

Cabinet – 8 February 2017

Early Years Funding Formula

Portfolio: Councillor Burley, Children's Services and Education

Related portfolios: Councillor S Coughlan, Leader of the Council

Service: Children's Services

Wards: All

Key decision: Yes

Forward plan: Yes

1. Summary

- 1.1 The Early Years funding formula is the local process that is utilised (informed by national early years funding guidance) to allocate the Early Years block of the Dedicated Schools Grant (DSG) funding that the Council receives to the early years providers in Walsall.
- 1.2 Central Government, in line with the commitment set out in its manifesto document, has recently begun the process of consulting on a move to a national early years funding formula, to be applied from April 2017. As such a significant piece of work has been undertaken to ensure that the local Early Years funding formula is compliant with the updated guidance and requirements of the national early years funding formula.
- 1.3 This work has been undertaken with the support of a working group of Schools Forum members, representing all types of early years provision, with the outcome presented to Walsall Schools Forum at their meeting on 10 January 2017 where they supported the recommendations now being put to Cabinet for decision.
- 1.4 As the Early Years Funding formula will result in the Local Authority, and individual early years providers, incurring expenditure which is significant, the approval of the formula is a key decision.

2. Recommendations

- 2.1 That Cabinet approves the Early Years Funding Formula for 3 and 4 year olds (set out in **Table 3** of the report) that was recommended by Walsall's Schools Forum at their meeting on 10 January 2017.

- 2.2 That Cabinet note that no changes are currently required to the existing early years funding formula in relation to financial arrangements for 2 year olds.

3. Report detail

Background for 3 and 4 year old funding

- 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 for 3 and 4 year olds					
	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	N/A (will be provided as part of school funding		£89,120 per year per school	N/A	N/A

head teacher and premises costs)	formula)			
Deprivation	Total deprivation funding of circa £500k per annum paid across all providers based on 'income deprivation affecting children index' (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 for 3 and 4 year olds 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.

Proposed Changes to the Current System for 3 and 4 year olds

- 3.8 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 on the DfE website).
- 3.9 The main points set out in the government's consultation, in relation to 3 and 4 year old funding, 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).

Review of the current 3 and 4 year old funding formula

- 3.10 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.
- 3.11 It also set out the indicative funding rates that would be payable to each local authority for 3 and 4 year olds for 2017/18. For Walsall this totalled £4.52 per hour of provision (and this amount was confirmed when the authority received the notification of its DSG funding for 2017/18 in December 2016). However once taking account of funding required for central early years services, and assuming the retention of a similar amount of funding as that allocated in the current system to pay for the mandatory deprivation supplement, this reduces

the potential hourly funding that will be available to pay to providers as a universal hourly rate to £4 per hour.

- 3.12 A working group of Schools Forum representatives from across all types of early years provision was therefore convened to review the historic 3 and 4 year old funding formula and identify the updated costs of providing early years support to 3 and 4 year olds across each type of setting.
- 3.13 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 for 3 and 4 year olds	
Type of 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

- 3.14 The above shows that although the implementation of a universal hourly rate of £4 per hour for 3 and 4 year olds 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.
- 3.15 In addition, with the requirement of a mandatory deprivation factor, deprivation funding of circa £500k per annum would also be available on top of the universal hourly rate to seek to support those 3 and 4 year olds with additional needs.
- 3.16 The governments 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 in the current 3 and 4 year old funding formula is circa £700k per annum, however the funding being allocated to Walsall for 2017/18 to

supplement maintained nursery schools for totals £1.3m (and again this amount was confirmed when the authority received the notification of its DSG funding for 2017/18 in December 2016).

- 3.17 If a universal rate of £4 per hour for 3 and 4 years olds is implemented, other than a small reduction of 4p per hour for small nursery classes, the only other reduction in hourly funding would be 98p per hour 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 fully offset the reduction in hourly funding that they will see as the result of a move to a universal rate of £4 per hour.
- 3.18 As such it is recommended that the following funding arrangements for 3 and 4 year olds are implemented from 2017/18:

Table 3 – Proposed 3 and 4 year old Early Years Funding Formula to be implemented from 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
Universal 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 actual levels of deprivation of children being supported							

- 3.19 It must however be noted that the government has at this stage only committed to providing the supplementary funding for maintained nursery schools until 2019/20, and there is a risk therefore that the funding may be withdrawn at some point in the future. This means that 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 for example through reviewing options to reduce costs and any potential for federation / amalgamation or the implementation of alternate delivery models.

