

School Forum

10 January 2017

Review of Early Years Funding Formula for 2017/18

1. Purpose of report

- 1.1 To inform Schools Forum of the work that has been undertaken with regard to the Early Years Funding Formula and seek its views of the proposed financial arrangements for 2017/18.

2. Recommendations

- 2.1 That Schools Forum note the work that has been undertaken in reviewing the Early Years Funding Formula in advance of 2017/18.
- 2.2 That Schools Forum note and feedback their views in relation to the proposed financial arrangements for 2017/18.
- 2.3 That Schools Forum note that following the meeting the proposed financial arrangements will be communicated with all early years providers and be reported to the Council's Cabinet for decision on 8th February 2017.

3. Background

- 3.1 In England all children aged 3 and 4 are currently entitled to 570 hours of funded childcare per year (normally provided as 15 hours per week over the 38 week school year).
- 3.2 This is funded via the Early Years Block of the Dedicated Schools Grant (DSG). The grant funding is paid over to local authorities, who have a statutory duty to ensure sufficient early years places are available to meet the requirements in their area, and this funding is then paid by the local authority to providers based on the actual number of hours of funded childcare that is delivered.
- 3.3 The allocation of early years funding to different authorities in England via DSG is, in the main, currently based on historic education spend in each area e.g. prior to DSG if authority A had decided locally to spend more on education than authority B, then authority A is currently likely to still be allocated more DSG funding overall than authority B.
- 3.4 As such, once funding has been allocated to authorities, each authority has to identify a local funding formula to set out the rates that they will pay for funded early years provision in their area.
- 3.5 In Walsall this has resulted in the following funding formula for early years provision (the rates shown are for 3 and 4 year olds only, there is a separate formula for provision of funded hours to those 2 year olds who are eligible for support):

Table 1 – Current Early Years Funding Formula					
	Nursery Class in Small Primary School (26 PTE)	Nursery Class in Large Primary School (52 PTE)	Maintained Nursery School	Private, Voluntary, Independent (PVI) Provider	Child Minders
Hourly Rate	£4.04 per hour	£2.98 per hour	£4.98 per hour	£3.74 per hour	£3.98 per hour
Business Rates	N/A (will be provided as part of school funding formula)		Paid at actual cost	N/A	N/A
Annual Supplement (to support head teacher and premises costs)	N/A (will be provided as part of school funding formula)		£89,120 per year per school	N/A	N/A
Deprivation	Total deprivation funding of circa £500k per annum paid across all providers based on IDACI indicators				Not paid – enhancement included within hourly rate

- 3.6 A significant piece of work was undertaken with early years providers when the 15 hours of funded childcare was originally implemented to arrive at the rates payable. This focused on the statutory staffing levels required and the other costs that each provider was likely to see, and resulted in varying rates being applicable to different types of provision.
- 3.7 In the main nursery classes receive less funding per hour than nursery schools as their overheads (head teacher costs / premises costs) will be spread over the wider pupil numbers (non-early years children) at the school. PVI providers and childminders also receive less than Nursery Schools as they are unlikely to incur the same level of overheads e.g. although they will be required to offer a pension scheme the employer contributions into the scheme are likely to be significantly less than those that nursery schools will pay into the teachers / local government pension schemes, additionally Nursery Schools (following the decision of the local authority) will be paying the ‘actual living wage’ as a minimum whereas PVI’s / childminders are more likely to be paying the ‘national living wage’ as a minimum.

4. Proposed Changes to the Current System

- 4.1 As part of its manifesto the government set out that it would seek to introduce 30 hours of funded childcare for 3 and 4 year olds of working parents from September 2017. As such it began a consultation in August 2016 to set out proposed changes to the current early years funding system to allow it to

meet its manifesto commitment (the full consultation document can be found [here](#)).

4.2 The main points set out in the government's consultation were as follows:

- The current system is driven by historical precedent and not by the costs of providing childcare that meets the needs of children in different areas.
- There is currently an unfair differentiation of funding rates that are paid to different types of providers which leads to a non-level playing field between those from the maintained sector and those from the private/voluntary sector.
- This may impact on the implementation of the 30 hours delivery, as the government believes that the majority of 30 hours places will be delivered by the private/voluntary sector.
- The government therefore proposes to introduce an early years national funding formula that will allocate funding for the three and four year old entitlement, both the existing universal 15 hour entitlement and the new 30 hour entitlement for working parents, on a formulaic basis for the first time.
- It will commence, for the existing 15 hours, in April 2017 and for the additional 15 hours, in September 2017, when the 30 hour offer is implemented nationally.
- It will feature three funding factors that determine the funding per child that each local authority will receive - a universal base rate of funding for each child; an additional needs factor (reflecting the extra costs of supporting children with additional needs to achieve good early learning and development outcomes); and an area cost adjustment (reflecting the different costs of providing childcare in different areas of the country).
- Given the government's position set out above, there is a requirement to move to a universal hourly rate across all providers - by 2019/20 at the latest although authorities are encouraged to move to this as soon as possible (this is based on the governments own research that found the representative hourly cost, at average adult to staff ratios, for children aged three and four was £4.25 in private settings and £4.37 in primary schools with nursery provision, and as such as the requirements of these providers, and the quality of the early education they provide, should be the same everywhere, the government does not think that there should be a significant funding rate differential between providers).
- The imposition of a cap on the totality of funding that can be retained by the local authority to fund central early years services – a maximum of 7% of total early years block funding for 2017/18 and 5% for subsequent years.
- A mandatory requirement for a deprivation supplement for all providers, to support those children with additional needs

- The commitment to provide additional funding to continue a supplement for maintained nursery schools for at least the next 3 years (2017/18 to 2019/20).

