Sutton Early Years Funding Formula

Briefing paper and consultation

January 2017
Background

Following the general election in 2015, the new Government announced it was to honour its manifesto pledge to increase free childcare to 30 hours per week for eligible working families and introduced the Childcare Bill which became law in March 2016.

The Government promised to provide additional funding to early years providers to help recognise the costs of delivering the existing entitlement as well as to encourage providers to offer the new 30 hours entitlement.

Proposals for a new National Early Years Funding Formula were consulted upon by the Government earlier in the year. More recently in December 2016 the Government published its response to the consultation setting out its guidance on how Local Authorities should allocate funding to Early Years Education and Childcare Providers as well as the amount of funding that they will receive in the next financial year to allocate.

Underpinning the national funding formula is a desire to ensure that a high proportion of funding is passed directly through to providers and that funding is distributed fairly. There remain some decisions for the Local Authority on a small number of discretionary elements to the funding formula which we have developed proposals for and are now keen to hear views on. Before these are agreed we want to hear your views on these proposals. This consultation primarily relates to 3 and 4 year old funding. Further information is provided on 2 year old funding and Early Years Pupil Premium below although the process for how this funding is allocated remains unchanged (though there is a change to the funding amount).

What to do / next steps

1. Read the consultation and briefing document below
2. Respond to the questions in the online survey via the following weblink by the deadline of 24th January
3. We will be meeting with an Early Years Advisory Group made up of key representatives from the Early Years sector in Sutton to discuss the proposals in more detail on 17th January. Please get in contact with the relevant representative to feedback further views than those you set out in the consultation response form
4. We will then take a paper with recommended funding arrangements to Sutton Schools Forum on 9 February 2016
5. Indicative budgets provided to Early Years Providers will be shared in March 2017

Early Years Advisory Group
- Childminders - Tania Long tania.long@sutton.gov.uk
- Nursery Classes - Laura Byrnes laura.byrnes@sutton.gov.uk
- Maintained Nursery School - Jan Allen jallen16@suttonmail.org
- PVI setting - Jan Capon jan.capon@sutton.gov.uk
1. **Existing funding arrangements in Sutton**

1.1. At present the local authority allocates the free entitlement funding to nursery schools and classes by monthly allocation and to Private, Voluntary and Independent (PVI) providers twice a term. The first payment to PVIs is within the first fortnight of the term and consists of 50% of the total estimated hours. The second payment is based on the actual figures given on the termly headcount day and is made after the half term holiday in the term to which the payment relates.

1.2. The table below shows the breakdown of the current formula as calculated in Sutton:

<table>
<thead>
<tr>
<th></th>
<th>as detailed below</th>
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</thead>
<tbody>
<tr>
<td>Base Rate</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td>0.25 pence/per pupil/per hour</td>
</tr>
<tr>
<td>Deprivation</td>
<td>fixed pot circa £35k</td>
</tr>
</tbody>
</table>

1.3. In Sutton the base rate currently depends on the type of Early Years provider and is calculated in the following way per pupil per hour:

- Private / Voluntary / Independent (PVI) - £3.66
- Nursery classes - £4.22
- Maintained Nursery Schools - £7.32

1.4. Flexibility funding is paid in addition to the base rate to providers that offer a more flexible choice to parents. Flexibility is funded at a flat rate of 25p per pupil if the provider can demonstrate that they offer flexible provision that allows parents to take up their entitlement at hours that best meet their needs. A provider that offers more than the standard three hours over five days or five hours over three days is regarded as a flexible provider.

1.5. Deprivation is funding intended to give additional monies to those providers who have a large number of pupils from financially deprived areas. It uses the Government’s Index of Deprivation Affecting Children Index (IDACI) which is part of the Index of Multiple Deprivation (IMD). The IDACI data gives a different ‘score’ for each Super Output Area (SOA - similar to a postcode area), and rates the relative degree of deprivation in each area of the country. This data is updated by the Government every four years and was last updated in July 2015.

