

## Cabinet

25 January 2018

# Early Years Funding Formula 2018/19

## Recommendation

Cabinet are recommended to:

- (i) Approve the allocation of:
  - A universal rate to providers of £3.96 per hour for 2018/19
  - A deprivation rate of £0.53 per hour for eligible children for 2018/19
- (ii) Note the reduction in the funding for centrally provided early years services to £0.21 per hour for 2018/19 and that a review of early years funding will be a central part of the review of DSG.

## 1. Introduction

- 1.1. Local authorities were required to introduce a new local Early Years Funding Formula (EYFF) from 1 April 2017. This needed to be based on national requirements, including.
  - A universal base rate for all types of providers both maintained schools and the Private Voluntary and Independent (PVI) Sector;
  - The mandatory use of a deprivation supplement (at a rate to be agreed locally);
  - The use of optional specific additional supplements if agreed locally (including quality, rurality and English as a second language).
- 1.2. Warwickshire received a relatively low funding settlement in 2017/18, and the new formula had to be introduced whilst the level of funding available overall had significantly reduced. In reaching a decision on the local formula for 2017/18, the local authority had to balance the need to move to a universal rate as soon as possible with the need to minimise turbulence for providers as far as possible. The overall hourly rate has further reduced in 2018/19 as shown in the table below.

Year	Warwickshire Allocation	Hourly Rate
2016/17 baseline	£22.2 million	£4.56
2017/18 transition	£21.1 million	£4.34
2018/19 full implementation	£20.9 million	£4.30

- 1.3. On 18 October 2017 the Schools Forum requested that a Working Group was set up to review the allocation of early years funding in 2018/19. The Working Group comprised officers from the Early Years and Finance Services together with representatives from Nursery Schools, Head Teachers with maintained nursery classes, and PVI providers.
- 1.4. The Working Group met twice, firstly on 13 November 2017 to discuss what areas needed to be consulted on with Early Years providers, then again on 20 December 2017 to discuss the outcomes of the consultation process.
- 1.5. Consultation took place with all providers from 17 November 2017 and lasted for 3 weeks. The consultation questionnaire is included at **Appendix A**.
- 1.6. The decision on the funding formula to be operated locally for early years settings in 2018/19 is one for the local authority to make taking into account the views of consultees and the Schools Forum in making that decision.

## 2. Consultation Responses

- 2.1. There were 67 responders to the consultation questionnaire, although not all responders commented on all three questions. **Appendix B** outlines the responses to the questionnaire.

### 2.2. Quality Supplement

*Question 1: Do you agree with the Working Group not to use a measure of allocating funding for a quality supplement?*

This question required a yes or no answer. If the response was 'no' then respondents were asked to outline how they would assess the provision of quality of Early Years providers.

There were 67 responses to this question with 60 supporting the proposal not to allocate funding based on a quality factor, with 7 in favour.

### 2.3. Deprivation Supplement

The requirement to have a deprivation supplement is mandatory and therefore the consultation outlined four different options for allocating deprivation funding:

- Option 1: Keeping the deprivation supplement at the current rate of £1.14 per hour for eligible children.
- Option 2: Reducing the deprivation supplement from £1.14 per hour to £0.53 per hour for eligible children in line with Central Government's assessment of deprivation via the Early Years Pupil Premium (EYPP).
- Option 3: Allocating £0.27 to all Early Years Providers on the same basis as the universal rate, allowing them to make local decisions on how they provide services to children in their settings who may be experiencing deprivation issues. The funding would be separately identified and settings would be expected to demonstrate how they have used it.
- Option 4: Change the eligibility of paying the supplement to those children in the top 20% of deprived wards rather than the current top 30% of deprived wards whilst keeping the rate at £1.14 per hour.

*Question 2: Which is your preferred option for allocating funding for deprivation?*

There were 65 responses to this question with 46% supporting Option 3, 32% supporting Option 1, 19% supporting Option 2 and 3% supporting Option 4. Option 3, supported by most of the respondents, would, if implemented, have the effect of increasing the universal rate, albeit ring-fencing some of the allocation to managing deprivation.

## **2.4. Contingency**

*Question 3: Do you agree with removing the central contingency from 2018/19 onwards, accepting that this may lead to some future funding uncertainty?*

This question required a yes or no answer. There were 64 responses to this question with 83% of respondents preferring to remove the contingency.

## **3. Comments of the Working Group**

### **3.1. Quality Supplement**

The view of the Working Group was that a quality supplement should be only allocated on an objective assessment of the quality of providers and should not lead to any further administrative burden. Whilst it was recognised that Ofsted judgements are most widely used to assess quality of providers, this

does not necessarily mean that quality would be maintained between one assessment and the next.