5. Review of the current funding formula

- 5.1 The consultation set out that each local authority will still be required to implement a local funding formula to distribute this funding, and implement the universal hourly rate across all types of provision.
- 5.2 It also set out the indicative funding rates that would be payable to each local authority for 2017/18. For Walsall this totalled £4.52 per hour of provision. However once taking account of funding required for central early years services, and retaining a similar amount of funding as that allocated in the current system to pay for the mandatory deprivation supplement, this reduced the potential hourly funding available to pay to providers as a universal hourly rate to £4 per hour.
- 5.3 A working group of representatives from across all early years provider types was convened to review the historic funding formula and identify the updated costs of providing early years support across each type of setting.
- 5.4 The outcome of the local working group identified the following costs of provision across each type of setting:

Table 2 – Review of costs of provision	
Setting	Calculated Hourly Cost of Provision In Walsall (based on statutory staffing ratios)
Nursery Class in Small Primary School (26 PTE)	£4.78
Nursery Class in Large Primary School (52 PTE)	£3.97
Maintained Nursery School (104 PTE)	£6.89
Independent School (52 PTE)	£4.18
PVI Provider (26 PTE)	£4.91
PVI Provider (52 PTE)	£3.67
Childrens Centre (32 PTE)	£4.71
Average Hourly rate across all settings	£4.78
Average Hourly rate across all settings excl. Maintained Nursery Schools	£4.37

- 5.5 The above shows that although the move to a universal hourly rate of £4 per hour would for a large number of providers represent a rate that is likely to be below the potential cost of providing care, it would however equate to an increase on the rates currently paid for all providers other than small nursery classes and maintained nursery schools.
- 5.6 In addition deprivation funding of circa £500k per annum would also still be available on top of the universal hourly rate to seek to support those children with additional needs.

- 5.7 The consultation also set out the amount of funding that would be paid to local authorities to provide a supplement to maintained nursery schools. At present the total cost of the maintained nursery schools supplement is circa £700k per annum, however the funding being allocated to Walsall for 2017/18 to supplement maintained nursery schools for totals £1.3m.
- 5.8 Other than the small reduction for small nursery classes, the largest reduction in hourly funding will be for maintained nursery schools. However financial modelling indicates that the increase in the funding that is available to supplement maintained schools is likely to be sufficient to offset the reduction in hourly funding that they will see as the result of a move to a universal rate of £4 per hour.
- 5.9 As such it is recommended that the following funding arrangements for early years are implemented from 2017/18:

Table 3 – Proposed Early Years Funding Arrangements for 2017/18								
	Nursery Class in Small Primary School (26 PTE)	Nursery Class in Large Primary School (52 PTE)	Maintained Nursery School (104 PTE)	Independent School (52 PTE)	PVI Provider (26 PTE)	PVI Provider (52 PTE)	Childrens Centre (32 PTE)	Childminders
Hourly Rate	£4 per hour							
Annual Supplement (to support head teacher, premises costs and business rates)	N/A	N/A	Total supplement funding of £1.3m per year	N/A	N/A	N/A	N/A	N/A
Deprivation	Total deprivation funding of circa £500k per annum paid across all providers based on IDACI indicators							

- 5.10 It must however be noted that the government has at this stage only committed to providing this supplementary funding until 2019/20, and there is a risk that the funding may be withdrawn at some point in the future, meaning there is a need for maintained nursery schools, with the support of the local

authority, to plan for how they will respond to this risk over the next 3 years e.g. through reviewing options to reduce costs and potential for federation / amalgamation / alternate delivery models.

6. Financial implications

- 6.1 The exact financial impact on individual providers cannot be predicted at this time as this will be dependent on actual hours of funded care that are delivered during 2017/18.
- 6.2 However current financial modelling indicates that the proposed financial arrangements set out in table 3 would be affordable within the Early Years Block funding provided within the Dedicated Schools Grant for 2017/18.
- 6.3 As set out within the report a universal hourly rate of £4 per hour would equate to an increase on the rates currently paid for all providers other than small nursery classes and maintained nursery schools.
- 6.4 Other than the minor reduction in the hourly rate payable to small nursery classes, the largest reduction in hourly funding will be for maintained nursery schools. However financial modelling indicates that the increase in the funding that is available to supplement maintained schools is likely to be sufficient to offset the reduction in hourly funding that they will see as the result of a move to a universal rate of £4 per hour (though again this will be dependent on actual hours of funded care that are delivered at each school during 2017/18).

7. Legal Implications

- 7.1 The review of the current Early Years Funding Formula is required to ensure that the requirements set out in the governments consultation can be met.
- 7.2 As set out within the EFA's Schools Forum Powers and Responsibilities document, financial arrangements for early years should be proposed and decided by the local authority, informed by the views of Schools Forum.
- 7.3 Following the meeting of Schools Forum the proposed financial arrangements will be communicated with all early years providers be reported to the Council's Cabinet for decision on 8th February 2017.

8. School Improvement

- 8.1 As part of making any decisions regarding possible changes to the funding formula, the potential impact on the desired outcomes of the Walsall school improvement programme should be considered.

9. Members eligible to vote

- 9.1 The intention of the report is to inform Schools Forum of the work that has been undertaken with regard to the Early Years Funding Formula and seek its

views of the proposed financial arrangements for 2017/18. As such no vote is required.