



CONSULTATION DOCUMENT

DfE EARLY YEARS NATIONAL FUNDING FORMULA AND YORK'S PROPOSALS FOR 2017/18

SUMMARY

- 1 Section 1 of this paper provides an overview of the Department for Education's (DfE) final arrangements for a new Early Years National Funding Formula (EYNFF) and related reforms, including an analysis of the overall implications for York.
- 2 Section 2 goes on to present the local authority's (LA) proposals for a revised Early Years Single Funding Formula (EYSFF) that would apply to all early years providers in York from April 2017. If you are only interested in the specific proposals for settings in York for 2017/18 then please skip straight to section 2 on page 4.

SECTION 1: DfE EYNFF ARRANGEMENTS FOR 2017/18 AND BEYOND

- 3 The DfE consultation took place during August and September, with the DfE response and final position published on 1 December. The final arrangements include:
 - Introducing a new EYNFF for 3 and 4 year olds to allocate funding to LAs.
 - Setting a guaranteed minimum hourly funding rate within the EYNFF for all LAs
 - Changing the way that LAs fund the early years providers in their area.
 - Targeting extra funding towards children with SEND.
- 4 The DfE's stated aims for the new arrangements is to:
 - Bring about transparency in the way money is allocated from the government to LAs using a new early years national funding formula,
 - Maximise the funding passed from LAs to childcare providers,
 - Bring about fairness in the distribution of funding to all types of childcare provider,
 - Create a better deal for SEND children.

National Overview

Early Years National Funding Formula (EYNFF)

- 5 A new national formula will be introduced to allocate 3 & 4 year old funding to LAs. The new formula will be applied to both the universal 15 hours, plus the additional 15 hours for working parents. The formula will consist of the following factors:
 - National Base Rate.
 - Additional Education Needs (AEN).
 - Area Cost Adjustment (ACA).

- 6 The Base Rate will account for 89.5% of the total available national funding and be set at £3.53 per hour.
- 7 AEN will be based on three elements and weighted accordingly:
 - Free Schools Meals (FSM): 8% and £2.13 per eligible hour
 - English as an additional Language (EAL): 1.5% and £0.29 per eligible hour
 - Disability Living Allowance (DLA): 1% and £0.74 per eligible hour
- 8 AEN proxy measures will be:
 - FSM: proportion of children at Key Stage 1 & 2 in the LA receiving free school meals.
 - EAL: proportion of EAL children at Key Stage 1 & 2 in the LA
 - DLA: a proxy measure for children with SEND as recommended in the Isos partnership report
- 9 The ACA is intended to reflect the cost differentials between LA areas, particularly staff costs. The formula will use the general labour market measure, adjusted for relative nursery premises costs based on rateable values. The basic ACA multiplier for the lowest cost LA area will be 1.0 (highest 1.9), with York's ACA multiplier set at 1.13. All of the hourly rates referred to above will be multiplied by the ACA to calculate the actual funding rate for each LA. Therefore the expected hourly rates for allocating funding to York at LA level will be:
 - Base Rate: £3.99
 - FSM: £2.41
 - EAL: £0.32
 - DLA: £0.84
- 10 At a national level the new EYNFF will ensure that the average hourly funding rate will increase from the current £4.50 to a proposed £4.78 for 3 & 4 year olds. It should be noted that the much publicised new average national rate of £4.88 also includes the early years pupil premium and funding for maintained nursery schools which will be allocated outside of the EYNFF.

Government Restrictions on Local Arrangements

- 11 There will be a number of restrictions and controls on how LAs are able to use and allocate the funding provided to them through the EYNFF:
 - Restricting the proportion of funding that LAs can retain to spend on central early years services to 7% of the total allocation in 2017/18, and 5% thereafter.
 - Requiring LAs to determine and administer a local Early Years Single Funding Formula (EYSFF) which must incorporate a "universal base rate" of funding for all providers from 2019/20 at the latest.
 - Restricting the proportion of funding that can be allocated via additional supplements to 10% of the total and to the following list of supplements:
 - Deprivation (remains the only mandatory supplement)
 - Rurality / Sparsity
 - Flexibility
 - Quality (to recognise workforce qualifications and system leadership)

- English as an Additional Language (EAL)
- Requiring LAs to build on existing best practice and create a central SEN Inclusion Fund to provide additional top-up funding to providers to improve outcomes for children with SEND.

