

REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Lincolnshire Schools Forum
DATE OF MEETING:	22 February 2017
SUBJECT:	Early Years National Funding Formula
REPORT BY:	Mark Popplewell (Head of Finance – Children's Services) Michelle Andrews (Service Manager – Children's Services)
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IS THIS REPORT EXEMPT:	No
IS REPORT CONFIDENTIAL?	No

SUMMARY

The purposes of the report are to:

1. Provide a summary of the early years national funding formula for 2017/18, and
2. Seek support for the Local Authority's proposals relating to a number of centrally retained budgets.

DISCUSSION

Background

The government announced on the 11th August 2016 a consultation for a national funding formula for early years. The consultation sets out the government's intentions to deliver a fair and transparent funding system that will be worked out on a formulaic basis moving away from the government's historical funding allocations for early years.

In December 2016, the government released the outcome of the consultation for a national funding formula for early years and its intentions to implement the new funding formula in April 2017. The lateness in the government announcement has made the timescales extremely challenging for Local Authorities, which the government accepts.

The government has committed to increasing the funding to Local Authorities by £300m nationally per year for early years 3 & 4 year old entitlement, and to allocate funding to Local Authorities through a formulaic funding system that will provide greater fairness in funding being distributed nationally. The level of funding determined for early years is based on the government's 'Review of Childcare Costs'. The government's review indicated that it considered both current costs of delivering provision as well as the implications of future cost pressures such as the introduction of the national living wage.

The national funding formula consultation for early years did however lack sufficient detail into this 'evidence-based' approach, which would have allowed for a more effective consultation with key stakeholder, therefore it is unclear of the components of how the overall level of funding has been determined at a national and local level.

The government will also be providing Local Authorities with additional funding from September 2017 to fund the extension of early years 3 & 4 year old entitlement for working families that will make it easier for them to balance work with their family lives.

Overview: National Funding to Local Authorities for Early Years Core Funding

The formulaic approach to funding Local Authorities uses the following early year's factors of 'base rate' and 'additional needs'. The national distribution of funding across the factors including the basic hourly rate (before and after the 'area cost adjustment') for Lincolnshire is detailed in the table below:

Table 1

Formula Factors	Percentage of National Distribution	Basic Hourly Rate (before area cost adjustment)	Basic Hourly Rate (with area cost adjustment)
Number of PTE (0.6 FTE) 3 & 4 year old pupils	89.5%	£3.53	£3.78
Number of Free School Meals of PTE 3 & 4 year old pupils	8%	£2.13	£2.28
Number of English as an Additional Language of PTE 3 & 4 year old pupils	1.5%	£0.29	£0.31
Number of 0-5 year old claimants claiming Disability Living Allowance	1%	£0.74	£0.79

The 'area cost adjustment' is a fundamental part in determining the overall level of funding at a Local Authority level. It is applied to the 'base rate' and 'additional needs' factors to account for the variations in costs of staff (80% weighting) and premises (10% weighting). A multiplier is established for each Local Authority to be applied against the basic hourly rate for each factor. The 'area cost adjustment' multiplier for Lincolnshire is 1.07, which is the joint 27th lowest multiplier nationally.

Lincolnshire's position for the staffing measure of General Labour Market was 1.00 (no upward adjustment) and Nursery and Pre-school Rateable Cost was 1.71.

Lincolnshire's Position

Using Lincolnshire's 3 & 4 year old pupil numbers and characteristics, the formulaic approach to funding Lincolnshire has determined a funding level of £24.266m for the delivery of early year's entitlement, which converts to an hourly rate of £4.16 per pupil. This is a funding increase for the sector of £1.728m from the 2016/17 spent level of £22.538m.

The government consultation however refers to 'front loading' the increase in the national average funding rate to give providers extra resources and help to handle any cost pressures, including the national living wage. The increased level of funding will likely lead to providers meeting additional future financial burdens.

Table 2

Formula Factors	Overall Funding	Converted back to an Hourly Rate
Number of PTE (0.6 FTE) 3 & 4 year old pupils	£22.002m	£3.78
Number of Free School Meals of PTE 3 & 4 year old pupils	£1.820m	£0.31
Number of English as an Additional Language of PTE 3 & 4 year old pupils	£0.182m	£0.03
Number of 0-5 year old claimants claiming Disability Living Allowance	£0.262	£0.04
Total	£24.266m	£4.16

In the response to the summer consultation, the government announced a 'minimum funding rate' of at least £4.30 per hour to Local Authorities. Lincolnshire's rate has therefore increased to £4.30 per pupil per hour (or a 3.4% increase) and will be set at the government's minimum funding rate (of which 47 out of 150 Local Authorities are on this minimum funding rate). It is positive that the funding for early years has increased into Lincolnshire however this is in comparison to a national average rate across Local Authorities of £4.78.