2. **Summary of Proposals for 3 and 4 year old funding (for consultation)**

2.1. Below is a summary of the proposals we want to hear your views on. The London Borough of Sutton proposes to:
- Retain 7% of the Early Years Free Entitlement funding centrally in 2017/18 and 5% in 2018/19 in line with Government proposals
- Implement universal base rates straight away from April 2017
- Allocate supplementary funding for Deprivation and Flexibility to a maximum of 5% of the total allocation to Early Years providers (e.g. to passport the vast majority of funding straight through to providers)
- Create an ‘SEN inclusion fund’ to a maximum of 1.3% of the total allocation to Early Years providers that intended to support children with SEN access their free entitlement place
- Set a funding formula for 2017/18 as set out in the table below on the basis that it wants to create a high base rate available to all providers with some centrally held resource.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly base rate</td>
<td>£4.75</td>
</tr>
<tr>
<td>Hourly flexibility supplement (if applicable)</td>
<td>£0.25</td>
</tr>
<tr>
<td>Total yearly deprivation supplement (if applicable)</td>
<td>£75,000</td>
</tr>
<tr>
<td>Hourly Early Years Pupil Premium (EYPP) (if applicable)</td>
<td>£0.53</td>
</tr>
<tr>
<td>Yearly Disability Access Fund (DAF) per child (if applicable)</td>
<td>£615</td>
</tr>
<tr>
<td>Total yearly SEN Inclusion funding (if applicable)</td>
<td>£150,000</td>
</tr>
</tbody>
</table>

The next few sections explains more about the Early Years national funding formula and the Local Authority’s rationale for the proposals above.

3. The new early years national funding formula (EYNFF) and LA discretionary supplements

3.1. As a local authority we will continue to be funded for early years provision through the early years block of the Dedicated Schools Grant (DSG). We will make payments based on this formula with effect from April 2017 subject to agreement by the Sutton Schools Forum.

3.2. There are a number of key features of the new national funding formula:

- the new formula allocates funding to the London Borough of Sutton for the existing 15-hour entitlement for all three and four year olds and the additional 15 hours for three and four year old children of eligible working parents. The funding rates for both the existing 15-hour entitlement and the additional 15-hour entitlement are the same.

- the formula consists of a universal base rate plus factors for additional needs (e.g. by using measures to reflect the relative weighting compared to other local authorities including free school meals; disability living allowance and English as an additional language).
the formula also includes an area cost adjustment multiplier to reflect variations in local costs. This uses the General Labour Market measure to indicate staff costs and Nursery Rates Cost Adjustment (NRCA) to indicate cost of premises.

3.3. **Local authority funding to providers** - There are now a number of new requirements on how the London Borough of Sutton is able to allocate funding to providers from April 2017. These requirements are intended to ensure that funding provided by the Education Funding Agency (EFA) is fairly distributed to providers. The main changes are:

- LBS must pass a minimum amount of funding through to providers.
- LBS must set a local universal base rate that is the same for all types of provider by 2019/20
- LBS will receive supplementary funding to ensure the stability of maintained nursery schools until at least 2019/20.
- Set out the mandatory and discretionary supplements LBS is able to use to allocate funding.
- the introduction of a disability access fund.
- a requirement for authorities to establish a special educational needs inclusion fund.

3.4. **High pass-through requirement** - there are new requirements on the amount of funding for three and four year olds that local authorities must pass to providers. This pass-through requirement is intended to ensure the maximum amount of funding allocated to local authorities by the EFA reaches providers.

3.5. The minimum pass-through funding level is set at 93% in 2017-18. It will increase to 95% from 2018-19. This means that centrally retained funding (for central services such as the Borough’s Early years service) will have to be equal or less than 7% in 2017-18 and 5% from 2018-19. The London Borough of Sutton is currently within the 7% pass through rate and proposes to operate within this threshold reducing to 5% in 2018-19.

3.6. **Local universal base rate** - the London Borough of Sutton is required to set a universal base rate for 3 and 4 year olds in our local single funding formulae, meaning there must be the **same base rate for all types of provider**, by no later than 2019-20. We propose to implement the same base rate for all types of provider from April 2017. This is because, on our current assessment, both Sutton Nursery Classes and PVI providers will both see an increase in the hourly rate even if we were to allocate the maximum amount of supplements we can (see below). Whilst maintained Nursery Schools will see a significant reduction in their base rate they would receive a dedicated supplement in order to ensure stability of provision (see paragraph 3.7 below) and this is set to continue for the remainder until 2019/20. For this reason, there seems to be little reason to phase the universal base rate in over a period of time - especially given the critical need to ensure there is adequate funding to providers to deliver the 30 hours entitlement.

