated to LAs will be based on a new national formula. There will be a universal base rate plus an additional needs rate which will be added together and multiplied by an area cost adjustment.
- 4.2 The methodology used to distribute funding to providers will be prescribed by the Government with little local flexibility. Only one base rate will be allowed with limited use of supplements, and the ability to use a quality supplement will be withdrawn. The funding level of supplements will be capped, as will the amount of funding set aside for centrally retained services. The thinking is that it will be a simple transparent single formula rate with the majority of funding received by the local authority being distributed to providers.
- 4.3 The funding formula for two year olds will not change, and LAs can continue to use their existing method to allocate to providers. Additional funding will be added and distributed through the existing formula.
- 4.4 The consultation also contained proposals for meeting the needs of disabled children through a disability access fund, and for local authorities to establish an inclusion fund to support children with special educational needs. Early year's pupil premium grant will continue to be funded separately.
- 4.5 What the consultation failed to address is that due to the mismatch between funding received (based on children counted in January census week) and the funding distributed (based on actual number of hours of provision), the hourly funding rate paid to providers may be significantly different to the funding rate received, and will fluctuate year on year. It continues to be an unfair system where some LAs can receive significantly more funding than they need, and others significantly less.

5. Funding Implications

- 5.1 Appendix A is a Fact Sheet setting out the implications of these proposals for West Berkshire's early year's providers. This was sent out to all providers, encouraging them to respond to the consultation.
- 5.2 The main message is that this is not a good or fair deal for West Berkshire. The funding rate proposed for West Berkshire is below average, when it should be well above the average (as is the case for the more recently introduced two year old funding rates). Many providers will see a reduction in their funding, some significantly. In the last few years the funding rate we use for providers has been maintained due to using unspent two year old funding; the increase in the LA funding rate proposed just plugs this gap. When the Government states that most providers will see an increase in the funding they receive this was based on comparing proposed LA funding rates to current LA funding rates and not what providers are actually currently receiving.
- 5.3 The formula West Berkshire currently uses to distribute funding to providers will need to completely change, using one base rate instead of five, and removing the quality rates.
- 5.4 Once the final arrangements are announced by the Government the LA will need to consult with all providers on its proposals for implementing the change. The new formula will need to be implemented within two years, so funding floors and ceilings

to limit the losses during this period will need to be used, assuming West Berkshire's proposed funding rate as given in the consultation does not significantly increase.

- 5.5 If the funding rate is not increased, there is a high risk that many providers will be unable to afford to continue to provide the free entitlement, and there is a risk that there will not be a sufficient number of places, particularly for the 30 hour provision for those families that qualify.
- 5.6 There is also a risk that the removal of the quality rate will result in many providers no longer appointing qualified staff, in order to reduce costs.

6. Appendices

Appendix A – EYNFF Fact Sheet based on West Berkshire's Perspective

Appendix A

Early Years National Funding Formula – Consultation (closing date 22 September 2016)

Fact Sheet based on West Berkshire's (WBC) Perspective

The National Funding Rate – Funding from Central Government to Local Authorities (LAs)

1. The funding each local authority will receive will be based on a new national formula. The hourly funding rate determined by this formula will be the same for both the existing universal 15 hours and for the additional new 15 hour entitlement for children of working parents:

$(\text{Universal Base Rate} + \text{Additional Needs Rate}) \times \text{Area Cost Adjustment} = \text{Hourly Funding Rate per child.}$

2. For WBC this is:

$(\text{£}3.52 + \text{£}0.21) \times 1.26 = \text{£}4.70$ per hour per child.

3. The national average rate will be £4.71, with a range from £3.89 (Herefordshire) to £8.51(Camden). These are the rates without transitional protection and other add on's (such as pupil premium and disability access).
4. Our current rate is £4.13. The current national average is £4.43, with a range from £3.24 to £9.17. 112 LAs will receive greater per hour funding, 38 will get less.
5. The new range of funding is still a very wide variation – the highest rate is 2.2 times the lowest, compared to 2.8 currently. With 89.5% of the total funding being channeled through the universal base rate this is not the expected result, and does not seem to represent a fair “national” rate. The fact that those LAs losing funding will be limited to no more than a 10% loss even when the transitional protection ends, means some LAs (18 in total) will continue to be funded at artificially high levels, which does not seem fair or in line with the principles of the system.
6. It doesn't seem right that WBC's funding rate is below average. This result is because the area cost adjustment is relatively low for WBC - this is a multiplier of 1.26 in a range of 1.00 to 1.90. The expectation would be that WBC's funding rate and area cost multiplier would be well over the average, as is the case for the 2 year old funding rate. The general labour market (GLM) rates used appear reasonable, but the data used for rateable property costs could be flawed as this is creating the large variation in LA rates and bringing WBC below average. Given the above national average property costs in WBC, this does not make sense.
7. Compare this to the 2 year old funding rates (the methodology will not change for this). WBC currently receives £5.36 compared to the national average of £5.09. The new rate for WBC will be £5.74 compared to the national average of £5.39. The range will be from £5.20 to £6.50. This seems reasonable yet the proposed 3 & 4 year old rates are way out of line with this. If there is no change proposed for the 2

year old methodology as it is deemed to be “fair” and fit for purpose, why is this “simple” and understood methodology not being used for the funding of 3 & 4 year olds?

