

**Open Report on behalf of Heather Sandy, Interim Director for Education**

Report to:	<b>Lincolnshire Schools' Forum</b>
Date:	<b>24 January 2019</b>
Subject:	<b>Early Years National Funding Formula</b>

**Summary:**

The purpose of this report is to:

1. Provide a summary of the Early Years National Funding Formula for 2019/20
2. Detail the funding distribution for early years providers in Lincolnshire in 2019/20
3. Seek agreement for the Local Authority's proposals relating to the allocation and distribution of the centrally retained budgets

**Recommendation(s):**

Schools Forum is asked to:

- a. Note the content of the report
- b. Agree the local authority's proposals for centrally retained funding

**Background**

Since its introduction in April 2017, the government's Early Years National Funding Formula (EYNFF) has set the hourly funding rates that each Local Authority is paid to deliver the universal and additional entitlements for 3 and 4 year olds. For some Local Authorities, these rates will be different in 2019/20 compared to 2018/19 as a result of the transitional protections that accompanied the formula's introduction.

The government provides Local Authorities with six relevant funding streams which together form the Early Years block of the Dedicated Schools Grant (DSG).

These are:

- the early years universal entitlement for 3 and 4 year olds;
- the early years additional entitlement for 3 and 4 year old children of eligible working parents;
- supplementary funding for Maintained Nursery Schools;
- the Early Years Pupil Premium (EYPP);
- the Disability Access Fund (DAF), and
- the early years entitlement for disadvantaged 2 year olds.

The additional entitlement (30 hours) for working parents of 3 and 4 year olds has now been rolled out nationally. The intention is for the 30 hours extended entitlement to have a real impact on the lives of families, supporting parents who wish to work, or to work more hours, to be able to do so.

### **National Funding to Local Authorities for Early Years Core Funding**

The formulaic approach to funding Local Authorities 3 and 4 year old entitlement uses early year's factors of 'base rate' funding and 'additional needs' factors before applying an area cost adjustment. Lincolnshire's hourly rate previously through the formulaic approach provided an hourly rate of £4.16 per pupil. Prior to the implementation of the formula in 2017/18, the government announced a 'minimum funding rate' of at least £4.30 per hour to Local Authorities. Lincolnshire's rate was therefore increased to £4.30 per pupil per hour (or a 3.4% increase).

Lincolnshire is funded at the minimum funding rate of £4.30 per pupil per hour and this continues to be applied in 2019/20. Lincolnshire is one of 46 out of 150 Local Authorities funded on the minimum funding rate and the hourly rate has remained cash flat. The national average hourly rate across Local Authorities is £4.86 per pupil through the formulaic rate.

When the funding formula was implemented the government consultation referred to 'front loading' the increase in the national average funding rate to give providers extra resources to help meet national living wage rises<sup>1</sup> and other cost, therefore it is likely that providers and schools will be required to meet future cost increases.

Lincolnshire's hourly funding rate of £4.30 per pupil will provide indicative funding of £34.178m for 3 and 4 year old entitlement. This is made up of the universal 15 hours early years entitlement funding of £24.980m, and the additional 15 hours for 3 and 4 year old children of eligible working families of £9.198m.

The early years funding of £34.178m for Lincolnshire is indicative, since final funding allocations for 2019/20 will continue to be based on 5/12<sup>th</sup> of January 2019 pupil numbers (to cover the April 2019 to August 2019 period) and 7/12<sup>th</sup> of the January 2020 pupils numbers (to cover the September 2019 to March 2020 period). Indicative allocations are presently based on the January 2018 census information.

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

The EYNFF continues to require Local Authorities to have a local universal rate across all types of providers, which was a significant shift away from the previous arrangements where cost differences between different types of providers were recognised. The government requires Local Authorities to set the universal base rate for all type of providers by 2019/20.

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<sup>1</sup> Lincolnshire's local universal rate to providers and schools has built in the national living wage rate of £9 per hour for nursery assistants in preparation for the rate increasing over the coming years.

The decision by the government to have a universal rate would have had a significant impact on the financial sustainability of maintained nursery schools (MNS). The government responded to this by providing 'supplementary funding' to MNS to allow them to meet the costs over and above other providers in relation to their statutory governance arrangements. The government will continue to provide supplementary funding for MNS in 2019/20 to enable Local Authorities to protect MNS from their 2016/17 funding rates. The government has stated that it will consult openly regarding the future of MNS, however no further information has been released to date.

