

Schools Forum 19th September 2012

The Early Years Block and consultation on a revised Early Years Single Funding Formula – for agreement to consult with providers

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Executive Summary:

This report provides information on the size of the Early Years Block based on current spend by the Local Authority in 2012/13 of **£13.7m**. This will be adjusted for the inclusion of the Two-Year Old funding currently funded from the Early Intervention Grant (EIG) which will now be integrated into the Dedicated Schools Grant (DSG) from April 2013. The report examines the implications of this financial adjustment for the provision of two-year old free education in Waltham Forest.

The report also contains the Local Authority's proposals for changes to the Early Years Single Funding Formula [EYSFF] which will now apply to 2, 3 and 4 year olds in order that it complies with the School Funding Reform announcements. Essentially this means changes to how supplements to the base AWPU are presented and an enhanced financial support for those pupils living in poverty.

In summary the three components of the current EYSFF for 3 and 4 year olds are:

- Base Funding (or AWPU) which includes a quality supplement;
- Further supplements for premises (including business rates) and deprivation;
- Other factors such as the management allowance and free school meals for Nursery Schools and SEN.

The proposed changes are:

- To have two Base Funding (or AWPU) rates, one for schools and another for PVI's which recognises the higher costs faced by PVIs;
- For each of these two Base Funding (AWPU) rates to have two age elements, one for two year olds and another for three to four year olds recognising the higher staff costs associated with two year olds;
- Three supplements – one for Quality, one for Sufficiency and the other for Deprivation where funding will be enhanced and allocated on the basis of the Income Deprivation Affecting Children Index (IDACI).

Appendix A provides an illustration of what this might mean for 3 and four year old funding based on current data available.

Section C of the report would form the basis of a consultation document to be considered by all Early Year's settings with a report back to Schools Forum at its meeting on 14th November 2012. Recommendations will then be made for approval by Cabinet in January 2013. Final budget shares will be discussed and agreed at Schools Forum at its meeting in February 2013.

(A) The size of the Early Years Block:

On the 12th July 2012, the Education Funding Agency [EFA] sent details of their calculation of the size of the Early Years Block for Waltham Forest based upon our section 251 return. This is summarised in **Table 1** below:

Table 1 – Size of Early Years Block 2013/14

Provision	£	%
Nursery Schools	1, 275,463	
PVI	4,298,771	
Primary	6,154,173	
All through	331,756	
Less High Needs	-36,221	
Sub-total – delegated funding	12,023,942	87.8%
Central expenditure on under 5s	1,109,018	
Contingencies	400,000	
Sub-total Central Support and contingencies	1,509,018	11.0%
Support for schools in financial difficulty	19,848	
School Admissions	49,464	
Servicing of Schools Forums	3,443	
Staff Costs supply cover (including long-term sickness)	18,052	
Termination of employment costs	17,186	
Purchase of Carbon Reduction Commitment allowances	17,217	
Capital Expenditure from revenue (CERA)	46,405	
Sub-total – EY share of other central expenditure	171,615	1.2%
Total	13,703,575	100%

This is £135,393 higher than that reported to Schools Forum in May 2012 because of the inclusion of the notional share of certain central expenditure on early years (e.g. the 1.2% in the above table which is netted off against the deduction of £36,221 of High Needs funding which is now part of the High Needs Block.

The Early Years Block is unringfenced in so far as the Local Authority can decide to spend at a higher or lower level than this in 2013/14 by moving funding between the Early Years, High Needs or Schools Blocks. Expenditure is based upon what the Local Authority intended to spend in 2012/13 which in part was based upon the DSG created by pupils aged 3 and 4 receiving 15 hours of free education at the census date in January 2012. Unlike the Schools Block where DSG will be recalculated using the 4th October Census data, this will not happen for early years as there is no PVI census count in October 2012. However, the EFA will update funding allocations to Local Authorities as follows:

- April 2013 using the January 2013 Census for schools and PVIs
- April 2014 using the January 2014 Census for schools and PVIs

This means that ultimately the funding for the Early Years Block will be based 5/12ths on January 2013 Census data (April 2013 –August 2013) and 7/12ths on the January 2014 Census data (September 2013 –March 2014) to be paid retrospectively to the Local Authority and in turn schools and PVIs. This is being done since Local Authorities are expected to fund 2, 3 and 4 year old provision based on actual attendance. Initially Local

Authorities will base funding on past attendance and will then amend funding allocations to individual providers. In Waltham Forest this will be based upon actual attendance during the Calendar Year 2012. Thus final settlement for 2013/14 may happen in April 2014 after Local Authorities have received their revised funding allocation from the EFA.