3.7. **Maintained nursery school (MNS) supplementary funding** - as the universal base rate is introduced, local authorities will be allowed to continue to provide a higher level of funding to
maintained nursery schools. Supplementary funding will enable the London Borough of Sutton to continue to fund Thomas Wall and Spencer Nursery schools at the current funding levels (revised base rate plus top up) for at least the next two years to ensure stability. This funding is not available to use in any other way. It should be noted that the Government intends to consult further on the funding arrangements for maintained nursery schools in the future so it may be that they will need to transition to universal base rates with top up funding reducing in future, however this is not yet known.

3.8. If a child has been allocated a school nursery or reception place in September, funding will be allocated to the school for that child’s place. The local authority will not ‘double fund’ any child for their free entitlement. Therefore parents will not be able to claim the free entitlement at any other provider from 1st September. Where the school stagger entry into their nursery or reception class, the parent will need to discuss any delayed start directly with the school. If the parent wishes their child to attend another setting in September before they start a school place they will be liable for any cost incurred as they are considered to already have a funded place available.

3.9. **Supplements LBS intends to use (3 and 4 year old funding only)** - LBS currently uses relatively few funding supplements in its current Early Years formula. This is in line with what Government wishes to see as the number we can offer are now limited. Supplements are amounts of funding which are given in addition to the base rate to reflect local needs or policy objectives.

3.10. The total value of supplements used in any authority must not be more than 10% of the total value of planned funding to be passed through to providers. The table below lists the supplements that (i) LBS currently use, (ii) the Government will allow us to use and (iii) we propose to use for the new formula:

<table>
<thead>
<tr>
<th>LBS current supplements</th>
<th>Allowed Supplements under national funding formula</th>
<th>Supplements LBS intend to use in 2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deprivation</td>
<td>Deprivation (mandatory)</td>
<td>Deprivation (mandatory)</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Flexibility</td>
<td>Flexibility</td>
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<td>Quality</td>
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<td></td>
<td>EAL</td>
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<td></td>
<td>Rurality Sparsity</td>
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3.11. **Deprivation** - This supplement is mandatory although we can set how much funding (within the 10% cap) we distribute via this mechanism and how we do it. The London Borough of Sutton must use this supplement to recognise deprivation in our area as described in 1.4 above.
3.12. **Flexibility** - We currently provide a flexibility supplement to support providers in offering flexible provision for parents. This is for providers that offer free entitlement hours above the minimum three hours over five days and five hours over three days for example, offering a combination of morning, afternoon and full days with flexible start and finish times. Providers will need to declare their flexible offer when they sign the provider terms and conditions of funding at the start of the financial year.

3.13. **Quality** - A quality supplement is permitted to either: support workforce qualifications, or; support system leadership (supporting high quality providers leading other providers in the local area). We don’t currently provide a supplement for this and we do not intend to provide a supplement for this in the first year of the new formula. This is for a number of reasons. With relatively little capacity within the Local Authority, it is not clear how we could administer such a supplement in time for the roll out of the formula and with most of our EY provisions rated as ‘good’ or ‘outstanding’ it could be argued that there is no pressing need for such an allocation at this time. However, we would be interested in talking to providers about whether this is something we should be seeking to introduce in the future.

3.14. **English as an additional language (EAL)** - we could distribute funding to settings with pupils that have EAL but we believe there are practical difficulties with such a proposal. At present there is no data set that we could reliably use to base such a supplement on. The Government was intending to collect EAL data as part of the EY census but this proposal has not been pursued. We don’t think there is any easy way to map EY data to schools data (as a proxy) and as such we are not proposing to include it in our formula. In addition to this, EAL in itself is not necessarily an indicator of need (particularly where the pupil has comparable English speaking skills to other pupils).

3.15. **Rurality/sparsity** - A rurality/sparsity supplement is permitted to allow local authorities to support providers serving rural areas less likely to benefit from economies of scale. We do not propose a supplement for this as a London Borough we have no rural areas.