Additional Funding Outside of the EYNFF

- 12 The Early Years Pupil Premium will continue at the current hourly rate of £0.53 for eligible pupils, and funded outside of the EYNFF and EYSFF.
- 13 The DfE will create a new Disability Access Fund totalling £12.5m nationally. This will be allocated via LAs to providers based on the number of children at each setting in receipt of the DLA. The funding rate per DLA child will be £615 per eligible child per year.
- 14 LAs will be provided with supplementary funding to support stand alone Maintained Nursery Schools (MNS) for three years to try and keep the transition to the universal base rate manageable.
- 15 Funding for eligible two year olds would continue to be based on the current system but at enhanced hourly funding rates. For York the rate would rise to £5.20 per hour in 2017/18 from the current rate of £4.85 per hour, an increase of 7.2%.

Implications for York of the Proposed EYNFF

- 16 Based on the new 3 & 4 year olds EYNFF, the DfE has calculated that the average hourly funding rate from government to the LA for York would be £4.27 in 2017/18. On its own this would be relatively good news as it represents a 17.8% increase from the current rate of £3.625 per hour, and would move York from 16th lowest funded LA (out of 150) to 42nd lowest funded. However in the final version of the proposals the DfE have now set a minimum floor rate of £4.30 per hour, representing an increase of 18.6%.
- 17 York's revised £4.30 per hour represents 90% of the £4.78 national average, compared to the current £3.625 per hour at 80% of the current £4.50 national average. The introduction of the £4.30 per hour floor means that whilst York is now technically joint lowest funded LA (along with 47 other LAs), York has also risen from 135th highest funded to 103rd highest funded along with North Yorkshire and East Riding, who were previously ranked well above York (50th & 59th highest / £4.49 & £4.40).
- 18 All of the new factors have helped move York up the funding league table to some degree, although the most important one is the area cost adjustment. Compared to our current rank of 16th lowest funded LA, our ranking for each of the new factors within the EYNFF is:
 - Deprivation (FSM): 20th lowest
 - DLA: 29th lowest
 - EAL: 47th lowest
 - ACA: 79th lowest (71st highest)

- 19 The ACA calculation is made up of two main elements; labour market costs (80% of ACA) and rateable values of nursery premises (10% of ACA). Using the same labour market cost for all LAs in the Yorkshire & Humber region leaves York in the lowest band for this element. However, York gains more funding under the nursery rateable values element where we rank 60th highest (90th lowest).
- 20 York's new hourly funding rate of £4.30 is broken down as follows:
- Base Rate: £3.53
 - FSM: £0.19
 - EAL: £0.02
 - DLA: £0.04
 - ACA: £0.50
 - Floor: £0.03
- 21 As the proposed new rate is in excess of the £4.07 per hour that the LA is receiving through the 30 hour working parents pilot, we have confirmed with the DfE that we will get the higher amounts for above 15 hours from April 2017 in advance of the national roll out.
- 22 The 5% (7% in 2017/18) limit on the proportion of funding that LAs can retain to spend on central early years services should not cause any problems. York currently retains 4.8% of the 2016/17 3 & 4 year olds allocation, and the working assumption is that the LA would continue to limit its central budget to no more than 5% from 2017/18 onwards.

SECTION 2: THE LA'S PROPOSALS FOR A REVISED EYSFF FOR YORK PROVIDERS FROM APRIL 2017

- 23 In view of the extremely tight timescales imposed by the DfE, the LA established an Early Years Single Funding Formula Reference Group (the reference group) in advance of the outcome of the DfE's consultation in order to start to consider how the York's EYSFF might be constructed for 2017/18. The reference group has met twice prior to the preparation of this paper. The group's comments and suggestions have been considered, however it should be noted that the proposals now being consulted on are the LA's proposals rather than the reference group's. There will be one further meeting of the group in January prior to the proposals being considered by the York Schools Forum and Councillors (who will make the final decision) in February.
- 24 The following paragraphs cover the issues considered by the reference group and the conclusions reached, along with further comments and proposals from the LA.