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

- a single local universal base rate for delivering early years entitlement for both the universal 15 hours and the additional 15 hours for working parents;
- to pass-through at least 95% of 3 and 4 year old funding directly to providers;
- must have a mandatory deprivation supplement in the local 3 and 4 year old funding formula, and any other supplements used must fall within one of the allowable categories;
- must ensure that no more than 10% of the total value of planned funding for 3 and 4 olds goes through supplements funding;
- must have a Special Educational Needs Inclusion Fund for 3 and 4 year olds;
- to pass on Early Years Pupil Premium (EYPP) in full to providers for eligible 3 and 4 year olds, and
- to pass on Disability Access Fund (DAF) funding in full to providers for eligible 3 and 4 year olds.

The DfE will monitor compliance with the above through Section 251 (s.251) returns.

The following DSG Early Years block funding streams are not included in the 95% pass-through calculation:

- funding for the entitlement for disadvantaged 2 year olds;
- payments to MNS from the MNS supplementary funding allocation;
- the Disability Access Fund (DAF), and
- the Early Years Pupil Premium (EYPP).

### **Lincolnshire's Early Years Funding Formula**

When determining the local universal rate per hour, 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.

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 in 2011/12.

For background information, the theoretical model that determined the local universal rate was based on the following:

- A Private, Voluntary & Independent (PVI) sector delivery model. The early year's entitlement is delivered substantially by the PVI sector, therefore the Local Authority has modelled the prescribed local universal rate per hour on a PVI model.
- The staffing ratio is based on a 1 to 8 ratio. The model includes a graduate leader and three nursery assistants for 24 children delivering 15 hours. The graduate leader does not deliver the free entitlement, but supports the operations by being a supernumerary to underpin the delivery of quality provision.
- The government's direction of travel is to increase the national living wage up to £9 per hour by 2020/21. The government has 'front loaded' this funding into Local Authority funding levels, therefore the Local Authority has built this £9 per hour rate within the formula for nursery assistants in preparation for the rate increasing over the coming years. This should provide extra flexibility for providers until the rate reaches that level.
- The graduate leader starting salary assigned to the teacher main scale 1 pay scale.
- An increase in costs has been included in the 2019/20 funding formula as a result of the qualified staff pay increase using the teacher's main salary pay scale.
- Staffing costs include both employer national insurance and employer pension contributions for providers. Employer pension contribution costs have been based on the full basic salary cost of the staff member using a 5% contribution. This is in excess of the current and future percentage threshold level prescribed presently by the government.
- An increase in costs has been included in the 2019/20 funding formula as a result of the qualified staff pay increase using the Local Authority Teaching salary scale.
- The roles of staff have been analysed to assess how many hours are required to support the delivery of the free entitlement, e.g. in terms of set up time, SENCO support, administration, etc. This has then been costed up at the appropriate rates of pay.
- The model supports inclusive practices for children working within the graduated approach to meeting the needs of children with identified delays in the prime areas of learning.
- Non-staffing costs have been analysed in detail to ensure that these are funded adequately, e.g. play equipment, administration services, subsidised training rate, etc. Non-staffing costs include rental costs sourced from a Local Authority partner specialising in this area, which are based on a 52 week agreement.

The key components of Lincolnshire's early years funding formula builds quality within the model, and considers current and potential cost pressure, e.g. pension auto-enrolment and the national living wage.

The 2019/20 hourly rate has been determined at the following level:

**Local universal base hourly rate per pupil                      £3.87**

The hourly rate has increased by £0.03 per hour per pupil in 2019/20. This has been funded by the reduction in the funding previously earmarked for the fluctuation contingency fund and pupil funding adjustments. The government funds Local Authorities through a January snapshot, which is a different methodology to funding providers on a participation-led basis through monthly payments. From reviewing historic participation-led data, it has been identified that the level of contingency funding to meet any additional demand above the January average can be reduced to 0.6% (from 1.1%) of the overall funding.

To substantiate the increase in funding to Lincolnshire's costed local universal base hourly rate, the increase recognises the updated to the teacher's main salary pay scale following the School Teachers' Review Body recommended pay award from September 2018, which the graduate leader is modelled on.