This could potentially benefit good providers who then subsequently saw their quality provision deteriorating, and conversely it could penalise improving providers who did not achieve a good Ofsted rating at the time of assessment. Bearing in mind that it could be as long as four years between Ofsted inspections, the Working Group did not believe that applying a quality supplement on this basis would always reflect the true quality of provision over all this time.

Therefore the Working Group unanimously agreed not to support the allocation of Early Years funding based on an assessment of quality at this time.

Notwithstanding this the Working Group felt that any future formula review should again look at the viability of using a quality supplement in case anything changes around the assessment of Early Years settings and providers.

### **3.2. Deprivation Supplement**

The Working Group undertook some analysis of the correlation between payment of the deprivation supplement and the Early Years Pupil Premium (EYPP). 626 children attending 173 Early Years settings received the deprivation supplement during the autumn 2017 term. Only 70 of these children, in 42 settings, also received the EYPP.

The analysis demonstrated that there is no correlation between children getting EYPP (using the Government's method of identifying children most in need) and those getting the deprivation supplement (using our method of postcodes where children live and the Income Deprivation Affecting Children Index IDACI).

An issue for the Working Group was also that we have no requirement for settings to identify how they have spent the additional deprivation supplement funding, or whether it has been targeted at specific children. This creates a risk that it can become a top up to the base rate paid to some settings.

Whilst the consultation process was on-going we sought advice from the DfE on allocating the deprivation supplement. Their response was:

*“Local Authorities must have a deprivation supplement and it cannot be more than 10% of the total funding available (£0.43) in 2018/19. It is up to the individual local authorities on how they distribute the deprivation*

*supplement but they are required to explain how they have reached their decision on how they allocate this supplement.*

On the basis of this additional advice the Working Group agreed that it could not support Option 3 as it does not meet the requirement to target support to areas of deprivation and/or children from deprived backgrounds.

Option 1 was the second highest scoring response, with 32% of respondents wanting to maintain the status quo. These also means that 68% of respondents voted for one of the other options all of which would have had the effect of reducing the proportion of funding allocated on the basis of deprivation.

The Working Group came to a majority view that a compromise would be to recommend Option 2, which would see the deprivation rate reducing from £1.14 to £0.53 per hour for eligible children, in line with the Government's assessment of deprivation via the EYPP. [It should be noted that the current level of deprivation funding was set prior to the EYPP being introduced]. This would release up to £0.14 per hour to be added to the universal rate but still maintain a reasonable allocation based on deprivation factors.

The Working Group also discussed the appropriateness of using the IDACI as the sole basis for allocating the deprivation supplement. The Working Group felt that as the IDACI was based on post code it may not fairly reflect the status of individual children, especially in new housing developments which include affordable and social housing. The Working Group requested that they be allowed to continue working on a more detailed project of review the deprivation supplement, including investigating alternative deprivation measures, before the 2019/20 Early Years funding allocations are agreed.

### **3.3. Contingency**

The Working Group were unanimous in their view that the contingency should be removed from future funding allocations, as it was intended to be used to manage uncertainty around the potential take-up of the additional 15 hours in 2017/18.

Removing the contingency would marginally increase the universal rate for all Early Year Providers. The Working Group recognised that there were risks with removing the contingency especially if demand pressures exceeded assumptions around the future take-up of the additional 15 hours.

## 4. Views of the Schools Forum

- 4.1. The Schools Forum minuted their thanks to the Working Group for the work they had undertaken and endorsed the views and conclusions of the Working Group as to how the Early Year's Block funding should be allocated in 2018/19.
- 4.2. In recognising that the allocation of funding would be difficult as the overall level of funding per hour available for allocation was dropping, the Schools Forum:
- Supported the objective of increasing the universal rate as far as possible
  - Recognised the importance of investment in early years to future outcomes
  - Did not support allocating part of the available Early Years funding based on an assessment of the quality of provision by providers due to the absence of a generally accepted quality measure that was fair and equitable across all types of providers
  - Endorsed the reduction in funding for centrally provided services from 7% in 2017/18 to 5% in 2018/19, a reduction of 28% in overall funding, in line with Government expectations
  - Agreed that all funding should be allocated for use by the sector and therefore no contingency should be held back
- 4.3. The most difficult decision was in relation to the balance of funding between the universal rate and funding for deprivation. This was recognised as an issue on which there was no consensus in the Working Group. The view of the Schools Forum was that the universal rate should be increased after being frozen since 2016/17 and that as a consequence the funding allocated on the basis of deprivation would have to be reduced. In the absence of any other evidence reducing the funding for deprivation to the level of the government's assessed average need used for assessing eligibility for the early years pupil premium was agreed.
- 4.4. The Schools Forum also agreed that the Working Group should continue to meet with a view to undertaking a more detailed look at the deprivation supplement including investigating alternative deprivation measures. The results of this further work would then be reported to the Schools Forum in advance of their consideration of the 2019/20 Early Years funding allocations.

