

Item 9
Schools Forum
29 September 2017

Early Years Funding 2018/19

Proposal for consultation based on early assessment of Early Years Funding and demand 2018/19

Introduction

In April 2016 the National Funding Formula for Early Years was introduced which represented a significant change across all sectors. At this point Schools Forum agreed key principles regarding how funding is allocated and this proposal is based on the same principles.

The paper takes an initial look ahead to the full year effect of the introduction of funded 30 hour provision from September 2017 and proposes some changes in response to issues arising from the first year of the operation of the National Funding Formula. These proposals are based on early modelling and may need to be revised as further information is received. In summary, the areas for change (which are detailed further in the paper) are listed below

1. Increase main formula funding in line with national increase, full-year effect of 30 hour provision and proposals below, resulting in main formula funding increase of £7.0m;
2. Increase of £0.669m in contingency for provider payments to ensure all provision can be funded and to offset risk of the pattern of provision in Surrey not being affordable in-year, given fixed census date and risk of local enrolment levels exceeding national estimates. The level of the Contingency to be kept under review in future years as experience is gained of 30 hours demand.
3. Increase deprivation funding from 2% to 2.5% (£0.454m) , basis of distribution to remain in line with Early Years Pupil Premium.
4. Maintain approach to SEND Inclusion fund which results in an increase of £0.172m in line with increase in provision following from full year effect of funding for 30 hours.
5. Maintain the same approach to distribution of Maintained Nursery School grant.
6. Maintain retention of 5% (additional £0.446m) for early years service provision, brokerage and sufficiency, recognising this increases the sum retained as a result of full year effect of 30 hours provision. Central retention to be kept under review in future years.
7. Meet basic hourly rate funding for children in SEN resource places in nursery schools from Early Years Block, a pressure of £96,000, in line with wider funding principles that only children with higher needs are funded from the High Needs Block.

The net effect of the above would result in an increase in the base rate for 3 to 4 year olds of 9p from £4.51 to £4.60, although it should be noted that this is an early estimate and subject to change.

1. Main formula increase

There is additional funding in 2018-19 to resource the full-year effect of children taking up 30 hours provision. This effect, after allowing for the other pressures above arising from full year implementation of 30hr provision, results in an additional £7.0m funding through main formula base rate. This would result in an increase in the base rate for 2018-19 of 9p from £4.51 to £4.60.

2. Contingency

Contingency is required in order to manage the risk associated with timing of enrolments and the implementation of 30 hours funded entitlement.

Surrey's DfE early years funding for 2018/19 will be based on the average of January 2018 and Jan 2019 censuses, whereas Surrey must fund providers based on a termly count. We will not receive funding for children who start after the January census, until the next census and then only with effect from September. The contingency is needed in case the average number of children funded by Surrey (based on termly count) exceeds that funded by the DfE (based on Jan counts).

Additionally, DfE have funded Local Authorities based on an estimated figure calculated on a formula assuming that 29% of 3 & 4 year olds will meet the criteria. Based on current sufficiency data and demographic information, including employment data and household income, we believe this figure may be conservative. DfE calculations also assume that on average eligible parents will take-up only 12 of the 15 additional hours for which they are eligible. Our data indicates that 80% of eligible parents are already using in excess of 30 hours therefore we expect take-up to be higher. Surrey received £8.991m which equates to 5408 children taking the full additional hours. Therefore we need to acknowledge the risk of exceeding this figure and make reasonable arrangements to mitigate that risk.

The amount proposed as contingency equates to approximately 510 children for the entire year or up to 1530 additional children in the Summer term. This represents exceeding predicted uptake by approximately 10% and will also accommodate the associated additional EYPP and Deprivation likely to result from our targeted approach.

It is proposed that the level of contingency be reviewed next year when we have more stable predictors for take-up of 30 hours. Please note that a currently higher than expected take-up is expected to secure a higher budget overall for next year.

We propose that as generally happens, any overspend or underspend would be managed within the overall Early Years Block.

3. Deprivation Funding

This funding will continue to be distributed based on the economic elements of Early Years Pupil Premium (EYPP). The rate set for September 2017 was set at a higher level as a transitional arrangement in order to cushion settings who had previously been in receipt of the Income Deprivation Affecting Children Index (IDACI) based deprivation funding.

We are expecting an uplift in demand for EYPP and therefore deprivation funding due to a growing understanding of the benefits of early identification but also as providers recognise the associated funding benefits. We also expect to see an increase corresponding to our brokerage of places for the most disadvantaged families.