3.16. We are interested in your views on the relevance and appropriateness of the supplements identified above and the proposed position of the London Borough of Sutton as stated above. In doing so it is important to recognise that any funding channelled through a supplement will reduce the base level available to all providers. For example, using the maximum allowable of 10% of the total budget on supplements this would equate to a reduction in the base rate for all providers of approximately 18p per hour per child. We are proposing to keep the number of supplements low in order to keep the formula as simple and clear as possible and to make a higher base rate available to all providers by only allocating up to a maximum of 5% of the available funding using our proposed supplements. We would be keen to hear views on whether this approach is supported.
4. Provision for disabled children and children with special educational needs (SEN)

4.1. The Equality Act 2010 ensures that local authorities and settings must not discriminate, harass or victimise disabled children, and must make reasonable adjustments. Local authorities must ensure that disabled children entitled to a place are found suitable provision.

DISABILITY ACCESS FUND (DAF)

4.2. Background to DAF - The disability access fund is a new measure which aids access to early years places by, for example, supporting 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). It is separate from the funding formula described above and the inclusion funding described below. The settings of three and four year olds eligible for the DAF will be entitled to receive a total of £615 per year per pupil. The DAF is not based on an hourly rate and is an additional entitlement. Children do not have to take up the full 570 hours of early education they are entitled to in order to receive the DAF. Children in receipt of the DAF will be eligible where they take-up any period of free entitlement. The DAF will be paid termly to the setting the child is attending.

4.3. Eligibility - Three- and four-year olds will be eligible for the DAF if they meet the following criteria:

- the child is in receipt of child disability living allowance and;
- the child receives free early education.

4.4. Please note that four-year olds in primary school reception classes are not eligible for DAF funding. Children become eligible for free early education at different points in the year depending on when they turn three. Details of the dates when children become eligible for universal free entitlement are shown below.

- Children born in the period 1st January to 31st March: the start of term beginning on or following 1st April after the child’s third birthday;
- Children born in the period 1st April to 31st August: the start of term beginning on or following 1st September after the child’s third birthday
- Children born in the period 1st September to 31st December: the start of term beginning on or following 1st January after the child’s third birthday.

4.5. Identifying eligible children - Early years providers are ultimately responsible for identifying eligible children and providers are encouraged to speak to parents in order to find out who is eligible for the DAF. Providers will be able to use the parent declaration form for parents to tick if their child is in receipt of disability living allowance.
4.6. **Eligibility checking** - The London Borough of Sutton must check that the DAF eligibility requirements are met. As a local authority we should be satisfied that the child in question is receiving disability living allowance. We may wish to see evidence of the child’s disability living allowance award letter and will likely keep a copy of this as evidence on file.

4.7. **Funding local authorities for DAF** - In the financial year 2017 to 2018, the DAF funding each local authority receives is based on the latest available data (February 2016) from the Department for Work and Pensions on the number of children entitled to DLA aged three and four in England.

4.8. The Education Funding Agency (EFA) has adjusted the number of four-year-olds in the dataset it uses to account for the estimated percentage of four-year-olds in each local authority who are in reception year instead of taking up the free entitlement.

4.9. **Distributing DAF funding to early years providers** - LBS must fund all early years settings providing a place for each child eligible for the DAF in their area at the fixed annual rate of £615 per eligible child. The DAF is payable to providers on a termly basis as a lump sum per eligible child. If a child eligible for the DAF is splitting their free entitlement across two or more providers, LBS will ask parents to nominate the main setting (usually setting where the child accesses the majority of hours). This setting will be where LBS will pay the DAF for the child.

4.10. In cases where a child who lives in one authority area attends a provider in a different local authority, the provider’s local authority is responsible for funding the DAF for the child and eligibility checking. All early years providers who are eligible to receive funding for the 3- and 4-year-old early entitlement education are also eligible to receive the DAF.

**INCLUSION FUND**

4.11. The Department for Education is encouraging local authorities to establish an SEN inclusion fund to help providers better address the needs of individual children with SEN or additional needs. Given pressures on the High Needs block of the DSG we do not anticipate pooling additional funding from this block for Early Years over and above what is already provided (by way of a lump sum to Thomas Wall Nursery).