4. Council priorities

- 4.1 The role that early years provision plays is key in ensuring that children have the best start in life and links directly to the Councils priority of 'lifelong health wealth and happiness' in improving educational outcomes. The proposed funding formula will ensure that all early years funding the authority receives is fully utilised for the provision of early years services and in meeting the authorities statutory duty to ensure sufficient early years places are available to meet the requirements in their area.

5. Risk management

- 5.1 As set out in the report the main risk of the implementation of the proposed 3 and 4 year old Early Years Funding Formula is the requirement to implement a universal hourly rate across all providers and the impact that this will have on the funding that maintained nursery schools receive.
- 5.2 Although modelling shows that this reduction should be offset by the increase in the funding that is available to supplement maintained nursery schools, government has at this stage only committed to providing this supplementary funding for until 2019/20. As such there will be 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 for example through reviewing options to reduce costs and any potential for federation / amalgamation or the implementation of alternate delivery models.

6. Financial implications

- 6.1 The exact financial impact of implementing the proposed early years funding formula for 3 and 4 year olds on individual early years providers cannot be predicted at this time as this will be dependent on actual hours of funded care that are delivered by each of them 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 of 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 a small reduction of 4p per hour for small nursery classes, the only other reduction in hourly funding would be 98p per hour 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 fully 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 Education Funding Agency has prescribed the way in which early years provision should be financed from 2017/18. These guidelines are set out in the early years national funding formula operational guide that was published in December 2016 (the full document can be found on the DfE website).
- 7.2 The review of the current Early Years Funding Formula for 3 and 4 year olds was necessary to ensure that the local Early Years funding formula is compliant with the updated guidance and requirements of the national early years funding formula.
- 7.3 The proposed Early Years Funding Formula for 3 and 4 year olds sets out how funding will be allocated to early years providers in Walsall within the prescribed arrangements.

8. Property implications

- 8.1 Unless any school based early years providers in Walsall were to close, there will be no property implications associated with this report.

9. Health and wellbeing implications

- 9.1 The content of this report has taken into account the Marmot objectives and it is confirmed that the proposals have been tested against the relevant considerations in this respect. As such there has been no indication that the proposed funding formula would have any adverse impact on the health and wellbeing of staff and children being supported by early years providers in Walsall.

10. Staffing implications

- 10.1 The proposed funding rates for 3 and 4 years olds represent an increase on the rates currently paid for all providers other than small nursery classes and maintained nursery schools. For these types of provision there is a risk that the revised funding rates may necessitate a reduction in staff posts, and

finance and human resources officers will therefore continue to work with and support any schools that do experience financial difficulties.

11. Equality implications

- 11.1 As part of the consultation on the implementation of an early years national funding formula the government undertook a full equality impact assessment, taking into account the relevant protected characteristics identified in the Equality Act 2010 (a copy of the equality impact assessment is attached to this report).
- 11.2 The Education Funding Agency has prescribed the way in which early years provision should be financed from 2017/18, and Walsall Council, in determining its local funding formula, is bound to adhere to the prescribed funding arrangements.
- 11.3 The prescribed funding arrangements include a mandatory deprivation factor to ensure that additional funding is allocated to support the needs that children from deprived backgrounds may face.

12. Consultation

- 12.1 Walsall Schools Forum have received a number of reports on the early years funding formula, with a working group of members supporting the review of the formula, and at their meeting on 10 January 2017 recommended the proposed funding arrangements for 3 and 4 year olds now being put to Cabinet for decision.
- 12.2 The revised financial arrangements will also be communicated with all Early Years providers in Walsall.

Background papers

Original consultation document from government regarding the implementation of a national early years funding formula

Government's response to the early years consultation and fact sheet

Walsall Schools Forum report 20 September 2016 - Update on National Funding Formula Consultations and Impact on Walsall 2017/18 Local Funding Formulae

Walsall Schools Forum report 10 January 2017 – Proposed Early Years Funding Formula

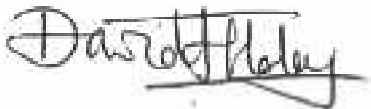
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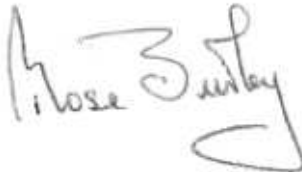
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A handwritten signature in black ink that reads "David Haley". The signature is written in a cursive style with a horizontal line underlining the name.

David Haley
Executive Director
17 January 2017

A handwritten signature in black ink that reads "Rose Burley". The signature is written in a cursive style with a large, stylized 'B'.

Councillor Burley
Portfolio holder
30 January 2017