The Local Authority is minded to fund early years' provision in 2013/14 within the cash limit of **£13.704m** as amended for the inclusion of the two-year old funding which is explained below and a further adjustment of £0.260m for the SEN centres of excellence which will now be funded also from the High Needs Block. This is because decisions have to be made on delegated funding for maintained schools through the Local Funding Formula in early January before data on actual attendance in the autumn term for three and four year olds is confirmed.

(B) The Two-Year Old Grant:

It was announced in March 2012 that the funding for two year olds would transfer to the DSG in 2013/14. The DfE are currently consulting on how the Two-Year Old Grant is integrated into DSG from April 2013. The DfE believe that this will enable effective local integration of free education for two, three and four year olds. It will provide greater certainty to make the expansion in high quality provision since the two year old entitlement is an extension of the three and four year old entitlement and is often delivered by many of the same providers.

The current consultation on Early Years is contained within a wider consultation on changes to Schools Finance Regulations 2013 and additional grant conditions for the DSG and ends on 21st September 2012.

The current free education for two year olds is being extended to 20% of all two year olds from September 2013 and to 40% of all two year olds from September 2014. In addition, local authorities will be required from April 2013 to fund free education for two year olds through the Early Years Single Funding Formula, as they do for three and four year olds. This will make it easier for the DfE to collect data on funding rates paid to providers across all of the free education and to publish comparable data.

However, although the funding mechanism for two year olds will be the same as for three and four year olds, the DfE recognise that adjustments to the EYSFF should allow for unique features of two year old funding. These are:

- Two-Year Old funding is already targeted at disadvantaged pupils and therefore the DfE believe there is no need for a mandatory deprivation supplement. Local authorities would still be able to use a deprivation supplement if they wished.
- The current regulations state that local authorities must fund on the basis of participation except for children with SEN where they can continue to fund on a place basis. The DfE propose to extend this place phased approach for two year olds to support local authorities working with providers to increase capacity in advance of

delivering the 20% and 40% commitments. This is likely to be time limited rather than a permanent approach for funding two-year olds.

- The quality supplement in the EYSFF gives local authorities a simple means to target funding at incentivising increases in the quality of provision for two year olds and the DfE are seeking comments on whether or not there should be a mandatory Quality supplement in the EYSFF for two year olds or to leave it to local discretion.

A report on the provision of free education for two year olds was taken to and agreed by Cabinet on 17th April 2012. A two-year old child will be entitled to free education for 15 hours per week at a Waltham Forest approved 2 year FEEE Childcare provider if they meet the eligibility. A sum of **£0.418m** was added to the existing **£0.600m** in the Local Authority's Early Intervention Grant in 2012 /13 and a further **£0.696m** approved for 2013/14 to support the implementation of the statutory requirement. Therefore the minimum funding required for the delivery of the 2yr old provision in 2013/14 is estimated to be **£1.7m**. This is explained in **Appendix B** to this report which was the appendix which went to Cabinet in April 2012. This follows earlier initiatives which enabled Waltham Forest to offer between 170 and 200 free places.

The report to Cabinet highlighted the point that up to 1,000 places might be needed in September 2013 rising to approximately 2,000 places in September 2014 but that at the moment there was an insufficiency of provision to meet two, three and four year old free education. Therefore to ensure sufficiency:

- Existing settings would need to expand registration numbers;
- New settings would need to be established; and
- Free education provision could be extended to childminders.

Cabinet agreed a gradual increase from 200 places to 400 places between April 2012 and September 2013 and secure 300-500 places via a place creation grant of £200 per place under a contractual arrangement so that childcare providers are committed to ensuring these two year old places are available in September 2013. The place creation grant would assist childcare providers with the initial set up costs for equipment and resources needed for the additional places. There would also be some capital funding available to support adaptation of buildings for two year olds.

The current funding arrangement is that providers receive £6 per hour for 2 year old provision (plus a supplement for SEN where appropriate). This is equivalent to £3,420 per pupil for 15 hours a week over 38 weeks. This is higher than the hourly rate for three and four year olds because of the lower child : adult ratios. The key issues to determine in Waltham Forest will be:

- The exact amount of money being transferred to DSG (and thereby into the Early Years Block) from April 2013 and the extent to which present commitments are greater or less than that sum of money;

- Whether or not grant conditions which apply to DSG place any restrictions on the way that the current Early Intervention Grant is used which will require a change in local practice; and
- Enabling existing funding arrangements to sit within the new requirements for the EYSFF as set out in the next section of this report e.g. the Quality of Provision supplement.

