

An Early Years National Funding Formula (EYNFF) – DfE Consultation

1. Background

The DfE is consulting on changes to the funding arrangements for early years. These changes cover:

- i) A new national funding formula, which will be used to distribute the Dedicated Schools Grant for 3 and 4 year olds between local authority areas.
- ii) Changes to the rules about how much funding local authorities can hold centrally
- iii) Simplifying the local formulae used by authorities to determine the funding allocations (budget shares) for individual providers.
- iv) New arrangements for funding special educational needs.

There are two main reasons for introducing these changes:

i) Lack of logic in the current funding system

Early years DSG funding is currently allocated on the basis of authorities' reported spend in 2012-13. There is a large range in funding levels between areas and these differences often cannot be explained or justified. The DfE has recently consulted on introducing national funding formulae for the other two elements of the DSG (schools and high needs) and it is therefore logical for the same approach to be taken with the early years block.

ii) Introduction of additional hours of entitlement for children of working parents

From September 2017 children of working parents will be entitled to 30 (rather than 15 hours) per week of early years' provision. To deliver the additional hours, the government has promised an extra £1billion in annual funding, £300 million of this to increase the average hourly rate paid to early years' providers. The DfE is aware that in some areas providers receive insufficient income through their budget shares to deliver the publicly funded provision – and subsidise publicly funded provision by making higher charges to parents for additional hours. The introduction of 30 hours publicly funded provision greatly reduces the opportunity for charging parents for extra hours. Therefore it is important that the public funding received by providers across the country is sufficient to incentivise them to deliver the 30 hours provision. To achieve this, the DfE considers that the early years' DSG allocations need to be more closely aligned with the costs of delivering provision.

The main elements of the proposals are outlined below.

2. Proposed changes

i) National funding formula for calculating DSG allocations to local authorities for 3 and 4 year olds

The new formula comprises three factors that determine the amount of funding that each authority will receive per child.

Base Rate

Firstly, a universal base rate of funding for each child. The base rate will allocate 89.5% of the national funding. The DfE has drawn on prior analysis done in the *Cost of Childcare Review* that found the cost of providing childcare is comparable between private nurseries, charitable pre-schools or nursery classes. The main differential was between the size of the provider as opposed to the type of provider. The DfE has concluded that 89.5% is the appropriate level to ensure sufficient funding for each child.

For this reason, the government is proposing that there should be a universal base rate of funding per child that does not take account of the type of provider.

Additional Needs

Secondly, an additional needs factor. This will reflect the extra costs of supporting children with additional needs. These additional needs are split into two categories; Socio-economically disadvantaged children and those with special educational needs and disabilities.

The government has stated that it wants to improve early education for children with additional needs and wants to narrow the gap in attainment between the most disadvantaged children and their peers.

The Government has proposed three ways to factor additional needs into the DSG funding formula:

1. The Free School Meal (FSM) eligibility. Given that there is no data for early years, it is proposed that the formula will use data from key stage 1 and 2. The proposal is that 8% of the total national funding should be directed using this metric.
2. Disability Living Allowance (DLA). It is proposed that 1% of the total funding should be directed using this metric.
3. English as an additional language (EAL). This is a measure of children who do not have English as their first language. As with the FSM eligibility, the data will be obtained for Key Stage 1 and 2 as there are no official figures for under-fives. It is proposed that 1.5% of the total funding will be directed using this metric.

