

DECISION PAPER

SUBJECT: 2017/18 Early Years Block

DATE: 11th January 2017

RECIPIENT: Schools Forum

SUMMARY:

This paper details the 2017/18 Early Years Block (EY) following the announcement by the Department for Education (DfE) of the Dedicated Schools Grant (DSG) figures. The proposals reflect previous Schools Forum decisions and incorporate other adjustments following the detailed funding announcements.

BACKGROUND:

Following the 2015 Spending Review, it was announced that the DfE would introduce a National Funding Formula for Schools, Early Years and High Needs to match funding directly and transparent to need. This involved creating a new central Schools Block, allow local flexibility on the minimum funding guarantee and to ring-fence the Schools Block within the Dedicated Schools Grant. This also involved DfE making £600M savings from the Education Services Grant (ESG).

The Stage 1 consultation on the DfE proposals on Schools and High Needs blocks in March 2016 indicated an intention to implement this from 2017/18, however this has now been delayed until 2018/19.

The DfE have released Stage 2 of the [Schools National Funding Formula](#) consultation which closes on 22 March 2017. This is in addition to publishing its response to Stage 1 of the consultations. The DfE expect to publish the response to the Stage 2 Consultation and final arrangements in July. Southampton City Council (SCC) will be sending a response to the Stage 2 before the deadline.

Meanwhile consultation also took place on Early Years (EY) funding, with proposals for a new formula and a reduction of the top-slicing option available to LAs. Following this consultation, the new EY formula is being implemented from 1st April 2017. The top-slice for EY central services cost is limited to 7% for 2017-18 and 5% thereafter.

RECOMMENDATION:

It is recommended that the Schools Forum :

- (i) Note the proposed provisional Early Years block of £15.83M (Appendix 1).
- (ii) Approve the central expenditure elements of the Early Years Block summarised in para 23.

REASONS FOR REPORT RECOMMENDATIONS

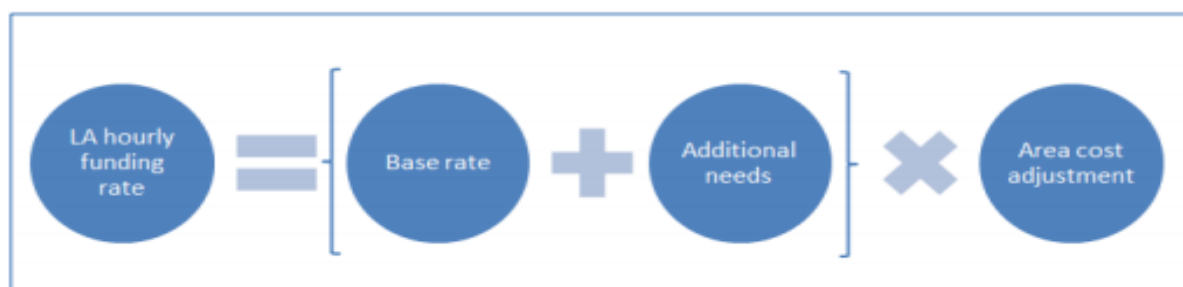
1. To ensure there is adequate funding for the statutory responsibility of the provision of nursery places across the City and to continue to support those services currently funded under the central expenditure element of the DSG.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The provision of nursery education places is a **statutory responsibility**.

BACKGROUND and BRIEFING DETAILS:

3. In Autumn 2016 the Department for Education (DfE) launched a six-week Early Years National Funding Formula (EYNFF) consultation to deliver a 'fairer funding system' for 3 and 4 year olds, some of whom will be eligible for the 30 hour free childcare from September 2017. Following this consultation it has been confirmed that the funding to Local Authorities for 3 and 4 years olds in early education will be based on three factors:
 - a 'universal base rate' of funding for each child ensuring every local area is funded fairly for the core costs of delivering childcare
 - an 'additional needs factor' ensuring funding takes into account the extra costs of supporting children with additional needs to achieve good learning and development outcomes. This is based on measures of free school meals, Disability Living Allowance (DLA) and English as an Additional Language (EAL)
 - an area cost adjustment – this will be adjusted based on the cost of providing childcare in different areas of the country, using general labour market measures to reflect staff costs, and costs of premises, using Nursery Rates Cost Adjustment.