The local universal base rate will fund the direct delivery of early year's entitlement. The same hourly rate will be applied for the additional hours for working families up to 30 hours. Funding to the sector will continue to be based on participation. The term participation refers to both the number of children accessing the free entitlement along with the number of hours being taken up (i.e. up to the agreed entitlement level) across the agreed funding period. Funding for 2019/20 will be based on the summer 2019, autumn 2019 and spring 2020 census data.

### **Monthly Claims Process**

The government remains clear that smaller providers, such as childminders, need to be supported to enable them to offer the extended entitlement. The government wants to prevent cash flow problems and is encouraging more providers to deliver 30 hours to increase the market and ensure a more flexible offer. The government therefore included within the statutory guidance, their expectation that Local Authorities should pay providers on a monthly basis, by September 2018 at the latest.

Lincolnshire successfully implemented a monthly claim and payment system in September 2018 following consultation with the sector. The Early Years Provider Hub is an online system being utilised by all early years providers to ensure accurate and up to date claims and payments are being made on a monthly basis.

Initial feedback from providers has been overwhelmingly positive. Providers now have a live system available to update child attendance, which assists with more accurate and timely data sharing on a monthly basis. The Local Authority is mindful of the concerns of smaller providers, particularly childminders, about their cash flow when making decisions about payment methods. The Local Authority will keep under review how payments to providers are made to ensure that it continues to meet the needs of all providers.

## **Supplements**

Through the implementation of the EYNFF in 2017/18, the Local Authority reviewed the government's prescribed supplements. By ensuring the key cost drivers were built into the universal base rate, the Local Authority concluded that it would continue to only use the mandatory deprivation supplement. For all supplements, Local Authorities have the freedom to choose the appropriate metric for allocating funding, but should be transparent about the metric chosen.

The Local Authority committed to undertake a consultation with providers and schools during 2018/19 for consideration in 2019/20 on the mandatory early years deprivation supplement. The Local Authority completed this consultation with providers and schools during the spring and summer terms in 2018. Full details of this consultation were presented to the Schools Forum in October 2018.

## **Deprivation supplement**

In 2019/20, the Local Authority will continue to use the same deprivation factor and deprivation monetary values that are currently in place in 2018/19. The provider survey undertaken identified 81% of respondents supported the continued use of the government's Income Deprivation Affecting Children Index (IDACI) measure. The Local Authority will continue to provide advice on its use and monitor its effectiveness in settings. This approach will drive a similar value of c.£1m per annum through the early year's funding.

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 2018 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 1**

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 2018 data collection information and IDACI 2015 datasets have been used to determine the 2019/20 annual deprivation funding allocation. 2019/20 allocations have been shared with all early years providers in the autumn term

2018 to provide more time to consider how this funding will be spent during 2019/20 to ensure the most impact.

Providers will be expected to complete a monitoring form giving details of how funding has been utilised which will support the assessment of the impact the deprivation supplement has had in 2019/20. This will also help to inform future decisions with regards to the allocation of deprivation funding.

In July 2018, the Secretary of State for Education explained that 28% of children finish their reception year still without the early communication and reading skills they need to thrive. The ambition is to cut that number in half over the next ten years. Tackling this must be a shared priority, as explained further here: <https://www.gov.uk/government/speeches/education-secretary-sets-vision-for-boosting-social-mobility>. The Local Authority has advised providers to consider this when determining the use of the deprivation supplements funding it receives.

### **SEN Inclusion Fund**

Local Authorities are required to have SEN inclusion funds for all 3 and 4 year olds with special educational needs (SEN) who are taking up the free entitlements, regardless of the number of hours taken. This funding is intended to support the Local Authority to work with providers to address the needs of individual children with SEN.

In Lincolnshire, the SEN Inclusion Fund has been reviewed in line with the national guidance and is available through an application process.

The universal base rate is provided to meet the needs of children, including those with mild additional needs which are able to be met within the graduated approach and provision that is routinely available.

The revised inclusion funding model provides a top up payment based upon a percentage increase of the universal base rate, for every hour the child attends the setting for their early years entitlement (up to a maximum of 30 hours based on a child's eligibility). A two-tier approach which comprises 50% top up for emerging 1 needs and 100% top up for emerging 2 needs has been offered within a pilot.