Area Cost Adjustment

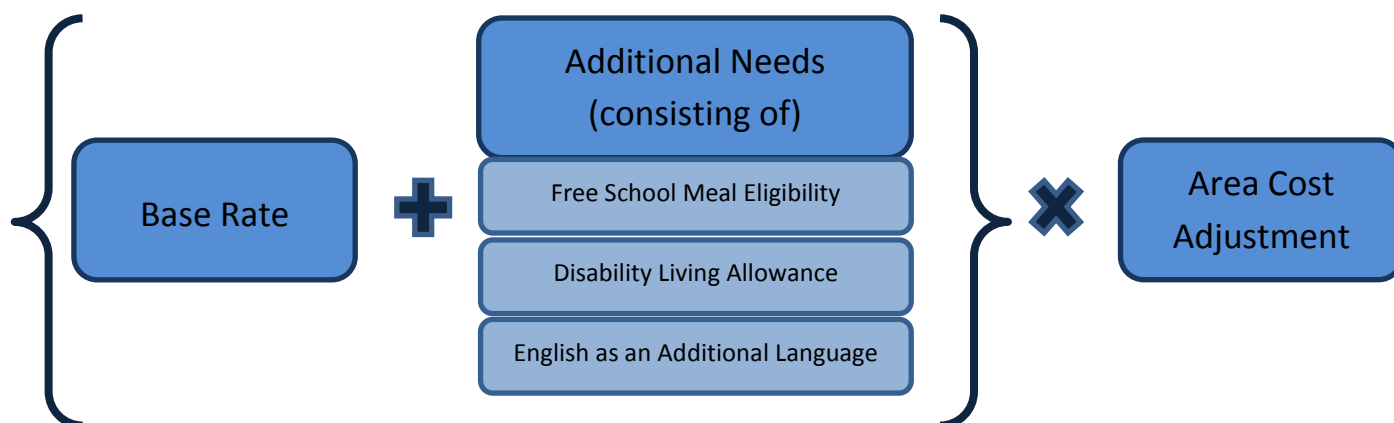
The area cost adjustment is designed to account for variation in the costs of staff and premises between areas. This will be applied as a multiplier to the other two parts of the formula (base rate and additional needs factor), to ensure that additional funding is allocated to higher cost areas.

To work out the variation for staffing costs, the proposal is to use the general labour market data.

For the first time, an element of the area cost uplift will be calculated by reference to premises costs, measured by the rateable value of the premises.

Combining the two rates gives each local authority an overall area cost score in the range 1 to 1.9, with Shropshire having the lowest area cost weighting of 1 and Hammersmith and Fulham the highest at 1.9. (Hertfordshire's area cost weighting is 1.42.)

The formula for the new DSG hourly funding rate can therefore be summarised as follows:



Protection funding

No local authority's allocation per pupil will be allowed to fall by more than 10% compared with current funding. It appears therefore that a few authorities' funding will be protected indefinitely into the future.

Overall Impact

Most authorities would gain funding from the proposals. DfE analysis indicates that 112 authorities would gain on their hourly funding rate whereas 38 would see a reduction.

The new formula will be used to allocate funding for the existing 15 hours per week entitlement from April 2017 and for the additional 15 hours for working parents from September 2017.

ii) Nursery Schools

Additional funding above the EYNFF will be allocated to authorities with nursery schools as the DfE acknowledges that nursery schools have higher costs than other early years providers. However, the consultation proposes only to guarantee this additional resource for two years and it is suggested that nursery schools should "explore how to become sustainable in the longer term, including exploiting scope for efficiencies."

iii) Central spending by authorities

There is considerable variation in the percentage of early years DSG which authorities spend centrally, rather than allocating to providers through their budget shares. The DfE is concerned that the top slicing of the DSG to fund central budgets may result in insufficient funding reaching providers. It has also identified that a number of the authorities that would lose funding as a result of the new national funding formula hold

large central budgets. Therefore the proposals aim to ensure that, as far as possible, the impact of the reductions in these areas falls on the authorities' central budgets rather than providers.

It is proposed to introduce a minimum percentage of funding that authorities must pass on to providers. This will be set at 93% of early years DSG in 2017-18 and increase to 95% the year after. This transitional period gives local authorities with higher central budgets time to plan for the change.

iv) Formula for calculating budget shares for 3 and 4 year olds

The DfE proposes tighter restrictions on how local authorities may calculate funding allocations to providers. The main changes are:

a) Universal Base Rate

Authorities will be required to set a universal base rate in their early years funding formulae – a base rate which is the same for all types of provider. At least 90% of funding to providers will have to be allocated through this base rate.

b) Supplements

A limited number of supplementary factors will also be permitted. These are factors for:

- Deprivation (mandatory factor)
- Rurality
- Flexibility by providers
- Efficiency, and
- Delivery of additional 15 hours.

The consultation asks whether local authorities should have discretion over how to calculate these funding supplements.

v) Special Educational Needs

The DfE is concerned that confusion over current SEN funding arrangements in early years can result in children with SEN not receiving appropriate support. The consultation proposes two new arrangements:

Disability Access Fund

This would support disabled children who access their free entitlement and it would be funded by a separate grant outside of DSG.