8. Additional needs factor – it is unclear why this is required in addition to the Early Years Pupil Premium (EYPP) and should be kept separate rather than complicate the base funding. The main methodology being proposed is using free School Meals eligibility for KS1 and 2 children. This will not accurately channel funding where it is needed. As there is already in place a system for determining early years pupil premium eligibility, why is this not being proposed which in theory should be much more accurate than based on a proxy measure? Instead of adding to the base funding formula, this element of funding should be added to the EYPP – it is, after all, for the same purpose.
9. Although on the face of it WBC will receive more funding (£4.70 per hour per child compared to £4.13 per hour per child), this does not mean that providers will receive more funding. What has not been taken into account is the fact that previous years under spends in 2 year old funding is being used to maintain current funding rates for 3 & 4 year olds, so the proposed increase in rate simply plugs the current funding gap (the DfE’s March 2016 base lining exercise looked at how the **in-year** allocation of DSG was being spent, not what the total current spending plan is, which includes use of previous year DSG under spends).

Provider Rates – Local Authority Funding to Providers

1. The LA will still be responsible for distributing the funding it receives to all early years providers, via a local formula.
2. To make the formula more consistent between LAs, the proposal is that there will be just one base rate, the same for all types of providers (WBC currently use 5), and limited use of supplements. A quality supplement will no longer be allowed as good quality should be expected of all providers rather than an optional extra (although in WBC it has been used due to the correlation between provider costs and staff qualifications).
3. Assuming the LA hold back the maximum proposed 5% for central costs and do not apply any supplements (capped at 10%, and it is proposed that the deprivation supplement will remain mandatory), the maximum possible funding rate to providers would be £4.47 (the indicative rate for WBC providers given in the consultation is £4.50). It is questionable whether this is a sustainable rate of funding across all providers in WBC to deliver high quality early education and encourage provision of the 30 hours.
4. The cost of childcare review concluded that the average hourly cost of 3 & 4 year old provision was £4.25 in private settings and £4.37 in primary schools. In WBC the cost in many private settings is far greater than this.
5. The WBC current provider rates are:
 - PVI: range from £3.70 (preschool/childminder with no quality supplement) to £5.52 (private nursery with highest quality supplement); Average is £4.33
 - Maintained nursery class: £4.13
 - Maintained nursery school: £4.63

6. Maintained nursery schools currently also receive a lump sum. There will be supplementary funding from the DfE to protect this payment for a minimum of 2 years in order to give such schools time to work out how they can be more sustainable in the longer term. In WBC this lump sum is £128k per school, which will be a significant saving for these 2 schools to find in addition to the reduction in their hourly rate.
7. 34 of our providers (29%) would be on a lower rate – of up to 20% reduction. Even allowing a two year transfer period over to the new formula, the highest quality providers will be seeing significantly lower funding rates from April 2017. There is no funding protection/funding floor for individual providers mentioned in the proposals, although WBC will need to operate floors and ceilings over the two year implementation period.
8. The indicative funding rate does not, however, account for contingency (for in-year demographic growth) or for off-setting any shortfall in funding from the previous year – this would reduce the rate given above. Funding to the LA is based on two January census' whereas payments are made to providers for actual hours of provision so there will always be a mismatch in funding to manage, leading to year on year uncertainty on provider rates. In setting the annual rate, LAs have to make a judgment on both likely funding based on a future census and how many hours of provision they will need to fund in the coming year, and add or subtract the under or over spend from the previous year – the resultant rate therefore may not be anywhere close to the “national” or the indicative provider rate.
9. In WBC the annual mismatch (shortfall) in 3 & 4 year old funding in recent years has been:

2013/14 = £580k
2014/15 = £668k
2015/16 = £397k
10. The only way to have a fair and transparent funding system where it can be seen by all that the majority of funding is being passed over to providers is for funding to be paid to the LA on **actual** annual hours of provision in the year rather than the current system which is based just on hours of provision in January census week (this needs to be for 2 year olds as well as 3 & 4 year olds). The current mismatch allows the possibility of a significant in year funding gap to be recovered the following year, and will be further compounded by the additional 15 hours. Funding received for the year is already retrospective (i.e. final payment for 2015/16 notified and received July 2016) so a retrospective early years funding system would not be a departure from current practice. It would give LAs and providers the certainty they need on funding rates.

Summary

In order to deliver a fair and transparent system, it is WBCs view that the following changes to the proposals need to happen:

Early Years Funding Consultation

1. The property element of the area cost adjustment (ACA) should be removed (as it is clearly not delivering reasonable results), and therefore put the ACA in line with that used in the 2 year old funding formula.
2. Additional needs funding should be removed from the main formula funding rate, with this funding added to the EYPPG instead (and therefore remove the mandatory deprivation supplement from provider rates).
3. The DSG funding needs to be calculated on actual hours of provision being funded, and not by using the January census as a proxy.
4. The 10% limit on losses needs to be removed, even if it means extending the two year transitional period.

More details on the proposals can be read in the Governments consultation document, available on this webpage:

<https://www.gov.uk/government/news/fairer-early-years-funding-plan-launched>