The key findings and outcomes of the pilot were reported to Children's Services Directorate Management Team in November 2018 and agreement to fully implement this approach was agreed.

The rates for 2019/20 are as follows:

- Emerging 1 needs - £1.94
- Emerging 2 needs - £3.87

Part of the review was to consider Lincolnshire's approach for early years children who do not meet the criteria for inclusion funding as they fall outside the age range determined by the DfE. A decision was made that Lincolnshire would not provide inclusion funding in 2019/20 for this group (namely 2 year old accessing entitlement) due to the higher rate of funding and smaller class groups that

supports these children. Children within this group and their needs should be met within the Ofsted ratios, if this is not the case these children will need to be assessed on a case by case basis through the Education Health Care Needs Assessment process. Children with more complex needs and those in receipt of an Education Health Care plan will continue to be eligible to receive funding via the High Needs block of the DSG.

The new process for administering Inclusion Funding has been fully embraced and welcomed by the sector. Funding and data has shown that increasing numbers of children eligible for 30 hours are taking this up with the support of Inclusion Funding and the payments of this has been brought in line with the early years entitlement monthly payment process within the Provider Hub which will enable providers to monitor spend more closely.

There are currently 224 children accessing Inclusion Fund (as at January 2019). It is therefore essential to maintain the funding levels in 2019/20 to take into account any further increase in take-up of the 30 hours.

The planned funding requirement using the current protocol is £0.600m per annum, which represents £0.075 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 5/12<sup>th</sup> of January 2019 pupil numbers (to cover the April 2019 to August 2019 period) and 7/12<sup>th</sup> of the January 2020 pupils numbers (to cover the September 2019 to March 2020 period), which is a different methodology to funding providers on a participation-led approach on a monthly 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.

From reviewing historic participation-led data, it has been identified that the level of contingency funding to meet any additional demand above the January average can be reduced to 0.6% (from 1.1%) of the overall funding. This still remains a financial risk, and with the infancy of the extended entitlement for 3 and 4 year olds of eligible working families, it is prudent to continue retaining a fluctuation contingency fund.

An annual budget of £0.203m is required, which equates to £0.026 per pupil per hour.

### **Local Authority Centrally Retained Funding**

The government requires Schools Forums to agree 2019/20 central spend for early years by the 28 February 2019. The Local Authority has conducted its annual review of DSG budgets.

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 the sector e.g. PVI, childminders, schools and academies.

The role of Early Years and Childcare Support is to enable good and outstanding settings to continue to improve requesting advice and support on a need basis through a process of self-referral. While the 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:

Early Years Entitlement (EYE) Team £298,276

The EYE team and data staff supports the effective delivery of the Early Years Entitlement funding. The team manages the systems, processes and administration of the EYE payments for 2, 3 and 4 year olds including the 30 hours entitlement, EYPP, MNS supplements, DAF and Inclusion Funding. 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 and guidance to all settings to deliver the offer effectively. The team works closely with other teams including performance and finance to ensure providers receive the support they need. The development of the Early Years hub has been a significant piece of work for the team this year and will continue to require resources directly to ensure providers submit accurate and timely information to determine the payment allocations. In addition, the local authority has moved to a monthly payments system from September 2018. To implement this, additional planning and preparation has been required and will continue to be a priority in the coming year when further analysis of this new system will be crucial. For this reason the resources level for this area of work has increased to enable us to deliver the expectations and requirements set out by national policy.

Securing Sufficient, Sustainable Provision £412,716

The government places a duty on Local Authorities to secure sufficient childcare, so far as is reasonably practicable, for working parents, or parents who are studying or training for employment, for children aged 0-14 (or up to 18 for disabled children). To ensure there is sufficient, accessible, and affordable provision available to support families, the local authority continues to monitor the market place and support providers to offer additional places where demand is identified.

The number of early year's providers delivering funded education places continues to rise and there are currently 609 PVI providers and 82 schools registered to deliver EYE places in Lincolnshire. This is a 3.9% increase in childcare provision compared with 2018/19.