Inclusion Fund

All authorities would have to set up an inclusion fund in their local funding arrangements, using DSG funding. Most of this resource will be passed to providers but it could also be used to support specialist services. The consultation suggests that the targeting of the inclusion fund should be considered in consultation with early years providers, SEN specialists and parents in the local area.

vi) Transitional protection

There are several elements of transitional protection proposed:

- Reductions in DSG per pupil will be limited to 5% in 2017-18;
- The requirement to pass through 95% of funding to providers will be phased in (as mentioned above);

- The introduction of a universal base rate in early years budget shares will also be phased in.

vii) DSG Funding for 2 year olds

There will be an uplift to the funding rates for 2 year olds DSG, although no change to the formula on which the allocations are based.

3. Impact on Hertfordshire

Published DfE figures appear to show Hertfordshire gaining £6.6m from the introduction of the EYNFF, plus a further £2m after taking into account the transitional funding for nursery schools. However, the DfE has not been consistent in the pupil numbers used in these calculations. It calculates the current grant funding per hour by using a total funding allocation based on the January 2015 pupil count and then divides this by the January 2016 pupil count.

Adjusting for this, the comparison is as follows:

2016-17 funding

DSG for 3 and 4 year olds (based on January 2016) census	£54.5m
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Illustrative EYNFF allocations in consultation document

DSG for 3 and 4 year olds	£60.6m
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Additional funding for nursery schools	£ 2.0m
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Total	£62.6m
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Increase	£ 8.1m
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There are several reasons why Hertfordshire is gaining:

- the national increase in the amount of DSG for 3 and 4 year olds;
- the relatively high proportion of funding being distributed according to the area cost weighting;
- the supplementary allocation in respect of nursery schools.

(The DfE mentions in the consultation that it intends to make a slight change to the method for counting pupils but it has not illustrated the impact of this in the published figures. As far as we can ascertain, the effect would be minimal.)

In addition, the increase in DSG for 2 year olds would provide an extra £0.5m for Hertfordshire.

A point to note is that the DfE is not expected to uplift early years DSG in future years to take account of inflation. Therefore there will be a gradual real terms reduction in funding, in the longer term.

Many of the other changes proposed in the consultation would not seem to raise major issues for Hertfordshire.

- a) Central Budgets – Hertfordshire retains only around 1.5% of its early years DSG for central budgets (compared to the DfE's 5% target).
- b) Universal Base Rate – Hertfordshire's base rates for nursery classes and PVI providers are already only 3p per hour different (£4.53 for PVIs compared to £4.50 for nursery classes). However, the current base rate for childminders is £5.50 per hour so there will be an impact on childminders of standardising the base rate across all types of provision.
- c) Funding Supplements – Hertfordshire's main supplements currently are for nursery schools, deprivation, SEN and London fringe and total about 7.5% of the budget shares. Given that there will be separate arrangements for SEN and nursery schools; the main difference to the DfE's list is London fringe.
- d) Nursery schools – Hertfordshire's additional funding for nursery schools in 2016-17 is as follows:

	<u>£000</u>
Rates	335
Small schools	30
Lump Sums	1,242
Higher hourly rate	522
Total	2,129

This is slightly higher than the additional funding for Hertfordshire nursery schools shown in the consultation document (£2.005m). A point to note is that the DfE's additional funding for nursery schools is only guaranteed for 2 years. Therefore we will need to prepare for the possibility of reduced funding for nursery schools in the longer term. The DfE has indicated that it will consult further on nursery school funding in due course.

Changes to Hertfordshire's early years funding formula

It will be necessary to amend Hertfordshire's formula for calculating budget shares for early years' providers, in order to:

- take account of the extra resources being provided through the EYNFF;
- introduce the universal base rate and any changes required to funding supplements.

There is a tight timescale for developing proposals and consulting with providers and the Schools Forum, so that the changes can be in place for April 2017.

Indicative hourly rates for providers

The DfE has published indicative hourly funding rates for providers in each local authority areas. These are based on a series of assumptions of which the main ones are:

- each provider will receive an average level of funding supplements (e.g. for deprivation) which in practice is not the case;
- central budgets in respect of 3 and 4 year olds will continue unchanged from 2015-16 which is also not the case. In Hertfordshire more central budgets were targeted towards 2 year olds in 2015-16 (given the recent expansion of this

provision). In 2016-17 these have switched more towards 3 and 4 year olds. It is hoped that the DfE will update its calculation for the latest data.

4. Consultation

The consultation closes on 22 September 2016 and the DfE is expected to announce the final early years funding arrangements for 2017-18 later in the autumn.