## 5. Allocation of Early Years Block Dedicated Schools Grant

- 5.1. On Tuesday 19 December 2017 Nick Gibb, The Minister of State for Schools Standards, confirmed the school and early year funding allocations for 2018/19.
- 5.2. The early years schools block DSG for Warwickshire in 2018/19 has been announced as £33.627 million. This is £3.247 million more funding than 2017/18 and represents an increase of £3.435 million increase in the additional 15 hour entitlement offset by a decrease of £0.190 million at the hourly rate for 3 and 4 year olds which has moved from £4.34 to 4.30 per hour.
- 5.3. Central Government's ring fenced supplementary funding for maintained nursery schools remains at £0.725 million in 2018/19.
- 5.4. If agreed, the recommendations of the Schools Forum would deliver hourly funding for 3 and 4 years olds in 2018/19 as set out in the table below. The table also includes a comparison with the hourly rates in 2017/18.

Factor	2017/18 Allocation Per Hour £	2018/19 Allocation Per Hour £
Total for 3 and 4 years olds	<b>4.34</b>	<b>4.30</b>
Universal rate allocated to providers	3.77	3.96
Deprivation Supplement	0.27	0.13
Central Provided Services (7%/5%)	0.30	0.21

- 5.5. Cabinet are recommended to support the views of the Schools Forum in allocating the funding for Early Years in 2018/19.
- 5.6. In doing this Members should note that the DSG review will look at our current spending funded from the DSG against the Government's Operational Guidance and the authority's strategic outcomes with a view to improving the deployment of DSG resources for the maximum impact. The review will include consideration of:
- The Early Years Block including use of the 5% of resources that can be retained centrally alongside the implications of the provider hourly rate (on the PVI sector as well as the state sector)
  - The Schools Block from April 2018 insofar as these resources are retained for local authority use (rather than delegated to schools)
  - The (new) Central Services Block

- The High Needs Block including the use and outcome of the High Need Strategic Review

## 6. Background Papers

6.1. None

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# Warwickshire County Council

## Early Years Funding Formula 2018/19 Consultation Questionnaire

Please note only one response per Early Years Provider

Provider Name	
DfE or Ofsted Number	

### Question 1

Do you agree with the Working Group not to use a measure for allocating funding for a quality supplement?

Yes/No – Delete as appropriate

If your answer is no please outline how you would assess the provision of quality of Early Years Providers.

### Question 2

Which is your preferred option for allocating funding for deprivation?

One/Two/Three/Four – Delete as appropriate

- One Keeping the deprivation supplement at the current rate of £1.14 per hour for eligible children.
- Two Reducing the deprivation supplement from £1.14 per hour to £0.53 per hour for eligible children in line with Central Government's assessment of deprivation via EYPP.

- Three Allocating £0.27 to all Early Years Providers on the same basis as the universal rate, allowing them to make local decisions on how they provide services to children in their settings who may be experiencing deprivation issues. The funding would be separately identified and settings would be expected to demonstrate how they have used it.
- Four Change the eligibility of paying the supplement to those children in the top 20% of deprived wards rather than the current top 30% of deprived wards whilst keeping the rate at £1.14 per hour.

### **Question 3**

Do you agree with the Working Group to remove the central contingency from 2018/19 onwards, accepting that this may lead to some future funding uncertainty?

Yes/No – Delete as appropriate

Any other comments:

**Please return your completed questionnaire to:**

**[corporatefinanceandadvice@warwickshire.gov.uk](mailto:corporatefinanceandadvice@warwickshire.gov.uk)**

**by 6pm on Friday 8 December 2017**

## Early Years Funding Formula Review Consultation Responses

**Question 1** - Do you agree with the Working Group not to use a measure for allocating funding for a quality supplement?