Following publication of the local authority's annual sufficiency report, where any sufficiency gaps are identified, the team of development consultants work with the sector to address the needs of local families. The team encourages providers to take a sustainable business approach to planning and signpost providers to resources to support them with future sustainability. This team supports the delivery of capital funding investments and lease and rent agreements across Lincolnshire. Due to the increased levels of funding being directed through the sector following 30 hour implementation business support, advice and financial planning will become a key part of the work and so to support this there will be additional resources focusing on this going forward.

#### SEND Local Offer

£64,874

The government required all Local Authorities to establish an SEN inclusion fund following the introduction of the revised funding formula to provide 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. The system and process for the allocation of inclusion funding has been fully reviewed and a new system implemented, in conjunction with a review of the funding allocations for children attending early years with a significant and profound SEND as assessed through the Education Health Care plan assessment process. The continued co-ordination and oversight of this is within a dedicated post with management oversight.

#### EYFS Quality Improvement, Support, Advice

£462,960

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.

For providers with a "less than good" Ofsted outcome there are bespoke targeted quality support programmes made available in line with the Early Education and Childcare Statutory guidance for Local Authorities (September 2018).

In addition to this the statutory EYFS framework requires the EYFS profile assessment to be carried out in the final term of the year in which a child reaches age 5, and no later than 28 June in that term. The main purpose of the EYFS profile is to provide a reliable, valid and accurate assessment of individual children at the end of the EYFS. In summer term 2019, the local authority has the responsibility to undertake EYFS profile external moderation visits and this will be coordinated and managed by the early years quality improvement team.

Lincolnshire's online Early Years Training Directory provides a comprehensive programme of subsidised 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'.

### Summary of central spend

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 £1.526m. This represents 4.47% of the overall early years funding of £34.178m. This is below the threshold of 5% and a further reduction of 0.04% compared with 2018/19. 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, and fluctuation contingency fund.

### Lincolnshire's Early Years Funding Distribution for 3 and 4 year olds

Table 2

Activities	Overall Funding	Hourly Rate
3 and 4 year old funding for 15 hours early years entitlement	£24.980m	£4.30
3 and 4 year old funding for additional hours for eligible working families	£9.198m	£4.30
<b>Total Funding</b>	<b>£34.178m</b>	<b>£4.30</b>

Activities	Spending Plan	Hourly Rate Converted
Local Universal Basic Rate	£30.760m	£3.870
Deprivation Funding	£1.089m	£0.137
Inclusion Fund	£0.600m	£0.075
Fluctuation Contingency Fund	£0.203m	£0.026
<b>Total Spending Plan for passing onto providers</b>	<b>£32.652m</b>	<b>£4.108</b>
Centrally Retained Funding for Direct Early Years Services	£1.526m	£0.192
<b>Total Spending on Early Years Activities</b>	<b>£34.178m</b>	<b>£4.300</b>

Key government criteria's met:

- Pass-through funding of 95.53% to providers in 2019/20.

- The Deprivation supplement represents 3.19% of the overall budget allocation and is below the 10% limit.
- The value of all supplements and provider delegations (outside the local universal base rate), as a percentage of the local universal base rate funding delegation is 6.15%.

### **Disability Access Funding (DAF)**

The Local Authority must comply with the provisions of the Equality Act 2010 in finding suitable provision for eligible disabled children.

The Disability Access Fund (DAF) was introduced in April 2017 to support disabled children's access to the 3 and 4 year old entitlements. Providers receive £615 per eligible child per year. The funds can be used to support providers in making reasonable adjustments to their settings and / or helping with building capacity, be that for the child in question or for the benefit of children as a whole attending the setting.

Children do not have to take up their full early education entitlement in order to receive the DAF. Children will be eligible where they take up any period of free entitlement and receive Disability Living Allowance.

Early years providers are responsible for identifying eligible children and are encouraged to notify the Local Authority using the online Early Years Provider Hub to ensure they receive funding at the earliest opportunity.

### **Early Years Pupil Premium (EYPP)**

The Early Years Pupil Premium (EYPP) gives providers additional funding to support disadvantaged 3 and 4 year olds. 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 up to a maximum of 570 hours (or £302.10 per year). In the small number of cases where a child is also eligible for the additional 15 hours entitlement for working parents, EYPP is paid on the universal 15 hours only, up to a total of 570 hours in the year.

