

	<p><b>Children, Education, Libraries and Safeguarding Committee</b></p> <p><b>21 September 2016</b></p>
<p style="text-align: right;"><b>Title</b></p>	<p><b>Early Years funding</b></p>
<p style="text-align: right;"><b>Report of</b></p>	<p>Commissioning Director for Children and Young People</p>
<p style="text-align: right;"><b>Wards</b></p>	<p>All</p>
<p style="text-align: right;"><b>Status</b></p>	<p>Public</p>
<p style="text-align: right;"><b>Urgent</b></p>	<p>No</p>
<p style="text-align: right;"><b>Key</b></p>	<p>No</p>
<p style="text-align: right;"><b>Enclosures</b></p>	<p>Appendix 1- Draft response from Barnet to the consultation document</p>
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**Summary**

This report provides information about the national consultation by the Department for Education on the Early Years National Funding Formula. The report summarises the proposals set out in the consultation, the implications on the funding formula in Barnet, and the proposed approach to consultation in Barnet. A draft response from Barnet to the national consultation is appended to the report.

**Recommendations**

**It is recommended that the Children, Education, Libraries and Safeguarding (CELS) Committee:**

- 1. Delegate to the Commissioning Director, Children and Young People (Director**

**of Children's Services) authority to consult early years providers on any potential changes as a consequence of further published Government regulation or guidance, expected in Autumn 2016.**

- 2. Delegate to the Commissioning Director, Children and Young People (Director of Children's Services) authority to make any necessary amendments to the early years funding formula, following consultation.**
- 3. Note the council's draft response to the consultation document from the Department for Education (DfE) on the Early Years National Funding Formula (EYNFF).**

## **1. WHY THIS REPORT IS NEEDED**

### **1.1 Context**

- 1.1.1 A consultation on the national funding formula for early years was released by the Department for Education (DfE) on the 11<sup>th</sup> August 2016 and is due to close at midnight on 22<sup>nd</sup> September 2016. It is seeking the views of stakeholders including Local Authorities (LAs) and all types of childcare providers on the revision of early years funding in advance of the introduction of 30 hours free child care for working families, which it is intended will come into force in September 2017. There are two parts:
  - The implementation of an Early Years National Funding Formula (EYNFF) for LAs with effect from April 2017
  - Local funding formulae for providers from April 2017
- 1.1.2 A link to the full consultation document can be found in the Background Papers and a draft response from Barnet to the consultation can be found at Appendix 1.
- 1.1.3 The consultation reinforces the government commitment to extend the 'working parent' childcare offer to 30 hours per week, by incentivising the local childcare market and encouraging providers to switch from parent-paid hours to government-funded hours. In their comments, the DfE acknowledges the current cost pressures experienced by childcare providers and the disparity between market rates and government-funded hours, particularly as a result of the impact of the National Living Wage and pension auto enrolment. One of the stated objectives of these proposals, and the increased funding made available to support them, is to provide greater transparency and certainty in funding for LAs, providers and parents, and aims to rectify and regularise the imbalance between funding paid to different types of providers in some LAs.
- 1.1.4 The DfE accepts that announcement of the outcome of consultation in the Autumn will set a challenging timetable for local authorities to determine their funding approach, consult with providers, discuss with schools forums, engage local democratic processes as needed, and announce funding rates well in advance of the financial year beginning in April 2017.

- 1.1.5 The DfE also accepts that relatively late confirmation of final funding rates may create planning challenges for providers, including around their engagement with the 'working parent' 30 hour free childcare offer. To mitigate this, they have published tables showing the average hourly rates that providers might expect from April 2017. However, these tables cannot show what every early years provider will receive and only give an indication based on implementation of proposals for both national funding to local authorities and the revised local formulae.
- 1.1.6 In light of the information provided at this stage, the department expects that local authorities should start discussions with their providers as soon as possible about what the proposals might mean to the local early years single funding formula. Although final proposals are dependent on the Government decisions based on consultation responses, the aim is that providers are informed of their 2017/18 funding rates as soon as possible.