(c) A Revised Early Years Single Funding Formula:

As part of the School Funding Reforms, local authorities are being required to review their Early Years Single Funding Formula, remove factors which are no longer allowed and generally make it simpler and more transparent. This was reported to Schools Forum at its meeting on 16th May 2012. **Table 2** below shows the current format:

Table 2 – EYSFF for 2012/13

Factor	Description	Per Hour	Total	% of Funding
1. Base Rate	Under 30 Fte	£3.73		
	30 fte and over	£3.55	£9,570,476	79.4%
2. Core Supplements	Deprivation: (mandatory)	Per pupil		
	IMD (per qualifying pupil)	£148.00	£326,973	2.7%
	Quality:	Per hour		
	Band A –medium	0.18		
	Band B – high	0.35	1,065,326	8.8%
	Band C – premium	0.42		
	Flexibility:			
3. Other factors and lump sums	Rates (per pupil)	£71.47	£129,000	1.1%
	Premises (Per sq. mtr)	£22.38	£150,035	1.2%
	School Meals		£16,176	0.1%
	Management costs – Nursery schools		£504,277	4.2%
	SEN Early Years Inclusion Service		£296,221	2.5%
Total Funding			£12,059,164	100%

The Early Years Single Funding Formula can contain any of the factors within the main funding formula (for 5-16 year olds). However, in addition the DfE will allow:

- Different base rates for different types of provision; and
- Specific early years' factors for Quality, Flexibility and Sufficiency.

The DfE have also determined that there should be a mandatory deprivation supplement based on child level definitions of eligibility. The Local Authority proposed to use IDACI which stands for Income Deprivation Affecting Children Index.

The Local Authority has considered how it could further simplify the single funding formula, taking into account integration with 2 year old funding. Its proposals are set out below. These have been discussed at a meeting of Quality Childcare Project Group held on 11th September 2012.

1. Base Pupil Funding

Currently the Local Authority makes a distinction based on the number of pupils receiving free education in a setting; e.g. the break-off point is 30Fte. For those providers above 30Fte funding is £3,377.19p per FTe (950 hrs per year) or £3.55p per hour. For those under 30Fte the full time rate is £3,541.06 or £3.73p – a supplement of £163.87 or 17.3p per hour

The reason for this was that prior to the introduction of a single funding formula including both maintained and PVI providers, schools had received a lump sum + base pupil funding which assisted schools with small nursery settings. Continuation of a lump sum arrangement was not possible under a single funding formula due to the small size of some PVI settings. The current breakdown in size of settings is as shown in **Table 3** below:

Table 3 – Current size of settings offering free education to three and four year olds

Size	Schools	PVIs	%
Under 10	0	26	22.8%
10.1 – 20	2	30	28.0%
20.1 – 30	12	7	16.7%
30.1 – 40	11	2	11.4%
40.1 -50	12	3	13.2%
50.1 +	9	0	7.9%
Total	46	68	100%

This shows that the majority of settings (67.5%) are below the 30Fte threshold. With some childminders now also qualified and able to offer free education, the number of small settings will increase.

The implementation of two year old free education means that most settings offering two year old free education will also be offering three and four year old free education as well. The funding arrangements for two year olds do not distinguish on size. Therefore for simplicity of approach, the Local Authority is proposing that the funding rate for three and four year olds should not distinguish on size either.

Another reason for changing the approach to base pupil funding is that a premises factor is no longer allowable. In addition, we make a payment of £71.47 per pupil to PVIs as a contribution to business rates. This payment is not made to schools as the 5-16 Local Funding Formula includes provision for rates for all the premises.

Therefore, it makes more sense to have differential funding rates based on (a) age and (b) type of provider. The higher PVI rate for both 2 and 3&4 year olds takes account of funding for business rates and rent for hired premises. The Local Authority is therefore proposing the following Base Pupil Rates per hour as set out in **Table 4** below:

Table 4 – Proposed Base Pupil Rates

Age	PVIs	Maintained
Two year olds	£6.15	£6.00
Three & Four year olds	£3.90	£3.75

The two year old funding rate would incorporate the deprivation factor as the families for all the pupils would meet the criteria for free school meals which is the current basis for places being offered.