Universal Base Rate

- 25 Following earlier work in 2011 by the previous reference group and Schools Forum, all providers in the city have been funded at the same base hourly rate (£3.38) within the York EYSFF since 2014. This puts York in a strong place compared to most other LAs who will now be required to equalize their base rates by 2019/20 at the latest. The view of the review group was that as far as possible the base rate for all providers should be maximised under the revised EYSFF for 2017/18. The LA is

proposing a **base hourly rate of £3.70 for 2017/18**, however this needs to be considered in conjunction with the following proposals for additional supplements.

Formula Supplements

Mandatory Deprivation Supplement

- 26 The only supplement currently used in the York EYSFF is the mandatory deprivation supplement, allocating an additional £0.40 per hour for every child living in the 10% most deprived areas as defined by the Index of Deprivation Affecting Children Index (IDACI). Approximately 2.0% of the current total available funding is allocated through this indicator, equivalent to approximately £0.08 per hour, on average, within the EYSFF. The reference group considered, and modelled, a number of options for varying the level and method of allocation of York's deprivation funding.
- 27 An option to change the indicator for allocating deprivation funding from the current IDACI methodology to a free school meals (FSM) indicator was considered. On reviewing the modelling, the reference group felt that there were some difficulties with this revised approach. In particular there was a negative impact on a number of settings located in the most deprived areas of the city. In addition the majority of childminders were also adversely affected.
- 28 The review group also felt that moving to a FSM indicator would effectively duplicate funding for the type of deprivation already being supported through the early years pupil premium (EYPP), which uses a very similar indicator. Retaining the IDACI indicator in the EYSFF would therefore deliver a more balanced approach to supporting deprivation when combined with the funding allocated through the EYPP.
- 29 In conclusion the consensus from the reference group was that there were no clear benefits in moving to a FSM methodology as this would not benefit vulnerable families, and that the EYSFF should continue to use the existing IDACI indicator for the deprivation element. The LA supports this view and proposes no change to the current deprivation indicator.
- 30 The group also considered whether the proportion of the EYSFF funding currently allocated through the deprivation supplement was set at an appropriate level. Some members of the group felt that the current deprivation proportion of 2% was too high and proposed a reduction. The rationale for this was that when the original EYSFF was established a number of years ago the EYPP did not exist. The group therefore considered an option that modelled a reduction in the EYSFF deprivation element to 0.6% of total funding, representing the level of additional deprivation funding now being received through the EYPP.
- 31 This modelling again showed a negative impact on childminders and settings located in the most deprived areas of the city. In addition there was some concern expressed that going too far below 2% for the mandatory deprivation supplement may be difficult to justify given that this is already the lowest of any LA in the country. The range being from 2% to 10.8%, with a national average of 4%.
- 32 The group concluded that their preference would be for no change to the current proportion of funding allocated via the deprivation supplement. The LA supports this

view and therefore proposes that **the current deprivation supplement of £0.40 per eligible hour under the IDACI indicator is retained in the EYSFF for 2017/18.**