## **1.2 The current funding formula in Barnet**

- 1.2.1 In 2015/16 Barnet funded 268 different providers to deliver over 3.4m hours of early education for 3 and 4 year olds. This represents over 6000 children taking up 570 hours per annum. (The number of individual children will be higher as children become eligible or go on to Reception during the year). The basic hourly rate was £3.74 but with supplements this rose to an average of £4.30 per hour. A more detailed breakdown of the funding for 3 and 4 year olds is provided in paragraph 5.2.2.
- 1.2.3 The system is much the same for 2016/17 except that the hourly rate is now £3.76. Early Years Pupil Premium (EYPP) take up should increase as more eligible children are identified, and we expect an increase of around 2.5% in total hours.

## **1.3 DfE proposals for Local Authority Early Years National Funding Formula**

- 1.3.1 The formula for the early years block of the Dedicated Schools Grant (DSG) will consist of three funding factors:
- A universal base rate for each child
  - An additional needs factor (a weighting of FSM eligibility, EAL and Disability Living Allowance) and
  - An area cost adjustment (ACA)
- It is proposed that the hourly funding rate paid to local authorities should be the sum of the universal base rate, the additional needs factor and the area cost adjustment.
- 1.3.2 The DfE has provided illustrative figures so that local authorities can understand the potential impact of the proposals. These show that 75% of LAs will gain from the hourly rate funding but a -5% cap on losses will be applied in 2017/18 and again in 2018/19 for those LAs who lose against their 2016/17 hourly rate. The aim is that all local authorities should be 'on formula' by 2019/20.

1.3.3 The illustrative figures show that Barnet is likely to receive an increase in hourly funding likely to be in the region of around 20%. This formula based amount will be received for the full year for all 3&4 year olds accessing the universal 15 hour Free Entitlement, and will also be allocated on a participation basis from September 2017 for those children accessing the additional 15 hour (working parent) entitlement. This will bring local authority funding closer to what providers charge for additional childcare, and so aid engagement in providing 30 hours for children of working families from September 2017.

## **1.4 Provider funding proposals**

1.4.1 In its 'Cost of Childcare Review' the DfE found that costs between the main types of early years providers are broadly similar. As the early education outcomes required of providers are also the same, the department deduces that funding rates should not differentiate between types of provider and proposes that all authorities will be required to use a universal base rate of funding for all providers by 2019/20 at the latest, meaning all children receive the same level of basic 'per child' funding whichever type of establishment they attend. Barnet's Early Years Single Funding Formula already meets this requirement as it has always given the same base rate (£3.76 in 2016/17) to all types of providers. However, the council has also provided transitional additional funding to the four nursery schools, which has been reduced last year and this year.

1.4.2 The consultation proposes that local formulae will be limited in the supplements that can be used to the key drivers of local cost: deprivation, sparsity, or policy objectives such as the 'working parent' 30 hour entitlement. There would be a cap of 10% on the amount of funding that can be passed through these supplements. Barnet's current supplements average out higher than this and therefore will need to be reduced to reach the target figure of 10%. However, this is anticipated to be achievable in light of the increase to the early years hourly funding rate Barnet expects to receive as set out in the illustrative figures.

1.4.3 Barnet's current formula includes a 'basic entitlement' factor of £100 per annum per child for the first 30 children in each setting. This would not be allowed under the proposals so would need to be redistributed into other elements of the formula.

1.4.4 There will be a new requirement in the local funding formula requiring LAs to pass on a specified percentage of EY block funding directly to providers (high pass-through). This will require LAs to ensure a minimum of 93% of funding is passed on in 2017/18 and a further increase to 95% from 2018/19 onwards. The high pass-through limit on central spend (top-slicing) is intended to divert funding for training and improvement to providers, so that they can then choose whether to buy services offered by the LA or purchase these services elsewhere. Based on Barnet's current pass on average, it is anticipated that meeting this requirement is likely to be achievable in light of the increase to

the early years hourly funding rate Barnet expects to receive on the basis of the illustrative figures.

