Schools Forum 5th December 2012

A Revised Early Years Single Funding Formula for providers of free education to two, three and Four Year-olds – for recommendation to Cabinet

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Executive Summary:

This report provides the latest information on the size of the Early Years Block. Recent adjustments by the EFA have reduced the size of the block by **£0.061m** to **£13.642m.** However, Elizabeth Truss MP, the Parliamentary Under Secretary of State announced on 27th November 2012 that Waltham Forest has been allocated **£3.987m** funding for two year olds for 2013/14 to meet statutory and non-statutory provision.

The report also includes details of the outcome of the consultation with all early years' settings on proposed changes to the Early Years Single Funding Formula [EYSFF]. There was significant support for all the proposals put forward. The report recommends that the EYSFF consists of:

- A base level of funding per pupil with different rates for maintained nursery classes, maintained nursery schools and for Private, Voluntary and Independent settings.
- Different rates per pupil for Two Year Olds and Three Year Olds.
- Three supplements for Quality, Sufficiency and Deprivation.

If agreed by Schools Forum, Cabinet will then be asked to confirm the revised formula at its meeting on **12th February 2012**

As part of the consultation process, settings were given a provisional budget share based on registration levels for the calendar year 2011. Final rates for the factors in the formula and budget shares will be calculated using the registration levels for the calendar year 2012 and will be presented to Schools Forum at its meeting on **13th February 2013.**

A Size of the Early Years Block for 2013/14

At its meeting on 19th September 2012, Schools Forum was informed that the current size of the Early Years Block was **£13.704m** broken down as follows:

Table 1: Breakdown of EYSFF for 2012/13

Provision	£m	%
Delegated to settings	12.024	87.8%
Contingency for in-year growth	0.400	2.9%
Central support services for early years	1.109	8.1%
EY share of central retained funding	0.171	1.2%
Total	**13.704**	**100%**

This was before the addition of any funding for two year olds announced on 27th November 2012. These original figures were used by the Education Funding Agency [EFA] as the starting point for calculating the baseline funding for the Early Years Block for 2013/14. The EFA has now made changes which reduces the funding available for Waltham Forest. The latest revision was made on 31st October 2012 and took account of downward adjustments for:

- Hospital education (£22,735)
- Universal provision for 3 year olds (£38,576)

This means that the baseline funding for Early Years is now **£13.642m** plus an allocation of **£3.897m** for two year olds (see below).

The EFA have also calculated our notional Early Years baseline funding per pupil for 2013/14 as follows:

Table 2: Calculation of EY Baseline funding per pupil

	Pupils (FTE)	**£**
Maintained settings (including Academies)	1901.5	
PVIs	891.6	
Total	2,793.0	
Baseline Funding		13.642m
Baseline funding per pupil		**4,884.45**

Funding for three and four year olds for 2013/14 is therefore **£13.642m**. However, the EFA will update this funding allocation to take account of any changes in the number of pupils aged three and four receiving free education using the following pupil counts for both maintained and PVI settings:

- January 2013 Census for Schools and PVIs
- January 2014 Census for Schools and PVIs

This means that the final funding for the Early Year's Block will be based upon 5/12ths January 2013 census and 7/12ths January 2014 census. If the total number of pupils rises above 2,793 we will be funded **£4,884.45p** for every extra pupil (fte). However, local authorities bear the risk in allocating funding to early years settings ahead of final figures for the EFA.

This means in Waltham Forest we will initially fund all settings on a provisional basis using the actual provision for the calendar year 2012 and then amend so that final budget shares are based upon the actual provision for the calendar year 2013. If there is growth in the total number of hours being provided, the expectation is that this will be reflected in higher numbers on roll at the two census points. Clearly, there is a risk that the Local Authority wrongly forecasts provision and census numbers. However, if underspends and overspends are rolled forward within the Early Years Block this should not be a problem which impacts

upon funding available for the other funding blocks – High Needs and Schools. However, as previously discussed, the Local Authority will amend budget shares in-year where planned expansion has been discussed and agreed with early year's settings.

Provision for Two Year Olds:

In the announcement from the DfE on 27th November 2012, it was stated that **£525m** was being provided by the government so that some **130,000 children** in England (around 20% of all two year olds) would be entitled to receive free early education from September 2013. This would be extended from September 2014 to include **260,000 children** (around 40% of two year olds. Entitled children would be Looked-after children and children who meet the FSM criteria (e.g. from families whose income is below £16,190 and their parents are in receipt of any of a range of benefits including Income Support, Income-based Job Seekers' Allowance, Income-related Employment and Support Allowance. The figures are based on the number of children likely to take up provision, rather than the number eligible to do so, on the expectation that not all parents of eligible children will take up places.