Lincolnshire's hourly funding rate of £4.30 per pupil will provide indicative early years funding of £25.060m an increase of £2.522m from 2016/17 spending levels.

The early years funding of £25.060m for Lincolnshire is indicative, since final funding allocations for 2017/18 for the core 15 hours offer will continue to be based on 5/12th of January 2017 pupil numbers (to cover the April 2017 to August 2017 period) and 7/12th of the January 2018 pupils numbers (to cover the September 2017 to March 2018 period).

The government is to fund the additional 15 hours for 3 & 4 year old children of eligible working families at the same rate of £4.30. Lincolnshire's indicative allocation for additional 3 & 4 year old entitlement for working families is £4.582m, which represents the period September 2017 to March 2018.

Lincolnshire's overall indicative funding for early years entitlement in 2017/18 is £29.642m.

Overview: Early Year's National Funding Formula (EYNFF) to Providers and Schools

The government requires Local Authorities to have a local universal rate across all types of providers, which is a significant shift away from the current arrangements where cost differences between

different types of providers are recognised. The government requires Local Authorities to set the universal base rate for all type of providers by 2019/20 at the latest.

The decision by the government to have a universal rate would have a significant impact on the financial sustainability of maintained nursery schools. The government however has since recognised in its response to the consultation that maintained nursery schools do bear costs over and above other providers in relation to their statutory governance arrangements. The government will therefore be providing supplementary funding of £55m p.a. nationally for 2017/18 and 2018/19 to maintain the current rate of funding across Local Authorities for maintained nursery schools – this therefore protects Lincolnshire's five nursery schools at its current funding rate for the duration of this parliament. The government has stated that it will consult openly regarding the future of maintained nursery schools.

Other key requirements to the EYNFF for funding providers and schools:

- The requirement to pass-through at least 93% in 2017/18 and 95% from 2018/19 of early years funding to providers and schools delivering early years entitlement. This pass-through funding includes the following funding streams that are passed through to providers and schools:
 - local universal base rate for delivering early years entitlement;
 - all supplements, for example, mandatory deprivation factor, or discretionary supplements of flexibility, rurality / sparsity, quality, English as an additional language;
 - SEN inclusion fund for top up grants above the universal base rate, and
 - a contingency fund or provision to support spending growth in school terms compared to the Local Authority funded January census.
- A requirement of Local Authorities to establish an SEN inclusion fund.
- Supplements must not be more than 10% of the total value of planned funding to be passed through to providers.
- The introduction of a Disability Access Fund.

Development of the Formula

When determining the local universal rate per hour for 2017/18, it was important that it is underpinned with detail and that justification can be provided on how the rate is determined.

The Local Authority adopted the following approach:

- Develop a typical cost model approach, based on agreed staffing ratios and setting characteristics.
- The typical cost model considers all activities it takes to provide early years entitlement and costs these.

This theoretical model is used under the current funding arrangements, which were implemented in 2011/12. Officers have undertaken a significant amount of work in reviewing the cost drivers and costs to deliver the early years entitlement. The theoretical funding model approach was recommended as best practice to Local Authorities by the government when the early year's single funding formula was first established.

Lincolnshire's Early Years Funding Formula

The Local Authority has engaged with the sector on the proposed funding formula through a provider survey and provider groups, which has aided the Local Authority in shaping the final funding formula. The government's timescales in reviewing and implementing a thorough funding formula has been extremely challenging for Local Authorities. The final decision of the funding formula rests with the Local Authority. The Local Authority is required to publish the funding formula and indicative allocations by the 28 February 2017 in line with regulations.

The theoretical model is based on the follow approach:

respondents supported the continued use of the government's Income Deprivation Affecting Children Index (IDACI) measure. The provider survey did identify a small number of providers requesting the Local Authority to review the deprivation factor and the associated monetary factors. The Local Authority is committed to listening to feedback and will undertake a review in 2017/18 with provider engagement - any agreed changes will be implemented for 2018/19.

The IDACI deprivation measure determines the probability of a child coming from a deprived area, using the child's postcode. For example, a child with an IDACI score of 0.2 has a 20% chance of coming from a deprived area; a child with an IDACI score of 0.8 has an 80% chance of coming from a deprived area. The IDACI pupil information has been taken from the October 2016 census. A monetary sum per pupil is assigned to the deprivation bands 1 to 6. Only pupils with an IDACI score of 0.2 or above will trigger deprivation funding, therefore targeting funding at those children deemed to be more deprived.