- 1.4.5 In recognition of the high quality early years education and childcare provided by maintained nursery schools and in order to minimise disruption to this type of setting, the Government is proposing supplementary funding for at least two years for maintained nursery schools. This is designed to provide stability to the sector whilst they “explore how to become more sustainable in the longer term, including exploiting scope for efficiencies”. As indicated above, Barnet has been providing nursery transition funding at a reducing rate. The proposed supplementary funding would ensure the overall levels of funding for the nursery schools would not fall below the current funding levels, for at least as long as the supplementary funding is available.

## **1.5 Other funding proposals**

- 1.5.1 In recognition of the increased costs to those settings that take more disabled children and children with SEN, the consultation proposes a targeted Disability Access Fund for providers where a child at the setting is in receipt of disability living allowance. It is proposed that this would be paid to the provider as an annual lump sum to encourage providers to make initial reasonable adjustments to increase their capacity to support High Needs children. It also suggests that LAs should further create SEN Inclusion Funds to provide top up funding to support nursery children with special educational needs. Barnet has most of these proposals already in place. The size of the disability access fund, though welcome, will be small.
- 1.5.2 The department has confirmed that the Early Years Pupil Premium will continue, being maintained at £302 per eligible child per year. This will remain in the DSG and in addition to the EYNFF.
- 1.5.3 These proposals do not include any change to the current two-year old formula, but include a proposal to uplift the current funding rate paid to local authorities. Barnet currently pays a higher funding rate to providers than it receives from central Government.

## **1.6 Consulting on the changes in Barnet**

- 1.6.1 As set out above, Barnet’s current formula is compliant with many of the proposals. However, there will need to be some changes and this will require consultation with approximately 250 providers. Providers will need to be supplied with illustrations of the likely impact on their funding of the proposals. It is anticipated that all settings will receive an increase in their formula funding.
- 1.6.2 This report seeks approval to delegate to the Commissioning Director, Children and Young People (Director of Children’s Services) authority to consult early years providers on any potential changes as a consequence of

further published Government regulation or guidance, expected in Autumn 2016.

1.6.3 In consulting, the objectives in amending the Barnet early years funding formula will be to:

- Meet government regulation.
- Fairly fund all providers – no providers should be worse off.
- Create incentives for delivery of high quality early education, including the additional 15 hours for working parents.
- Promote stability of funding to providers.
- Create a system which is straightforward to understand and administer.

## **2 REASONS FOR RECOMMENDATIONS**

2.1 The consultation document from the DfE makes clear the expectation that all local authorities consult with their providers before making any changes to their funding formulae.

2.2 The objective of any adjustments to the formula will be to fairly fund early years providers who have been asking for clarity on the funding rates they will receive for delivering both the Universal 3 and 4 year old entitlement and 30 hours of free childcare. This will help providers, as well as parents, by giving them the certainty they need to plan ahead.

2.3 The DfE consultation document states the need to inform providers of the funding they will receive at the earliest possible time in advance of April 2017, when the new formulae will be implemented. As set out in the timeline in section 4, in Barnet this will be in December 2016. As there is not a CELS Committee meeting in December 2016, it is recommended that the decision about the funding formula in Barnet is delegated to the Commissioning Director, Children and Young People (Director of Children's Services).

## **3 ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

3.1 The current formula does not fully align with the proposals set out in the DfE consultation so there is a need to make adjustments to the current funding formula.

## **4 POST DECISION IMPLEMENTATION**

4.1 The DfE consultation will close on Thursday 22 September 2016. The Government's response will then be published in the Autumn. They are aiming to announce local authority allocations at the same time as the response.