4. Using this formula Southampton will receive £5.11 per hour per 3 and 4 year old from April 2019 (£5.21 for 2017/18), compared with our current income of £5.15 per hour. From April 2017 Local Authorities will be duty bound to pass on 93% of funding directly to early years providers, and from April 2018 onwards 95% of the total funding. Currently Southampton passes on just under 93% of the total funding.
5. Local Authorities are expected to pay all early years providers, regardless of the type of setting, the same hourly base rate by 2019/20 at the latest, calculated using the national formula. Whilst supplementary funding of £56.21M has been made available nationally to support funding for maintained nurseries over the next 2 years, Southampton has not been allocated any funding for this purpose. We therefore propose that funding for maintained nurseries is reduced over the next 2 years.

6. Nationally, the most significant impact of the EYNFF will be on maintained nursery schools because they are currently funded at a higher rate that acknowledges the higher running costs of a maintained nursery school. The new EYNFF does not allow local authorities to retain and cover any additional costs for maintained nursery schools. There are two lump sums currently provided to two maintained nurseries which will not be available from 2017/18.
7. There are political, reputational and financial risks relating to the maintained nursery schools since they are deemed to be schools with head teachers and teaching staff subject to teachers' pay and conditions of service. It is intended that the settings will be encouraged and supported to explore options to develop more sustainable business models.
8. The national average rate paid to providers will be £4.88 for 3 and 4 year olds. Currently the average paid to early years providers in Southampton is £4.53 per hour. The maximum payment rate will increase to £4.85 an hour from April 2019 for all settings.

The Southampton City Council (SCC)'s average rates for 2016/17 are shown in Table 1 below.

	Rate Per Hour	Comments
Combined	£4.53	
Maintained	£5.10	This average rate does not include lump sum currently paid to two maintained nurseries. With lump sum, the average rate increases to £6.40 per hour.
Private Voluntary & Independent (PVI)	£4.18	

9. Local Authorities will have the discretion to use a limited set of funding supplements on top of a base rate, with a total value capped at 10% of the allocated budget. The government has permitted supplements around deprivation (which is mandatory), rurality, flexibility, quality (to support workforce qualifications and system leadership) and English as an additional language.
10. Following a consultation with Southampton's early years providers the criteria for supplements to be used on top of the £4.37 base rate will be deprivation (using IDACI), quality (using the qualification level of the lead practitioner or lead for 3 and 4 year olds), flexibility (to incentivise providers to meet working parents' needs) and English as an additional language. The maximum value of supplements will be £0.48. There is tapering protection for maintained schools over next two years.
11. There will also be additional up-front funding for providers caring for children in receipt of Disability Living Allowance (DLA), in the sum of £615 per child per year.
12. Each Local Authority will set up a Local Inclusion Fund for 3 and 4 year olds which is expected to be for those with lower level or emerging Special Educational Needs. The funding for this inclusion fund will count within the 95% pass through to early year's providers, with the amount and criteria to be set locally.
13. The new funding formula will apply to the current 15 hour early education entitlement from April 2017. In September 2017, when the extended entitlement is rolled out, it will apply to all 30 hours for those eligible children.

2017/18 Early Years Block

14. The provisional Early Years allocation for Southampton City Council (SCC) is shown in Table 2 and criteria used by the DfE is summarised below.

Table 2	Provisional 2017/18 Allocation
EY universal entitlement for 3 and 4 year olds	£11,517,600
EY additional entitlement for 3 and 4 year old children of eligible working parents	£1,664,400
EY entitlement funding for disadvantaged 2 year olds	£2,404,200
Initial EY pupil premium	£178,000
Illustrative allocation for EY Disability Access Fund	£67,700
Illustrative allocation for EY supplementary funding for maintained nursery school	£0
Total Provisional EY Block	£15,831,900

15. Early Years Universal Entitlement for 3 and 4 Year Olds
The initial allocation is based on an hourly rate of £5.21. These allocations will be updated in:

- July 2017 based on the January 2017 census numbers
- July 2018 based on 5/12ths of the January 2017 census numbers (to cover the April 2017 to August 2017 period) and 7/12ths of the January 2018 census numbers (to cover the September 2017 to March 2018 period).

This means that the final allocations for universal 3 and 4 year old entitlement funding for 2017 to 2018 will be based on $\frac{5}{12} \times$ January 2017 census numbers plus $\frac{7}{12} \times$ January 2018 census numbers.

16. Early Years Additional Entitlement for 3 and 4 Year Old Children of Eligible Working Parents

The hourly rate is the same as for the universal entitlement for 3 and 4 year olds. As the additional entitlement starts in September 2017, the allocations for these additional hours do not relate to a full twelve months but are pro-rata to cover the seven months of the year from September 2017 to March 2018.

The final allocations for the additional entitlement in 2017 to 2018 will be based on data from the January 2018 census.