The following table shows the deprivation scores and associated funding:

Table 3

Deprivation Band	IDACI Score lower limit	IDACI score upper limit	Funding Per Pupil
1	0.2	0.25	£150
2	0.25	0.3	£300
3	0.3	0.4	£450
4	0.4	0.5	£600
5	0.5	0.6	£750
6	0.6	1.0	£900

The October 2016 census information and IDACI 2015 datasets has determined the 2017/18 annual deprivation funding allocation of £1.070m, which represents £0.155 per pupil per hour.

SEN Inclusion Fund

The government requires all Local Authorities to establish an SEN inclusion fund that provides top up grants to providers to support children whose needs do not meet the criteria for an Education Health and Care assessment, however exceed the level, which can be accommodated within the local universal rate to support the early cycle of the graduated approach. The provider survey identified that 79% of respondents said it was reasonable to provide quality inclusive practice for children with special educational needs through the early cycles of the graduated approach within the universal base rate.

The SEN inclusion fund is administered by the Local Authority, and supports the inclusion and participation of Lincolnshire early years children as part of the Local Offer. The current SEN inclusion fund criteria is presently being reviewed by the Local Authority, and proposals will be made to the sector in the summer term – the timing of changes will be consulted with the sector.

The planned funding requirement using the current protocol is £0.550m p.a., which represents £0.08 per pupil per hour.

Notification System

The Local Authority has an established 'notification system' in place whereby providers are allocated funding from this central budget for children accepted to access their early years entitlement place after the termly census date. The 'notification system' supports those children new to accessing a place for early year's entitlement. Where children change providers within the county, funding transfers are to be managed between providers.

Providers have stated that they value the payments since they support the marginal costs in meeting the children's needs, and would find it challenging without such a system being in place. Over 70% of respondents to the provider survey supported the current notification funding process.

An annual budget of £0.1m is required to support the 'notification system', which represents £0.015 per pupil per hour.

Fluctuation Contingency Fund

Local Authorities are able to hold back funding to act as a contingency fund, for passing onto providers later in the year. Early years funding to Local Authorities is funded based on 5/12th of January 2017 pupil numbers (to cover the April 2017 to August 2017 period) and 7/12th of the January 2018 pupils numbers (to cover the September 2017 to March 2018 period), which is a different methodology to funding providers on a participation-led approach on a termly basis. The government approach to funding Local Authorities identifies the January count as the average across the year, however local participation may not replicate this. The Local Authority is required to fund all participation-led funding, therefore a fluctuation contingency fund is required to meet any additional demand above the January average. An annual budget of £0.153m is required, which equates to £0.022 per pupil per hour.

Local Authority Centrally Retained Funding

The government requires Schools Forums to agree 2017/18 central spend for early years by the 28 February 2017, and this to be undertaken on a line-by-line basis. The Local Authority has conducted its annual review of Dedicated School Grant budgets, and has identified those services that directly support the early year's sector in the delivery of early year's entitlement.

The Department for Education (DfE) places a number of statutory duties upon Local Authorities in relation to the provision of support for Early Years Education and Childcare provision. In order for the Local Authority to fulfil these duties, the Early Years and Childcare Support team provides a range of support services across the sector. This support was redesigned to meet the reducing levels of resources available to Local Authorities and was implemented in 2016. The support available includes direct face to face support; the delivery and commissioning of training; information advice and guidance, and special educational needs and disabilities (SEND) support to early years providers across all sector e.g. PVI, childminders and schools.

The role of Early Years and Childcare Support is to enable good and outstanding settings to continue to improve while their greatest focus is to work with those providers that have an Ofsted grading of less than good to improve outcomes for young children and their families with a particular emphasis on the most disadvantaged families. This targeted approach reduces inequalities in child development and makes children ready for school.

In light of the regulations, the following budgets require Schools Forum approval.

<u>Early Years Entitlement (EYE) Team</u>	£245,329
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The EYE team and data staff support the effective delivery of the early years entitlement funding. The team manages the systems, processes and administration of the EYE payments. This ensures all childcare providers in Lincolnshire receive timely and accurate payments for the delivery of early year's entitlement. The team also provides advice and support to all settings to deliver the offer effectively. The team works closely with other teams to ensure providers receive the support they need.