- 4.2 The Schools Forum will be consulted on the proposals for amendments to the funding formula in October 2015. The Forum will also be given details of the proposed consultation with providers. The consultation with providers will take place during October and November, concluding in mid-November. Providers will be informed of any amendments to the funding formula in December to give them sufficient time to plan ahead of the new formula being implemented in April 2017.
- 4.3 New funding arrangements will commence for the existing 15-hour entitlement in April 2017 alongside the funding rate uplift, and for the additional 15 hours in September 2017 when the 30-hour entitlement is implemented nationally.

## **5 IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

- 5.1.1 The proposals set out align with key themes from the council's corporate plans of families and work. Increasing the funding rate to providers will reduce the cost of childcare for working families and break down the barriers to work, so that parents who want to return to work or work more hours can do so.
- 5.1.2 The ability to access good quality early years education and childcare provision is also critical to realising the vision, set out in the Children and Young People's Plan, of resilient children and families. There is a body of national evidence which shows that when early education and childcare provision is of high quality there are positive effects on a range of child outcomes, particularly educational attainment, that are sustained well into the teenage years. Increased employment supports households to move out of poverty and builds the resilience of families.
- 5.1.3 The proposals are also intended to support the corporate principle of fairness by providing a funding rate that will enable providers to offer free childcare to eligible families and remain sustainable in the long term.

### **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

- 5.2.1 The Early Education Entitlement for 2, 3 and 4 year olds is funded through the Dedicated Schools Grant (DSG), the rates for 2 year olds in 2015/16 was £6 per hour and for 3 and 4 year olds £3.74 per hour (£4.30 per hour including supplements).
- 5.2.2 A breakdown of the expenditure on 3 and 4 year olds in 15/16 is set out in the table below

<b>3 and 4 Year Olds</b>		<b>2015/16</b>	
Hours claimed	3,444,682		
PTE children (Hours/570)	6,043		
Funded Providers	268	Schools, children's centres, PVIs, childminders, etc	
Basic hourly rate	£3.74		
Average rate p/h incl supplements	£4.31	Excludes EY pupil premium and nursery subsidies	
Hourly funding	12,870,763	86.6%	@ £3.74 per hour
Flexibility	952,770	6.4%	@ £95 per child p.a. x flexibility level of setting
Deprivation	576,047	3.9%	@ £400 per child x IDACI score of setting per annum
Basic Entitlement	454,446	3.1%	@ £100 per child p.a., maximum £3000
	<b>14,854,026</b>	<b>100%</b>	
Nursery school Subsidies	315,127		Historical rates (Transition + Insurance)
Early Years Pupil Premium	165,176		@ 53p per hour for eligible children
	<b>15,334,329</b>		

### 5.3 Legal and Constitutional References

- 5.3.1 Section 6 of the Childcare Act 2006 places a duty on local authorities to secure, so far as reasonably practicable, that the provision of childcare is sufficient to meet the requirements of working parents and those wishing to take up work or undertake education or training. Section 7 places a duty on local authorities to secure that early years provision is available free of charge for prescribed children. The current duty relates to 15 hours per week of free early education to all 3 and 4 year olds and 15 hours per week of free early education to prescribed disadvantaged 2 year olds. The Childcare Act 2016 sets out a new duty for eligible 3 and 4 year olds of working parents, which if brought into force would extend the free provision to 30 hours per week. Whilst the detail of the duty is reserved to regulations, the recent consultation indicates that the duty will take effect from September 2017 and will apply to working parents with a specified means test.
- 5.3.2 The Government consultation is on the proposal to introduce an early years national funding formula to cover the existing universal 15 hour entitlement from April 2017 and the new 30 hour entitlement for working parents from September 2017.
- 5.3.3 Under current legislation, local authorities are required to set and use a locally determined formula to fund all types of early years provision (the early years single funding formula) and supply to all providers an indicative budget at the beginning of the financial year and adjust budgets to reflect actual levels of participation. The formula must be constructed of either a single base rate for all providers or a number of base rates to differentiate by type of provision, based on unavoidable cost differences. The formula must include a deprivation supplement for 3 and 4 year olds and must be based on a count of children attending the provision. Local authorities are required to have a schools forum and to include representatives from the early years sector on this forum. Under the Schools Forum (England) Regulations 2012, a local



authority must annually consult its schools forum in respect of its functions relating to schools budgets, in connection with arrangements for early years provision.