2. Core Supplements:

The Local Authority is proposing just three core supplements

- Sufficiency
- Quality
- Deprivation

Sufficiency: The DfE will allow Local Authorities to have a Sufficiency supplement paid to new settings or settings that expand provision. This is needed in Waltham Forest since there is a forecasted shortfall in provision for two, three and four year free education. The Local Authority proposes to continue with the current arrangement of £200 per pupil lump sum paid to settings which establish new two year free education provision and to extend this to new three and four year old provision as well, targeting childminders in particular. This lump sum is a contribution to set up costs including purchasing equipment and resources. It is a once only allocation. Within the 5-16 Local Funding Formula, the Local Authority pays £200 per pupil (e.g. £6,000 a class) to primary schools establishing a temporary reception class, so the principle is well established and accepted by Schools Forum.

Quality: Currently a supplement is paid on the basis of the quality of staff employed in a setting. The current hourly rates are set out in **Table 5** below:

Table 5: Supplement for Quality of Staff:

Band	Rate per hour	Number of PVIs	Number of Schools
A – medium	18p	12	2
B – high	35p	6	5
C - premium	42p	11	36

There is a description for each band and settings are classified according to how well they meet these descriptors. In addition, there are 39 PVIs and 3 schools at base quality funding. There is a need to review how the funding is allocated between settings since:

- The current arrangements largely compensate settings for the additional cost of qualified staff especially teachers but have not had much impact on reducing the number of PVI settings at the base level mainly because they are too small to afford even a part-time teacher and

- For consistency, the Quality supplement must also be applied to two year old funding as well. This may mean adjustments to the current flat rate of £6.00 an hour unless there is unallocated funding in the two year grant.

The Quality Care Project Group have agreed to put some proposals for changes to the current Quality Supplement for consideration by early year's settings as part of the consultation exercise.

Deprivation:

The Local Authority currently allocates **£0.327m** or **2.7%** of all funding for disadvantaged pupils living in poverty. This has been done on an estimate of pupils whose families live in areas of the borough with the highest deprivation using the Index of Multiple Deprivation (IMD) which has also been used as the main indicator for deprivation in 5-16 Local Funding Formula for Schools. However, the current data used is now out of date and appears to penalise PVI's for whom data is not so readily available.

The Local Authority has the choice of either using Free School Meals or IDACI (or both) as a means of identifying pupils living in poverty. It uses both of them for the proposed new main funding formula with data provided by the DfE from school census returns. However, the DfE will not provide this information for early years and therefore the easiest option is to use IDACI which is based on post codes. The Local Authority would not have the data for free school meals unless it asked every family to complete a return which is very unlikely.

The Local Authority will therefore use IDACI data relating to pupils receiving free education in the spring term as the basis of determining allocations to settings. This work is currently being done but has been hampered by some setting not having sent in yet their returns for the Spring Term 2012 due in May 2012.

However, it is possible to get a feel for what it might look like by applying the data for 5-16 year olds to early years' provision. **Table 6** below shows the number of three and four year old pupils likely to fall into the top 3 IDACI Bands based on the percentage of qualifying pupils aged 5-11 in each band in Waltham Forest.

The pupil figures are calculated using current data of 2,846 FTe three and four year old pupils funded for free education in 2012/13. The rate applied to each band is the same as for primary schools augmented by 25% to reflect the fact that primary schools also receive additional deprivation funding based on free school meals. This has then been converted into an hourly rate which has then been rounded for simplicity. The final column shows the forecasted cost of applying this.

Table 6: IDACI

IDACI BAND	Range	Percentage	Pupils	Rate per hour	Total Cost
4	0.4 to 0.5	22.3%	635	25p	£151,328
5	0.5 to 0.6	14.0%	398	70p	£266,288
6	0.6>	5.7%	162	100p	£169,396
Total		42.0%	1195		£587,012

The cost of current deprivation provision is **£0.327m** so an extra **£0.269m** will have to be found and the Local Authority proposes to reduce contingency funding, as less will be required under the new funding arrangements.

However it is stressed that these are provisional costings and the true cost could be higher if pupils living in poverty account for a larger percentage than those in primary education as a whole or vice versa.

Other factors in the Formula – Nursery Schools

Nursery schools currently receive additional funding which covers expenditure on leadership and management, mainstreamed grants and free school meals. Funding for free school meals is not allowable under the school funding reform but schools will be compensated through the higher funding for deprivation. There are two options for addressing this additional funding for the three remaining nursery schools:

- (a) Build in the existing funding as a separate factor as at present; or
- (b) Treat the nursery schools as a third category of provider and have a higher base pupil rate of £6.10 per hour which is the option preferred by the Local Authority.