4.12. As a local authority we are required to establish an inclusion fund for 3 and 4 year olds with SEN taking the free entitlement. LBS already has an inclusion fund providing grants to individual providers and in conjunction with challenge, support and monitoring of practice through the EY SEN team. We are currently assessing the impact of the introduction of 30 hours on the demands on this fund but we anticipate increasing the amount in this fund significantly from its current amount of £50k to up to £150k.

4.13. **Eligibility** - the SEN inclusion fund is for 3 and 4 year olds who are taking up any number of hours of free entitlement. LBS intends to target the fund at children with complex needs. Children in receipt of an Education, Health and Care Plan (EHCP) will continue to receive funding via the high needs block of the DSG.
4.14. All early years providers who receive funding for the 3- and 4-year-old early education entitlement may be eligible to receive support from the SEN inclusion fund.

4.15. **Allocating SEN inclusion funding to early years providers** - as a local authority we will pass the majority of the SEN inclusion fund to providers, as we do currently, in the form of top up grants to individual providers. These elements will count within the pass through allocation with effect from April 2017. The local authority will only allocate SEN inclusion funding to Sutton providers, regardless of where the child resides.

The local authority allocate SEN inclusion funding termly to early years providers who have children identified with high level SEN. Inclusion funding is intended to enable providers to include all children, recognising that children with a high level of need require additional support within the setting.

The amount allocated will vary according to:

- the numbers of children on the provider’s SEN register known to the Early Years SEN Advisory Team.
- actual number of FEF hours attended (max. 15 per week or a max. 30 hours per week subject to eligibility)
- the level of need as identified within the ‘graduated approach’ – children will be at different levels within this ‘SEN Support’ category.

The level of need is indicated by the number of targeted services such as Community Paediatrics, Children’s Therapies, Portage, which are involved. The Inclusion Grant Panel, working with the Early Years SEN Advisory Team, will make a decision on level of need based on information provided by the setting on their SEN register.

Funding is awarded at two levels

1. £50 per 15 free entitlement funded hours or equivalent
2. £25 per 15 free entitlement funded hours or equivalent.

The formula below is used to establish the amount each provider will receive;

Level of need x the number of weeks of the term (pro rata where necessary.)

*For example a child at the highest SEN Support level 1 attending 14 weeks in the Autumn term will be allocated £700 (£50 x 14)*

Early Years providers who are in receipt of SEN inclusion grant are expected to demonstrate how this funding has been used to support these children following support and advice from their Early Years SEN Advisor and Health Professional involved.
Currently, in order to ensure that the inclusion funding is available to support as many children as possible, the panel may have to set a maximum amount that a setting can receive.

This recognises the fact that this funding should be used to create an inclusive environment rather than providing 1:1 support for individual children. Where a child needs 1:1 support, the setting with the parent, should consider applying for a Statutory Assessment. Children undergoing Statutory Assessment will continue to be included via the inclusion funding, pending their plan being in place.

Children who have an Education, Health and Care Plan in place will be funded via the Plan.

5. Let us know your views!

5.1. Below is a summary of the proposals we want to hear your views on:

Please also follow [this link to the consultation questions in order to give your views on the proposed changes as summarised below](#).

6. 2 Year Old Funding (for information only)

6.1. Families need to meet eligibility criteria in order to apply for the Free Entitlement for 2 year olds. Eligibility criteria are unchanged from the current scheme and therefore we are not seeking views on this.

6.2. However, based on an initial assessment of the information provided by Government we anticipate an uplift in respect of 2 Year Old funding by around 7% on current rate.

6.3. The fixed rate hourly rate for 2 Year Old funding will be **£5.79**

6.4. SEN inclusion funding will be allocated in same way as the 3 & 4 year old grant described in 4.15, However the budget for SEN funding for 2 year olds will be £30K

7. Early years pupil premium (EYPP - for information only)

7.1. Additional funding continues to be provided to LBS in order to support disadvantaged pupils through the early years pupil premium (EYPP).

7.2. The EYPP remains distinct from the early years national funding formula and will continue as a separate funding stream. We are not therefore seeking views on this.

7.3. EYPP rate for eligible children will be £0.53 per free entitlement funded hour, per child.
8. Further information / Contact Details

8.1. Please see below for a list of links to further information:

8.2. If you have any questions about the consultation please contact Laura Byrnes by email laura.byrnes@sutton.gov.uk