The allocation for Waltham Forest is **£2,863,299** based on estimated eligible numbers in January 2013 of **951** 2 year olds. This would be the target figure to meet our statutory responsibility. The formula used for allocation to Local Authorities is based upon an average hourly rate of **£5.09p.** However, the formula takes into account different costs in different areas through the application of an area cost adjustment (ACA). Therefore the funding for Waltham Forest works out at an average of **£5.28p** per hour. The government compares this with the average hourly childcare fees of £3.95p per hour identified in the Daycare Trust Cost Survey 2012. However there are concerns that these figures under-record actual costs of provision as some providers cross subsidise 2, 3 and 4 year old places.

The funding is also meant to enable local authorities to make provision for children with additional educational needs, although the Local Authority can use funding within the High Needs Block. The view of the Local Authority is to fund any child with additional educational needs from the High Needs Block for simplicity in recording support given. It will therefore seek to develop the criteria and methodology for allocating additional funding.

In addition, the government is also providing Local Authorities with trajectory building allocations to enable local authorities to go beyond the statutory 20% and add non-statutory places in preparation for the 40% target for September 2014. This means that local authorities can plan and fund expansion beyond 20% during 2013/14 so that the target of 40% can be achieved in September 2014. The allocation for Waltham Forest is **£1,124,054.** This means that total revenue funding will be **£3.897m** plus **£0.794m** of capital allocation available within 2012/13 although this capital funding is not ring fenced for early education for two year olds.

Whilst the government leaves it to Local Authorities to devise their own EYSFF for two year olds, it strongly encourages them to fund on the basis of a flat hourly rate for two year old places with no additional supplements. The government have decided not to have a mandatory quality supplement for providers of two year old funding but expects local authorities to fund places in any setting that are rated good or outstanding by Ofsted. It also

expects local authorities to pass all available funding to providers and not retain any funding centrally.

The existing plan for expansion of provision for two year olds will have to be re-assessed against the announced budget provision. In the meantime, the Early Years team have been having detailed discussions with a number of providers to ensure that there is a sufficiency of places coming on stream during 2013/14 so that the agreed target of places for September 2013 are achieved. Therefore, only a small part of the Early Years Block funding attributable to free education for two year olds will be allocated from April 2013. Much of the funding will be held as a contingency and allocated in-year as new settings open provision and existing settings expand.

The government states that the funding allocated contains sufficient flexibility to provide additional support for two year olds with additional needs and Special Educational Needs, although funding within the High Needs Block of the DSG may also be used to support two year olds with additional needs.

Whilst this funding announcement represents good news for early year's education in Waltham Forest, it also raises a serious funding issue. Currently, funding is provided at **£6.00** an hour with no add-ons which is **£0.72p** an hour more than we will receive funding for. This is likely to be a major issue for most London Boroughs where existing rates are higher. For example, Camden, Havering, Kensington & Chelsea, Lewisham, Croydon, Greenwich, Redbridge, Hounslow and Lambeth all pay at **£6.00** an hour. Hillingdon and Westminster pay at the lower rate of **£5.36** an hour. £6.00 an hour was selected to offer a good incentive for more providers to come on board and has to be compared with the average rate of funding for three and four year olds where child:adult ratios are considerably higher. Therefore the announcement of funding levels is very disappointing.

The options open to Waltham Forest are:

(1) Reduce the hourly rate. It would have to fall to £5.00 per hours to have some funding for children with additional educational needs. However, this may make it more difficult to expand provision. The Early Years Team has worked hard with early years settings to create places to meet the statutory requirement. These settings have developed business plans based on £6.00 per hour. In some case there has been capital investment to increase capacity or adapt buildings for two year olds. Therefore, although existing numbers are low, it would be difficult at this stage to lower by any significant margin the expected rate payable.

(2) Keep the hourly rate at £6.00 an hour (or marginally lower say £5.75p). However, the hourly rate paid to providers in London would seem to be indicating that the rate being offered in Waltham Forest is broadly similar to other London Boroughs. In the short-run, as provision expands, £6.00 an hour (or slightly lower) may well be sustainable. This is because the statutory target of 951 is from September 2013, yet local authorities have been funded for the whole year. In Waltham Forest places are being incrementally added and therefore the Local Authority can pay at @ £6.00 an hour and still remain within the funding envelope for 2013/14.

However, the government plans to introduce participation funding from 2015 (e.g. the same mechanism as for 3 and 4 year olds). When this happens unless the hourly rate paid in Waltham Forest is in line with the national funding rate there will be a shortfall in funding. This could be as high as £400 per child (@£750k if 1900 receiving free education by September 2014). However, much may happen in the next two years and may be possible to meet some of the shortfall from any growth in funding received for three and four year-olds.

The Local Authority needs to look at options and discuss these with early year's providers currently or expecting to provide two year places in the future. Therefore the Local Authority proposes to delay decisions on the two-year old funding part of the Early Years Single Funding Formula until the January meeting of Schools Forum.

Although funding for two year olds is ring-fenced within DSG, the funding is not ring-fenced to 2 year olds. However, at this stage the Local Authority is working on the assumption that it will retain funding for two year olds as a separate budget during the development stage, including rolling forward any underspends.