Yes	No
60	7

If your answer is no please outline how you would assess the provision of quality of Early Years Providers:

**Atherstone & Bedworth Heath Nursery Schools** - (NO) We would support a mechanism which led to the accreditation of early years leaders in schools and settings, via the specialist leader in education route (qts) or a new Warwickshire 'specialist early educator'. In return for additional funding, those organisations with an accredited team member would support the delivery of quality improvement activity, working in partnership with the early years teaching school. This would build capacity and quality across the sector and support development of a system led quality improvement model, as outlined in a new strategic vision for early years in Warwickshire

**Clopton Nursery** - (NO) Through a yearly audit and county unannounced spot visits to assess that quality of the provision. Also information from parents and other stakeholders in confidence.

**Inside Out Nurseries Ltd** - (NO) Use the OFSTED rating. Good settings should be rewarded. It costs money to provide high quality care. Give settings a financial incentive to achieve better standards!

**Little Willows Pre-School** - We agree that it would be very difficult to measure and to determine the eligible criteria. Ofsted judgements are not necessarily reflective of the on-going quality of provisions.

**Knightlow Childrens Partnership Ltd** - Ofsted rigorously assess our quality, to set up and run another equally comprehensive measure would be expensive a waste of the EY budget

**Galley Common Childcare Ltd** - I cannot make any suggestions of a possible way to simply and fairly allocate a quality supplement

**Pathways Nursery Warwick** - Use some of the Ofsted criteria – and give a provisional grade

**Abbey Fields Nursery and Out of School Care** - I believe quality could be assessed by a generic Service review system with additional points if you are in an area of deprivation – yearly a consultation could be placed online and parents at each nursery invited to score the nursery. This could be part of their terms and conditions.

**Sunbeams Pre-School Radford Semele** - Appreciate a response is only required if response to above was 'No'. However, I personally feel some financial benefit must accrue to quality EYPs – possibly a grant can be made available to Outstanding and Good settings at the time the assessment is made.

**RSC Nursery** - I absolutely agree that Early Years Provision does not need more measures sapping more of everyone's funds to administer more paperwork.

**Question 2** - Which is your preferred option for allocating funding for deprivation?

Option 1 - Keeping the deprivation supplement at the current rate of £1.14 per hour for eligible children.

Option 2 - Reducing the deprivation supplement from £1.14 per hour to £0.53 per hour for eligible children in line with Central Government's assessment of deprivation via EYPP.

Option 3 - Allocating £0.27 to all Early Years Providers on the same basis as the universal rate, allowing them to make local decisions on how they provide services to children in their settings who may be experiencing deprivation issues. The funding would be separately identified and settings would be expected to demonstrate how they have used it.

Option 4 - Change the eligibility of paying the supplement to those children in the top 20% of deprived wards rather than the current top 30% of deprived wards whilst keeping the rate at £1.14 per hour.

Option 1	Option 2	Option 3	Option 4
21	12.5	29.5	2

**Atherstone & Bedworth Heath Nursery Schools** - (DIDN'T ANSWER) We would not support any of these options as they are written here – our view is that there should be a graded approach to deprivation funding with those children in the top 10% wards receiving the highest amount of the deprivation rate - which might be lower than £1.14, followed by a lower amount for top 20% and a further lower amount for children in the top 30%. We would also further support the use of the current 2HELP funding criteria as the measure used to assess deprivation and not IDACI. It's not possible to make an informed decision without far more information about the settings and children affected by the fluctuation - an impact assessment should be undertaken to inform this before a final decision is made.

**Inside Out Nursery Ltd** - Voted for Option 2 and Option 3 (hence the 0.5)

**Question 3** - Do you agree with the Working Group to remove the central contingency from 2018/19 onwards, accepting that this may lead to some future funding uncertainty?

Yes	No
53	11

**Atherstone & Bedworth Heath Nursery Schools** - (NO) it does not provide any scope for unforeseen circumstances

**Emily's House** - (DIDN'T ANSWER) Unsure as no history of the use of contingency in the document or the reasoning why it was put in place and the reasoning why it should be removed.

**Little Willows Pre-School** - (DIDN'T ANSWER) We are unable to answer this question. The Consultation document does not explain in an understandable format what the Centrally Provided Services include nor the contingency and, therefore, we are not in a position to make a informative decision in this regard. However, we are able to advise that we do not consider that the Early Years Funding Working Group should make any decision that would create any uncertainty regarding future funding in this current climate of economic austerity. The current funding is already insufficient to promote continued and sustainable quality. The increase of children with complex and significant SEND, social and behavioural difficulties, and children with EAL is impacting enormously on mainstream voluntary settings, who are wholly reliant on Government funding. The current situation is already unsustainable without recommending any potential decrease or vulnerability in future funding.