Securing Sufficient Childcare

£320,914

The government places the duty on the Local Authorities to ensure there is sufficient, accessible, and affordable provision available to support families to access work or training. From September 2017, the government has made a commitment to giving families where parents are working, an entitlement to 30 hours of free childcare for their 3 & 4 year olds. This will require capacity planning across Lincolnshire, especially for areas where childcare providers have maximised places. The Early Years and Childcare Support team is in the process of reviewing childcare capacity across Lincolnshire to ensure sufficient places are available when the additional offer is implemented. Where any sufficiency gaps are identified, there is a team of four Development consultants available who will work with the sector to address the needs of local families managed by the Lead for Sector Support and Development. The number of early year's providers delivering funded education places continues to rise and there are currently 568 PVI providers and 76 schools registered to deliver places in Lincolnshire.

SEND Local Offer

£114,271

The government requires all Local Authorities to establish an SEN inclusion fund that provides top up grants to providers to support the county's most vulnerable children. As part of Lincolnshire's SEND Local Offer, early years inclusion funding supports the government's strategy by enabling early intervention and removing barriers to learning faced by children with SEND. Specialist staff facilitate this process to ensure monies are targeted to the children that most need it.

Moderation of Early Years Foundation Stage Profiles and Sector Improvement £390,605

The DfE has extended the duty upon Local Authorities to undertake the moderation of the Early Years Foundation Stage (EYFS) profiles to 2018. This requires the moderation of at least 25% of all schools on an annual basis as part of a rolling cycle. The EYFS profile summarises and describes children's attainment at the end of the EYFS. It is based on ongoing observation and assessment in the three prime and four specific areas of learning and the three learning characteristics.

Changes to the statutory duty placed on Local Authorities in September 2014 means that all new early years providers are able to deliver the early years entitlement upon opening. This supports the Local Authority to meet its sufficiency duty, however the Local Authority is responsible overall for the outcomes of the Ofsted inspection. A programme of support is in place to give new providers the best chance of achieving a good or better judgement at their next inspection and thus maintaining a sufficient supply of good quality funded childcare places.

There are targeted quality support programmes made available to Lincolnshire's early years and childcare providers with a 'less than good' Ofsted outcome, in line with the Early Education and Childcare Statutory guidance for Local Authorities (September 2014). The Ofsted outcome achieved for the early years and childcare sector are underpinned by support through these programmes for those providers who are 'less than good', which is in addition to the quality training courses offered through the Early Years Training Directory.

Workforce & Training Requirements for the Sector

£364,473

Lincolnshire's online Early Years Training Directory provides a comprehensive programme of statutory courses that assist the sector to fulfil EYFS and Ofsted requirements, and to provide and maintain high quality provision. The training includes a range of face to face events and e-learning modules to support the learning styles of users and ensures training is accessible. This team supports the online booking system and direct support to providers as part of the 'Getting to Good and Targeted Improvement Programme'.

The provider survey identified that 94% of respondents had accessed the mandatory training being offered through the training directory, and 88% of respondents felt that the training directory should either be fully funded or subsidised at the point of delivery. The Local Authority is proposing to continue with the subsidised training approach.

The proposed funding to be centrally retained for all those services detailed above, that directly support the early years sector in the delivery of early years entitlement is £1,435,592. This represents 4.84% of the overall early years funding of £29.642m. This is below the 2017/18 threshold of 7%, and 2018/19 threshold of 5%. Lincolnshire therefore meets the pass-through threshold of ensuring that at least 95% of early years funding is passed onto providers in the form of the local universal base rate; mandatory deprivation funding; inclusion funding; notification system, and fluctuation contingency fund.

Overview of Lincolnshire's Early Years Funding Distribution for 3 & 4 year olds

Table 4

Activities	Overall Funding	Hourly Rate
3 & 4 year old funding for 15 hours early years entitlement	£25.060m	£4.30
3 & 4 year old funding for additional hours for eligible working families	£4.582m	£4.30
Total Funding	£29.642m	£4.30

Activities	Spending Plan	Hourly Rate Converted
Local Universal Basic Rate	£26.333m	£3.820
Deprivation Funding	£1.070m	£0.155
Inclusion Fund	£0.550m	£0.080
Notification System	£0.100m	£0.015
Fluctuation Contingency Fund	£0.153m	£0.022
Total Spending Plan for passing onto providers	£28.206m	£4.092
Centrally Retained Funding for Direct Early Years Services	£1.436m	£0.208
Total Spending on Early Years Activities	£29.642m	£4.300

Key government criteria's met:

- Pass-through funding of 95.16% to providers in 2017/18.
- The value of all supplements and provider delegations (outside the local universal basic rate), as a percentage of the local universal basic rate funding delegation is below the 10% limit at 7.11%.