17. Early Years Entitlement Funding for Disadvantaged 2 Year Olds

The initial allocation is based on an hourly rate of £5.43. These allocations will be updated in:

- July 2017 based on January 2017 census numbers
- July 2018 based on 5/12ths of the January 2017 census numbers (to cover the April 2017 to August 2017 period) and 7/12ths of the January 2018 census numbers (to cover the September 2017 to March 2017 period).

This means that the final allocations for disadvantaged 2 year olds for 2017 to 2018 will be based on $\frac{5}{12} \times$ January 2017 census number plus $\frac{7}{12} \times$ January 2018 census numbers.

18. Early Years Pupil Premium (EYPP)

Initial allocations for the EYPP were announced on 1 December 2016. These allocations will be updated in:

- July 2017 based on January 2017 census numbers
- July 2018 based on 5/12ths of the January 2017 census numbers (to cover the April 2017 to August 2017 period) and 7/12ths of the January 2018 census numbers (to cover the September 2017 to March 2017 period)

This means that the final allocations for the EYPP for 2017 to 2018 will be based on $5/12 \times$ January 2017 census number plus $7/12 \times$ January 2018 census numbers.

19. Early Years Disability Access Fund (DAF)

The funding methodology for the Disability Access Fund is an illustrative funding allocation for 2017-18 based upon the number of 3 and 4 year olds who are not in Reception that are claiming DLA.

For each LA, their total February 2016 DLA claimant count of 3 and 4 year old children from the Department for Work and Pensions (DWP) is adjusted downwards to remove an estimated number of children in reception. This gives an estimate of the number of 3 and 4 year olds taking up DAF in the LA; this figure is multiplied by £615 per pupil.

20. Early Years Supplementary Funding for Maintained Nursery Schools

The government has allocated £56.21M for supplementary funding to LAs for maintained nursery schools (MNS) in 2017-18, to enable LAs to maintain their current funding levels for MNS during the wider changes in early years funding. 58 local authorities out of 150, did not receive any allocation from this fund and Southampton is one of these authorities.

21. Payments to Providers

The Early Years Single Funding Formula (EYSFF) funds nursery providers for the number of hours provided in the current year. There are six payments a year (two per term) based on estimates and actuals, for private voluntary and independent settings; academies and maintained school settings. The formula for 3 and 4 year olds has a base hourly rate plus additional elements relating to quality, deprivation, EAL and flexibility. These additions are calculated each January to be paid in the next financial year.

A two-year-old will be eligible if they meet any one of the following criteria:

- They meet the eligibility criteria also used for free school meals
- Their families receive Working Tax credits and have annual gross earnings of no more than £16,190 per year
- They have a current statement of SEN or an Education, Health and Care plan
- They attract Disability Living Allowance
- They are looked after by the local authority
- They have left care through special guardianship or an adoption or residence order.

22. Central Expenditure

Schools Forum approval is required for central expenditure within the Early Years Block.

23. The existing central services funded by DSG within the Early Years Block are:
- Early years & childcare development team (£342,300)
 - Provision for expansion of 2, 3 and 4 year old places (£166,100)
 - Contracts with Prospects (£100,000)
 - EY funding for administration, staffing and systems for allocating funding to providers (£64,400)
 - Overheads (£172,600).

The total of this expenditure is recommended for approval by Schools Forum.

24. **Please note** that the estimates have been made of the numbers of 2, 3 and 4 year olds in the city to ensure that the budget is sufficient to fund demand. If Early Years numbers increase above those already anticipated, the city council will receive additional DSG. Conversely, if the numbers reduce, the level of DSG will fall accordingly, creating a potential pressure. However, this will not be confirmed until June 2018. Appendix 1 shows the provisional Early Years Block budget for 2017/18.

Appendices/Supporting Information:

Appendix 1: Provisional Early Years Block 2017/18

Further Information Available From:

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Appendix 1

Provisional Early Years Block 2017-18

EY universal entitlement for 3 and 4 year olds	£11,517,600
EY additional entitlement for 3 and 4 year old children of eligible working parents	£1,664,400
EY entitlement funding for disadvantaged 2 year olds	£2,404,200
Initial EY pupil premium	£178,000
Illustrative allocation for EY Disability Access Fund	£67,700
Illustrative allocation for EY supplementary funding for maintained nursery school	£0
Total Provisional Early Years Block Allocation	£15,831,900
2, 3 & 4 Year old childcare funding	£14,808,500
EY Premium	£178,000
Early years & childcare development team	£342,300
Provision for expansion of 2, 3 and 4 year old places	£166,100
Contracts with Prospects	£100,000
EY funding for administration, staffing and systems for allocating funding to providers	£64,400
Overheads	£172,600
Total Estimated Payments	£15,831,900