B A Revised Early Years Single Funding Formula:

Following the Schools Forum meeting in September 2012, a consultation document was sent out electronically to all early years' settings asking them to comment on the proposals for change to the formula as discussed at Schools Forum. Even after extending the deadline for responses, only 35 responses were received which is a disappointingly low figure given that there are some 110+ settings.

However, **Appendix A** to this report sets out a breakdown of the response received (including comments) to the ten questions asked. These are summarised in the table below:

Table 3: Responses in favour of proposals for change in EYSFF

Question		% YES
1	Funding based on an hourly rate rather than FTE	91.4%
2	Different base pupil rates for schools and PVIs	86.7%
3	Different base pupil rate for nursery schools	86.7%
4	£200 per pupil sufficiency supplement for new provision	88.9%
5	Revised criteria for Quality supplement	92.6%
6	Increased funding for Deprivation supplement	96.2%
7	Use IDACI to identify qualifying pupils for Deprivation supplement	92.3%
8	Proposed distribution levels of Deprivation funding is fair	84.6%
9	Should deprivation funding for 2 year olds be separated from base funding of £6.00	73.1%
10	Change methodology of payment to providers	95.8%

The Local Authority originally intended to seek the endorsement of Schools Forum on its intention to implement all the proposed changes from 1st April 2013. For simplicity, some of

the existing rates have been rounded. This related to both funding for two year olds and for three and four year olds.

However, the recent announcement on funding for two year olds means that the Local Authority must rethink its strategy for funding two year olds and therefore will come back to Schools Forum at its meeting in January on proposed funding arrangements to give it time to consult with providers. This will still give time for a submission to Cabinet on proposals for two, three and four year olds. Table 4 below sets out the proposed rates for three and four year olds.

Table 4: Early Years Single Funding Formula:

Formula Factor	3 & 4 Year Olds
Base Rate per pupil per hour (PVIs)	£3.90
Base Rate per pupil per hour (Schools)	£3.75
Base Rate per pupil per hour (Nursery Schools)	£5.85
Deprivation Supplement - level 1 (IDACI 0.4-0.5)	£0.25
Deprivation Supplement - level 2 (IDACI 0.5-0.6)	£0.70
Deprivation Supplement - level 3 (IDACI 0.6+)	£1.00
Quality Supplement – level 1	£0.15
Quality Supplement – level 2	£0.30
Quality Supplement – level 3	£0.45
Sufficiency Supplement – new places (per place)	£200

For three and four year olds a school would receive per pupil a base rate of £3.75p, a Deprivation Supplement based on where pupils lived and a Quality Supplement. These rates are subject to the proviso that combined budget shares do not exceed the provision for delegation which for three and four year olds is **£12.175m.**

This leaves **£0.250m** as contingency for planned in-year growth and sufficiency supplements. It is important to stress that payments from the contingency fund will only be made to those settings where growth is planned and agreed in advance with the Early Years Team. Any other growth will be funded at the end of the financial year when the Early Years Block funding is adjusted by the EFA based on Census data for January 2013 and 2014 as explained earlier in this report.

C Calculation of Budget Shares for 2013/14

Budget Shares cannot be calculated at this stage as FOUR actions need to be completed by the Local Authority and these are:

- *Actual hours of free education for three and four year olds provided in the calendar year 2012*

  Data for January – August 2012 is available to the Local Authority and work is in hand to identify any trend in number of hours provided against the same time period for 2011. If available, this will be reported to Schools Forum.

All settings MUST provide their returns for September – December 2012 by X January 2013. This will enable the Local Authority to calculate total provision within the calendar year 2012.

- *Quality Supplement:*

  The Early Years Team now need to determine how existing settings are formally allocated into the three levels for the Quality Supplement using the criteria endorsed in the consultation process set out above.

- *Deprivation Supplement:*

  The existing data will need to be updated where gaps still exist in information available. Pupil data for the period September – December 2012 arrives too late for new pupils to be taken into account.

- *Funding for Two Year Olds:*

  As explained above, the Local Authority needs to discuss further with providers on the hourly rate which is sustainable going forward.

It is crucial that all settings provide data for the period September 1st to December 31st 2012 by the deadline of **11th January 2013**. Failure to do so will mean that funding will be based on a Local Authority estimate of the figures less 10%. There will be no right of appeal. Final budget shares for 2013/14 will be presented to Schools Forum at its meeting on 13th February 2013.

Action by Schools Forum:

1. **To note the latest information on the size of the Early Years Block and Two Year Old Funding.**

2. **To note that the Local Authority will submit further information to Schools Forum at its January meeting on a sustainable hourly rate for two year olds.**

3. **To note the acceptance of a revised EYSFF from April 2013 following the submission of consultation responses.**

4. **To recommend to Cabinet the proposed revised EYSFF from April 2013.**

5. **To note the process the Local Authority will now follow to finalise budget shares for Early Years provision for 2013/14.**