Disability Access Funding (DAF)

The DAF is a new funding stream that has been established by the government in conjunction with the EYNFF – this operates outside the local universal base rate, similar to the early year's pupil premium. A child that is in receipt of child disability living allowance and receives free early years entitlement will trigger this funding. Providers with a child eligible for DAF will be entitled to a one-off payment of £615 per year, and the child does not have to fulfil the full 570 hours of early education.

Early years providers will be responsible for identifying eligible children.

Early Years Pupil Premium (EYPP)

Additional funding continues to be provided to Local Authorities in order to support disadvantaged pupils through the EYPP. The EYPP remains distinct from the EYNFF.

Local Authorities will continue to fund all providers with eligible children at the national rate of £0.53 per pupil per hour for 38 weeks.

2 Year Old Funding

Funding for the most disadvantaged 2 year olds is being uplifted in 2017/18 by central government. The hourly rate to the Local Authority has increased from £4.85 to £5.20; however this remains below the national average of £5.39.

Lincolnshire's indicative allocation for 2017/18 is £5.905m.

Lincolnshire has passported the government's funding rate to providers, however the Local Authority has incurred overspends on this budget, which has had to be managed within the overall Dedicated Schools Grant (DSG). This is therefore not manageable, particularly with the government creating more distinct funding blocks within the DSG, as the government move towards national funding formulas in areas of mainstream schools, early years and high needs funding.

Fluctuation Contingency Fund

The 2 year old entitlement does not replicate the same participation trends across the terms as the 3 & 4 year old entitlement, therefore the January census count that determines the level of funding to Local Authorities is not always representative of the allocations made to providers for 2 year old participation. In fact, Lincolnshire's analysis identified an increase in take up in the summer and autumn terms, but a lower take up in the spring term. It is therefore necessary to hold back funding to act as a fluctuation contingency fund, for passing onto providers later in the year.

An annual budget of £0.137m is required, which equates to £0.121 per pupil per hour.

The Local Authority will be making representations to the government to ensure funding received by the Local Authority is representative of the funded participation levels – this will allow the hourly rate to be retained at a higher level.

Notification System

The Local Authority has also established a 'notification system' for 2 year olds in place whereby providers are allocated funding from this central budget for children accepted to access their early years entitlement place after the termly census date. The 'notification system' supports those children new to accessing a place for early year's entitlement. This system is much more significant for 2 year olds, due to the targeted nature of the provision. As referred to earlier in the report, providers value the funding received for these pupils to support the additional costs, otherwise the provider would have to wait for funding to start in the following term.

An annual budget of £0.220m is required to support the 'notification system', which represents £0.194 per pupil per hour.

Local Authority Centrally Retained Funding

Following the Local Authority's annual review of early year's budgets, officers identified the proportion of time spent and cost of supporting 2 year old funding. The cost is £39,674, which represents £0.035 per pupil per hour.

2 Year Old Funded Rate

The 2017/18 hourly rate will continue to remain at the same per pupil level of £4.85 per hour.

Overview of Lincolnshire's Early Years Funding Distribution

Table 5

Activities	Overall Funding	Hourly Rate
2 year old funding for 15 hours early years entitlement	£5.905m	£5.20

Activities	Spending Plan	Hourly Rate Converted
Local Universal Basic Rate	£5.508m	£4.850
Fluctuation Contingency Fund	£0.137m	£0.121
Notification System	£0.220m	£0.194
Total Spending Plan for passing onto providers	£5.865m	£5.165
Centrally Retained Funding for Direct Early Years Services	£0.040m	£0.035
Total Spending on Early Years Activities	£5.905m	£5.200

RECOMMENDATIONS

The Schools Forum is asked to:

1. Note the content of the report.
2. Support the Local Authority's EYNFF, and
3. Support the Local Authority's proposals to centrally retained funding.

APPENDICES (If applicable) - these are listed below and attached at the back of the report.

None

BACKGROUND PAPERS

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
DfE's Early Years National Funding Formula consultation response	Early Years Funding – Government consultation response	December 2016	https://www.gov.uk/government/consultation/early-years-funding-changes-to-funding-for-3-and-4-year-olds
Report to Schools Forum	Early Years National Funding Formula	5 October 2016	http://lincolnshire.moderngov.co.uk/mgCommitteeDetails.aspx?ID=166
DfE's consultation 'An Early Years National Funding Formula'	'An Early Years National Funding Formula'	August 2016	https://consult.education.gov.uk/early-years-funding/eynff

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