**Milby Nursery and Kids Club** - (DIDN'T ANSWER)

Any other comments:

**Noah's Ark Christian Pre-School** - The report was quite badly written and hard to understand. Option 3 for Question 2, seemed on balance to be the best outcome as it gives value to all children. However we would be unhappy with the extra paperwork it would generate with regards to demonstrating how the money is being used. It is difficult with funding levels so low to then separately allocate pots of money for particular purposes, other than needing to pay and train staff and other overheads and resources.

**Monkey Puzzle Stratford-upon-Avon** - A risk either way. Hard to respond to this one as I am unclear on the risks or factors that could trigger an overspend (other than the potential take-up of the additional 15 hours). It would seem sensible to review this one annually. This would help clarify the additional 15 hour take-up and also monitor any other issues leading to overspend.

**Child 1<sup>st</sup> (Coleshill) Ltd** - Regarding question 3 – small providers are likely to find it very challenging to make ends meet – especially if their income comes largely from funded children – thus any increase in the universal rate will help Warwickshire minimise loss of nursery places.

**Little Glendalers Preschool** - Struggling to understand how we are expected to care and educate our children and care and educate our families that are needing lots of support on £3.77 an hour? We are not in a major deprived area but have a lot of struggling families that live in privately rented houses that are not in deprived postcodes. More children now than ever are starting preschool with speech and language issues, behaviour issues and overall delayed development, which means lots of extra input from my team, we need more staff but can't afford on £3.77 an hour. Rent, Tax, Wages, training, utility bills etc are all going up but we are still expected to do our job on £3.77 an hour. I am unaware of the financials of nursery schools hourly rate but as we all do the same job feel that we should all be fairly and equally paid.

**Little Willows Pre-School** - Deprivation Supplement - In our experience, the most deprived children in our setting are in receipt of the deprivation supplement appropriately using the IDACI. However, we would agree that children living in social housing on new housing estates are not in receipt of the supplement. The IDACI needs to be updated to include the social housing postcodes, which would address the situation appropriately for our setting.

**Nature Trails Nurseries** - Although there is a substantially increased cost associated with quality provision, as there is such limited funding available, I believe that all nurseries should receive the same hourly rate.

**Knightlow Childrens Partnership Ltd** - The funding needs to be given to the frontline provision to ensure it gives maximum benefit to the children for which it is intended. There also needs to be equality for PVI settings compared with Nursery Schools, as we all have increased overheads and need to ensure sustainability

**Milby Nursery and Kids Club** - How much would option 2 add to the hourly rate of the universal rate?

**Abbots Farm Infant School** - Contingency should be used for children attending early years provision

**Cygnets Education and Childcare Trust** - This consultation was only sent to us last week, Wednesday 29th pm, with a deadline of 8th December, effectively only giving us 7 working days to respond; is this really acceptable for such an important consultation? Particularly at this time of year our sites are all busy so we have responded together with our group Ofsted registration but trust we will be counted as 3 individual sites, when responses are collated. Communication via the Schools Funding Forum remains an issue; matters could be vastly improved if there was an additional PVI forum representative and an alert was emailed to providers, when meeting minutes are available, failing any other form of update. If more funds were available, to support a higher base rate, then our 3 sites might have chosen option 2 re the deprivation supplement and to keep back a small contingency, as long as ring fenced for all providers and, if not used, not absorbed into other projects. We hope that as the transition year passes the extra support given to nursery classes will be ended, so that PVI settings can genuinely be given the same level of funding as maintained classes, within schools, and this is made transparent. **(have email proof they received email on 17/11/2017 - admin2423@welearn365.com)**

**Coleshill C of E Primary School & Nursery (Sunflowers)** - Would it be worth keeping a reduced contingency centrally?

**Little Lawrences (St Lawrence CofE Primary)** - I can see why some providers are folding where there are management and building costs or something that Little Lawrences is protected from due to its integrated nature with the main school.

**Busy Bees Leamington** - Although this may have a slight negative impact and could affect future funding, a contingency could be achieved by utilising the remaining 5% that LA's are not obliged to pass through to providers as the DSG is not ring-fenced solely for EY providers.

**Busy Bees Rugby** - Although this might have a slight negative impact and could affect future funding, a contingency could be achieved by utilising the remaining 5% that LA's are not obliged to pass through the providers as the DSG is not ring-fenced solely for EY providers.

**RSC Nursery** - Maintaining a Central Contingency as insurance to protect against shortfalls during this period of uncertainty of the uptake of the 30 hours seems the pragmatic option to protect against fluctuations over the next couple of years. My understanding is that the contingency is short term and once data on the uptake of the 30 hours has settled, more accurate predictions can be made and therefore holding a contingency will be made obsolete.