For 2018/19 we propose to set the deprivation rate at 2.5% of total formula funding. This will allow some preservation of funding for providers with the highest levels of deprivation.

Please see Annex 1 for evidence relating to impact of changes in deprivation funding.

4. SEND Inclusion Fund

The SEND Inclusion fund is a DfE requirement as part of the NFF and is for payments to providers to support pupils with SEND requiring additional support costing less than £6,000 (ie below the high needs threshold). It is proposed that this is increased by £172,000, in proportion to the estimated increase in free entitlement hours. This would be consistent with decisions made for 2017/18. We will continue to keep this under review, with final proposals brought as part of a further paper to the next Schools forum.

5. Maintained nursery school (MNS) transitional grant

Prior to 2017/18, many LAs funded maintained nursery schools (MNS) at a higher rate than other providers (often by including a lump sum). The MNS transitional grant is meant to allow LAs to preserve that higher level of funding, while DfE considers the long term future of maintained nursery schools..

In 2017/18 Surrey allocated part of the MNS grant to fund business rates and split site costs for maintained nursery schools and then divided the estimated residue among the MNS as equal lump sums. The same will be done with any unallocated residue when the final allocation is confirmed. Officers propose to use the same method to distribute the (as yet unknown) MNS grant allocation for 2018/19

There is a theoretical possibility that this may be insufficient to sustain MNS funding in 2018/19 at 2016/17 levels but we have not yet received any information on which to form a view.

6. Centrally retained funds for Brokerage, Service Provision & Sufficiency

For 2018/19 we will be maintaining the principle of retaining 5 % of the total grant. The funding is used to support the development and sustainability of the Early Years sector in Surrey to meet our statutory requirements. In 2018/19 DfE have increased the formula rate paid to Surrey by £2.2m. The additional amount reflecting the full year for 30 hours equates to £8.6m resulting in an additional £0.446m available for central retention. The additional funding will be used to develop brokerage targeted specifically at the most disadvantaged families, support the development of new provision and to extend existing provision through grant funding and by monitoring sufficiency of places across Surrey. The retained proportion will be kept under review in future years.

Annex 2 summarises the purposes for which centrally retained funding is being used in 2017/18. The level of central retention will require the annual approval of Schools Forum, which will be formally sought at the December meeting following consultation.

7 Funding of SEN resources in maintained nursery schools/classes

Children in nursery SEN resources attract Early Years DSG from DfE at the normal rate (although 3-4 year olds in special schools do not). We therefore think it is fair that their basic hourly rate funding should come from the early years block and that only the additional SEN funding (including place funding) should come from the high needs block, whereas in 2017/18 all of their costs were funded from HNB. The overall estimated cost to EYB is £96,000 (equivalent to 0.8p off the hourly rate).

The table below provides an overall summary of the financial aspects of the proposals.

Summary Breakdown of additional Early Years Funding 2018/19

In headline terms the additional funding is proposed to be allocated as below:

	initial £000s	add 18p £000s	Incl 18p £000s	add 6.6m £000s	revised total £000s	total incr £000s
Main formula	54,766	1,093	55,859	5,909	61,768	7,002
Deprivation	1,118	304	1,422	150	1,572	454
Contingency	670	541	1,211	128	1,339	669
Inclusion fund	1,208	31	1,239	141	1,380	172
Nursery SEN resource		96	96		95	96
Central	2,951	121	3,072	325	3,397	446
	60,713	2,186	62,899	6,653	69,552	8,839

The proposals above would result in an increase in the base rate to providers of 9p per hour which equates to a new hourly rate of £4.60, but it should be noted this is an early estimate and subject to change.

Action requested of Forum

The Forum is invited to discuss the proposals and provide any early comment in advance of consultation with the sector and a further report to Forum in December 2017.

The Forum will then be asked in December 2017 to approve the level of central retention for report to Cabinet in February 2018. Schools Forum will also be asked then for any further views on other proposals to be considered as part of decision making by Cabinet for the 2018-19 funding round. Any carry forward of Early Years DSG would also be the subject of future decision by Forum.

Annex 1 Examples of impact of changes in deprivation funding for 3-4 year olds

Basis of deprivation funding rate

=total formula funding (after deducting contingency and inclusion fund) x 2% or 2.5%

Less cost of free meals provision for eligible pupils in maintained nurseries

Divided by estimated total number of 3-4 year old hours x % of such hours eligible for early years pupil premium in 2016/17 academic year

In Jan 2017 4.33% of pupil hours were eligible for early years pupil premium.