- 5.3.4 It is proposed that the new system will be based on three funding factors, namely a universal base rate for each child, an additional needs factor to reflect the additional costs of supporting children with additional needs and an area cost adjustment. Whilst it is envisaged that the majority of local authority areas will gain funding, for those that will lose funding, it is proposed to introduce a funding floor, meaning that no local authority will face a reduction in its hourly funding rate of more than 10% against the 2016-17 baseline. In order to ensure that providers are receiving the highest possible proportion of funding, it is proposed to introduce a minimum threshold on the proportion of funding to be passed on to providers of 93% in 2017-18 and 95% thereafter. It is proposed to introduce transitional provisions meaning that local authorities will have until 2019-20 to fully implement the proposals, although early adoption is also permissible.
- 5.3.5 Responsibility for Functions, Annex A, as laid out in the council's constitution states that the Children, Education, Libraries and Safeguarding Committee has responsibility for those powers, duties and functions of the council in relation to Children's Services.

## **5.4 Risk Management**

- 5.4.1 The actions outlined in the report, including consulting with providers, require implementation in order to create a fair funding process. Without this action, it is unlikely that there will be a significant increase in provision and therefore that the Council will be able to secure sufficient childcare provision.

## **5.5 Equalities and Diversity**

- 5.5.1 The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies to have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
  - advance equality of opportunity between people from different groups
  - foster good relations between people from different groups
- 5.5.2 The broad purpose of this duty is to integrate considerations of equality into day business and keep them under review in decision making, the design of policies and the delivery of services
- 5.5.3 Detailed profiling has been undertaken in order to identify eligible children in Barnet, this includes a wide range of characteristics, including relevant equalities and diversity characteristics.

## **5.6 Consultation and Engagement**

- 5.6.1 During January 2016, as part of the Childcare Sufficiency Assessment, a telephone survey was undertaken with private, voluntary and independent childcare providers (PVI), including childminders and children's centres, operating throughout Barnet. The aim of the survey was to understand whether providers were likely to expand under the forthcoming extension to childcare. This showed that whilst 89% of providers were familiar with the planned increase of the additional 15 hours for three and four year olds for working families, only 45% of PVIs expect to offer additional sessions. One of the key reasons cited by providers for not intending to offer the additional hours was the lack of certainty around the funding rate. Most providers said that they thought the current funding rate was too low and that if they increase the free entitlement hours for one child to 30 hours per week at the current rate, therefore reducing the additional hours they could sell privately at a higher rate, this would make their business model unviable.
- 5.6.2 It is recommended that authority is delegated to the Commissioning Director, Children and Young People (Director of Children's Services) to consult early years providers on any potential changes as a consequence of further published Government regulation or guidance, expected in Autumn 2016.
- 5.6.3 As set out in section 4, a paper will go to Schools Forum, following which there will be a consultation with providers before any amendments are made. The consultation will be via Survey Monkey and information on the consultation and how to access the survey will be through the Barnet website, and through direct communication to providers.

## **5 BACKGROUND PAPERS**

- 6.1 Consultation document- Early Years National Funding Formula  
[https://consult.education.gov.uk/early-years-funding/eynff/supporting\\_documents/Consultation%20Document%20%20Early%20Years%20National%20Funding%20Formula%2011%2008%2016.pdf](https://consult.education.gov.uk/early-years-funding/eynff/supporting_documents/Consultation%20Document%20%20Early%20Years%20National%20Funding%20Formula%2011%2008%2016.pdf)