Other Discretionary Supplements

- 33 There was no strong desire within the review group to introduce any of the discretionary supplements allowed by the DfE in the proposed EYSFF. However, the LA is minded to introduce a new flexibility supplement. The intention would be to link this supplement to the draft model agreement currently being developed by the DfE. In order to receive the flexibility supplement funding, providers would simply have to sign up to the model agreement. This would help ensure that early education places were delivered in line with DfE guidance, i.e. free at the point of delivery, without conditions of access or the introduction of a two tier system.
- 34 Members of the review group had some concerns about the flexibility supplement, particularly as the model agreement had yet to be finalised by the DfE. They felt it was difficult to form a judgement until a proper understanding of the requirements of the model agreement could be ascertained. The LA recognises this concern and proposes that the supplement would only be implemented when a generally accepted model agreement was in place, i.e. an agreement that was supported by the national provider associations. This would mean that there should be no significant barrier to providers signing up to the agreement, and in these circumstances it would be anticipated that all providers would be able to access the flexibility supplement funding.
- 35 The LA's preferred position therefore would be to allocate around 8% of the EYSFF funding via the flexibility supplement. This would equate to **a flexibility rate of £0.30 for every hour taken up** and would be paid to all providers in addition to the base rate.

Maintained Nursery Schools

- 36 Within the proposals there is a potential issue for York's only stand alone maintained nursery school (St Paul's). We currently fund St Paul's Nursery under the same formula as all other providers but then allocate an additional lump sum of £135k to ensure their continued viability. The DfE's proposals recognise the unique position of stand alone maintained nurseries and guarantee the additional lump sum protection for 3 years. It is proposed that further work in respect of St Paul's Nursery is undertaken separately and outside the scope of this consultation.

SEND Inclusion Fund

- 37 This is now a compulsory element of the new arrangements, and the DfE is requiring that LAs establish an inclusion fund (citing York as an example of best practice in this area). The York inclusion fund already provides £100k of funding to help providers struggling with exceptional levels of SEND in their settings. This £100k currently sits outside of the Early Years budget as it was established with the support of mainstream schools from a top-slice from their primary and secondary funding allocations. The cash limited budget has been significantly oversubscribed in recent years, so the proposed overall increase in resources offers an opportunity to consider increasing the fund.

- 38 The review group spent some time considering whether the inclusion fund should be increased from 2017/18. Views were mixed, as might be expected, as individual providers had differing experiences of the issues and costs involved in supporting high needs children. In the end the majority view was not to support an increase in the inclusion fund at the expense of the base hourly rate.
- 39 Whilst understanding the views of the review group, the LA is still concerned about the pressures being experienced within the inclusion fund, particularly as we move to extend the free entitlement for working parents to 30 hours per week. The LA is therefore proposing that **for 2017/18 the inclusion fund is increased by £20,000** to £120,000. This would require 1.37p (£0.0137) of the available £4.30 per hour.

Summary of EYSFF Proposal

- 40 In summary, the LA's proposed use of the £4.30 per hour available, and proposed EYSFF for 2017/18 would comprise of the following elements:

	£ / per hour
Amount allocated to the LA by the DfE	£4.3000
Less 5% retained to support LA central EY services	- £0.2150
Less amount required to increase SEND inclusion fund by £20,000	- £0.0137
Amount available to support the EYSFF in 2017/18	£4.0713
Basic hourly rate for all providers in 2017/18	£3.7000
Flexibility Supplement that all providers should be able to access	£0.3000
Total Hourly Rate (inc. up to 30 hours / week for working parents)	£4.0000
Plus a deprivation supplement paid at £0.40 per eligible hour based on the existing IDACI indicator	£0.0713

- 41 In addition to the proposed funding allocated through the EYSFF for 3 and 4 year olds, providers will also be able to access the following funding in 2017/18:
- Early Years Pupil Premium at £0.53 per eligible hour (as now)
 - Funding for disadvantaged 2 year olds at £5.20 per hour (currently £4.85)
 - New Disability Access Funding, allocated via LAs to providers based on the number of children at each setting in receipt of the Disability Living Allowance. The funding rate will be £615 per eligible child per year.

How to Respond

- 42 Providers views are sought on the LA's proposals as set out in section 2 of this paper and summarised at paragraph 40. Due to the tight timescales involved we would ask that comments are submitted in the first instance to your sector representative or alternatively please respond to eyesff@york.gov.uk by Thursday 12 January.
- 43 All comments received will be considered by the Early Years Single Funding Formula Reference Group at it's meeting on 24 January and by the York Schools Forum, with final decisions to be made by elected members as part of the council's 2017/18 budget process.