Impact of changing deprivation funding from banded IDACI to early years pupil premium eligibility (using data for financial year 2016/17)

2016/17 Number of providers receiving a range of deprivation funding allocations

	PVI			Mtd/academy		
	Old method	New method £2/hr*	New method £2.50/hr*	Old method	New method £2*	New method £2.50*
Total allocation >20000			1	7	3	4
10000-20000	1	1	2	17	10	12
5000-10000	17	14	19	7	17	21
3000-5000	12	21	26	2	16	14
1000-3000	28	53	48	1	16	13
1-1000	4	69	62	0	8	6
Nil**	169	73	73	40	4	4
	231	231	231	74	74	74

*Notional allocations had the specified method been used in 2016/17

**Excluding those providers which did not receive either Surrey deprivation funding or Early Years pupil premium at any point in 2015/16 or 2016/17

Note that only pupils receiving early years deprivation funding on the basis of economic deprivation qualify for deprivation funding in this way.

Changes at individual provider level using 2016/17 financial year data

Number of providers with changes to deprivation funding in the bands shown

	PVI		Mtd/academies	
	Old to new £2/hr	Old to new £2.50/hr	Old to new £2/hr	Old to new £2.50/hr
Gain				
>5000	8	11	10	16
3000-5000	13	22	10	7
1000-3000	47	41	13	16
<1000	64	63	9	6
No change	52	52	4	4
Lose				
<1000	9	5	1	2
1000-3000	21	22	4	5
3000-5000	12	11	6	4
5000-10000	4	3	7	9
10000-20000	1	1	8	4
20000+	0	0	2	1
	231	231	74	74

NOTE The tables show the impact of changing the deprivation method using 2016/17 data. In practice it is quite likely that some providers would have faced significant deprivation funding changes between 2016/17 and 2017/18 or 2018/19 even had the method not changed.

The largest “maintained” losers are those schools which were on the highest deprivation tiers under the old system.

Changing to a pupil based method (rather than a threshold method) enables more direct targeting of individual pupils (particularly in areas where deprivation is concentrated into small areas) and avoid huge losses when the IDACI index is updated nationally (as occurred for several schools in 2016/17). But by dispersing funding more widely it also raises the cost of supporting deprivation and therefore it is appropriate that there is a slight increase in total deprivation.

By way of context the table below shows the level of variation in deprivation funding between 2015/16 and 2016/17 (as an illustration of the impact of data change without changing the method)

Number of providers with changes in deprivation funding in the bands shown between 2015/16 and 2016/17

	PVI	Maintained/academy
Gain		
>5000	2	5
3000-5000	8	2
1000-3000	15	6
<1000	10	2
No change		
Lose		
<1000	15	4
1000-3000	12	4
3000-5000	2	4
5000-10000	5	5
10000-20000		3
20000+		1

The important point to note here is that under the IDACI method there were still significant gains and losses between years, and these could result from changes in relative (rather than absolute) deprivation, and of areas rather than individuals.

Annex 2

Purposes for which centrally retained funds are used

The following teams work together to support Early Years provision across all sectors including maintained, private, voluntary, independent sectors to promote quality and improve outcomes for children in Surrey

Within Supporting Children Team:

- Early Education & Childcare Team
- Early Support Team
- Special Educational Needs and Disability Team
- Children's Centre Advisory Team
- Surrey Information Service

Early Years & Childcare Commissioning Team

Meeting statutory duties to ensure a sufficiency of places for funded 2, 3 & 4 year olds within every community. Monitoring and shaping sufficiency, providing support, advice and to promote sustainability through promoting robust business models, financial planning and monitoring. Exploring the options to incorporate brokerage of places for the most disadvantaged and hard to reach families to ensure take-up of places. Identified need for additional capacity to meet increased demand.

Finance & Practice Team

Managing the funded entitlement by advising providers, processing, administrating and making payments. Including portal. Identified need for additional capacity to meet increased demand.

Family Information Service

Advising parents on accessing a variety of services including Early Years and childcare, information and advice.

Safeguarding Advisor

Providing support and advice regarding safeguarding children including allegations against an adult working with children.

Additionally, Surrey has historically funded a small number of full time places in maintained nursery schools for children with exceptional educational and social needs. Where these children do not meet the DfE criteria for the extended entitlement the cost of their additional hours now counts as centrally retained expenditure even though it is going to providers. The number of such places has not been increased, although they are now available for 30 hours rather than 25 hours.