Thus the revised funding for 3 & 4 year olds could look as shown in **Table 7** below:

Table 7 – Proposed Early Years Single Funding Formula – three and four year olds

Factor	Description	Per Hour	Total	% of Funding
Base Rate	3 & 4 YOs - PVI	£3.90	£3,574,389	
	3 & 4 YOs -Schools	£3.75	£6,652,798	84.4%
Core Supplements	Deprivation: (mandatory)			
	IDACI Band 4	£0.25p	£151,328	
	IDACI Band 5	£0.70p	£266,288	
	IDACI Band 6	£1.00p	£169,396	4.8%
	Quality:			
	Band A –medium	£0.18p		
	Band B – high	£0.35p		
	Band C – premium	£0.42p	£842,730	7.0%
	Sufficiency			
	Set up costs per pupil	£200	£10,000	0.1%
Other factors and lump sums	Management costs – Nursery Schools		£413,686	3.4%
Total Funding			£12,112,733	100%

For time being the funding for two-year olds has been left out until we are clear about the funding for 2013/14. Management costs for Nursery Schools have fallen as there are now only 3 nursery schools following the integration of College Gardens into Parkside Primary School. The total also makes provision for some deferred (and full-time admissions into reception classes which is not included in the factors.

Minimum Funding Guarantee

At the moment the minimum funding guarantee for schools also includes funding through the EYSFF. There is no similar protection for PVI's. The DfE are now proposing that MFG should now apply to the EYSFF for all providers for the first time, but only for the base rates.

Thus local authorities are being advised to ensure that their proposed base rates per hour for 2013/14 do not fall by more than **1.5%** compared to 2012/13. In this report we are assuming that we are using the higher of the two base rates (e.g. that for small settings) so that no setting will receive a lower rate per hour. This does give a slight advantage to the larger settings. Thus no setting is likely to be protected by MFG even if total funding per pupil has fallen since the drop in funding will be due to reasons other than base funding.

For Nursery Schools, the new MFG gives less protection than that previously given as it does not cover management costs. This is particularly relevant for Parkside where the separate nursery school has now become part of the main primary school. For primary schools, with nursery classes, the MFG for their over 5s budget will now be calculated separately from their early years allocation since otherwise the recalculation of early years funding for all settings which take account of the Early Years count in January each year (rather than October for the rest of the school) would delay calculation of the over 5s budget.

Appendix A to this report sets out what the proposed changes in funding could mean for maintained and PVI settings in 2013/14. The calculations are based on the pupil data used to derive funding for 2012/13 and this data will be updated in January 2013 when data for the whole of the Calendar Year 2012 will be available. Deprivation funding for PVI's is based upon an analysis of postcodes for children receiving free education in the spring term 2012; whereas funding for schools uses the IDACI data provided by the DfE for all statutory aged pupils in the school. Data for nursery schools and some PVI settings is not yet available and therefore the borough average has been used as a proxy. Note that the total costs for deprivation are different to the forecasts set out in Table 6 above as the database is different.

This data may also change since final 2013/14 budgets will be based upon actual take-up in the calendar year 2013 rather than 2012. If these changes in funding are agreed, the budget shares for early years' settings would be more simple and transparent. A typical settings budget would look something like that shown in **Table 8** below:

Table 8 – Budget Share for The Teddy Bears Picnic

The Teddy Bears Picnic	Hourly Rate
Base Pupil Rate	£3.90p
Quality Supplement	£0.42p
Deprivation Supplement	£0.36p
Total rate per hour for 3 7 4 year olds	£4.78p
Overall Funding	
Total Hours	20,000

Total Funding (20,000 x £4.78p)	£95,600
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Action by Schools Forum:

- 1. To note the DfE calculation of the size of the Early Years Block in Waltham Forest and that the Local Authority is minded to use this figure of £13.704m (to be adjusted for the inclusion of two-year old funding and the exclusion of SEN Centres of Excellence which will now be paid through the High Needs Block) as the basis for setting budgets for 2013/14.**
- 2. To note the inclusion of the current two-year old grant within DSG from April 2013 and to discuss and comment on the implications that this may have for how providers are funded.**
- 3. To discuss the proposed changes in the Early Years Single Funding Formula and to agree that Section 3 with any amendments agreed at the meeting should form the basis of a consultation document with all Early Years providers with a report back to Schools Forum at its meeting on 14th November 2012.**

All members of Schools Forum are able to discuss, comment and vote on the content of this report as no final decisions are being taken on budget shares for 2013/14 at this stage.