### **2 Year Old Funding**

Lincolnshire's funding for the most disadvantaged 2 year olds in 2019/20 remains at the same 2018/19 hourly rate of £5.20 per child. This remains below the national average of £5.47.

Lincolnshire's indicative allocation for 2019/20 is £5.412m.

There is no 'pass-through requirement' for 2 year olds as s.251 data demonstrates that the vast majority of such funding is already being passed through to providers. There are no compulsory supplements for 2 year olds, and Local Authorities are encouraged to fund providers on the basis of a flat hourly rate for all providers. In

addition, Local Authorities are not required to establish a SEN Inclusion Fund for 2 year olds.

**Fluctuation Contingency Fund**

The Local Authority has retained funding for a fluctuation contingency fund before determining the funding rate to providers to avoid overspends occurring on this budget. It is important that the overall funding arrangements are affordable within the Early Years block following the government's more distinct funding blocks within the DSG following the introduction of the government national funding formulas in areas of mainstream schools, early years and high needs funding.

The 2 year old entitlement does not replicate the same participation trends across the terms as the 3 and 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 continues to identify 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, otherwise the overall 2 year old funding will overspend.

An annual budget of £0.313m is required, which equates to £0.300 per pupil per hour. This represents 5.78% of the overall budget.

The Local Authority continues to make representations to the government to ensure funding received by the Local Authority is representative of the funded participation levels – this would allow the hourly rate to be retained at a higher level. This will be reviewed annually considering available data to ensure the budget provision is set accurately. The DfE is reviewing the 2 year old entitlement patterns of take-up across Local Authorities and is considering termly census returns to administer funding more accurately in the future.

**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 £0.052m, which represents £0.05 per pupil per hour, which represents 1% of the total budget.

**2 Year Old Funded Rate**

The 2019/20 hourly rate has been determined at the following level:

**Local universal base hourly rate per pupil                      £4.85**

## Lincolnshire's Early Years Funding Distribution

Table 3

Activities	Overall Funding	Hourly Rate
<b>2 year old funding for 15 hours early years entitlement</b>	<b>£5.412m</b>	<b>£5.20</b>

Activities	Spending Plan	Hourly Rate Converted
Local Universal Base Rate	£5.047m	£4.850
Fluctuation Contingency Fund	£0.313m	£0.300
<b>Total Spending Plan for passing onto providers</b>	<b>£5.360m</b>	<b>£5.150</b>
Centrally Retained Funding for Direct Early Years Services	£0.052m	£0.050
<b>Total Spending on Early Years Activities</b>	<b>£5.412m</b>	<b>£5.200</b>

### Consultation

**a) Have Risks and Impact Analysis been carried out??**

No

**b) Risks and Impact Analysis**

N/A

### Background Papers

Document title	Where the document can be viewed
Early Years Funding Formula – Update (October 2018)	<a href="http://lincolnshire.moderngov.co.uk/documents/s24116/8.0%20Early%20Years%20Funding%20Formula.pdf">http://lincolnshire.moderngov.co.uk/documents/s24116/8.0%20Early%20Years%20Funding%20Formula.pdf</a>
Annual Report for Early Years (April 2018)	<a href="http://lincolnshire.moderngov.co.uk/documents/s22113/7.0%20Annual%20Report%20on%20Early%20Years.pdf">http://lincolnshire.moderngov.co.uk/documents/s22113/7.0%20Annual%20Report%20on%20Early%20Years.pdf</a>
Early Years National Funding Formula (January 2018)	<a href="http://lincolnshire.moderngov.co.uk/documents/s20945/Early%20Years%20National%20Funding%20Formula.pdf">http://lincolnshire.moderngov.co.uk/documents/s20945/Early%20Years%20National%20Funding%20Formula.pdf</a>
Early Years National Funding Formula Operational Guidance 2019-20	<a href="https://www.gov.uk/government/publications/early-years-national-funding-formula-allocations-and-guidance">https://www.gov.uk/government/publications/early-years-national-funding-formula-allocations-and-guidance</a>

Early Education and Childcare Statutory Guidance 2018	<a href="https://www.gov.uk/government/publications/early-education-and-childcare--2">https://www.gov.uk/government/publications/early-education-and-childcare--2</a>
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