
REPORT FOR: CABINET

Date of Meeting:	16 February 2017
Subject:	National Early Years Funding Formula and Local Funding Formula
Key Decision:	Yes
Responsible Officer:	Chris Spencer, Corporate Director of People
Portfolio Holder:	Councillor Christine Robson, Portfolio Holder for Children, Schools and Young People
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	Appendix A-Consultation document Appendix B-National Consultation response Appendix C- Local Consultation Response form Appendix D-Equalities Impact assessment Appendix E- Eligibility Criteria for the additional 15 hours of childcare Appendix F-Ofsted outcomes at the end of 2016 Appendix G- Parent/carer survey 30 hours free childcare. Appendix H-Options proposed and financial values

Section 1 – Summary and Recommendations

This report presents the proposed local funding formula.

Recommendations:

Cabinet is requested to:

Note the outcomes of the funding formula consultation.

Approve the funding formula as set out in Table 2.

Reason: (For recommendations) To enable the Local Authority to fulfil its statutory duty to secure sufficient and affordable childcare.

To maximise funding for early years providers.

Target effectively additional funding to those children who need it.

Section 2 – Report

Introductory paragraph

Harrow Council is committed to providing high quality and sustainable childcare to meet the needs of the local population and so that children are better prepared for school.

Since 2004 all three and four year olds have been entitled to a free part time early education place of up to 15 hours per week in the setting of their parents' choosing. The Government placed a duty on every local authority to support the sustainability of the private, voluntary and independent (PVI) sector settings and thus choice for parents. In line with the statutory requirements, Harrow implemented its local Early Years Single Funding Formula (EYSFF) for funding early year's provision across the maintained and PVI sectors in April 2010. In April 2015 the Council revised its EYSFF, in consultation with providers and approved by Cabinet, to ensure consistency of funding across all types of providers.

The Council's Early Years Strategy aims to improve outcomes for children, especially disadvantaged children and children with Special Educational Needs & Disabilities [SEND], and to narrow gaps in achievement.

Background

The Government launched its consultation on the reform of Early Years funding on 11th August 2016 which closed on 22nd September 2016. The consultation stated that the main principles of the funding reform are to:

- Maximise funding to early years providers
- Allocate funding fairly to LAs and different types of providers
- Distribute funding efficiently and effectively to ensure value for money

- Allocate funding transparently so LAs and providers can understand how their funding rates were derived
- Target effectively additional funding to those children who need it
- Allow adequate time to transition to the new funding arrangements

Local Authorities will be funded by an Early Years National Funding Formula (EYNFF) which will equate to an hourly rate per participating pupil on the January Early Years Census. LAs will continue to be required to distribute this funding to providers via its Early Years Single Funding Formula. However amendments to the EYSFF are required in order to meet the revised criteria as set out by the Government. The implementation date for the revised EYSFF is 1st April 2017.

Additional 15 hours of free entitlement for eligible 3&4 year olds

From September 2017 the Government will provide funding for an additional 15 free hours to working parents of 3&4 year olds. This will be available for families where both parents are working (or the sole parent is working in the lone parent family) and each parent earns the equivalent of 16 hours a week at the national minimum or living wage and earns less than £100,000 per year.

The DfE estimates that the additional 15 hours will result in about 28% increase; nearly 400,000 families nationally will be eligible from September 2017. Across the country there is currently 95% take up to 15 hours free childcare for all 3-4 [93% 3 YOs, and 97% 4 YOs] year olds, and 85% of these children take a place in a good or outstanding setting [by the end of the year this increased to 91%].

The government launched a consultation on **3rd April 2016** which closed on **6th June 2016**. The consultation asked respondents for views on:

- increasing flexibility of the free entitlement to better meet the needs of working parents
- improving access to the free entitlement for disabled children and those with additional needs
- making the local delivery model more efficient, and
- improving parents' access to information about childcare.

The report can be found via this link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/565668/Government_response_-_30_hours_delivery_consultation.pdf

On **2nd December 2016** the government announced the outcomes of its consultation, and the key reforms were summarised in a letter from the DfE:

- A new early years national funding formula from **April 2017** that will increase Government funding rates in 80% of local authorities;
- A minimum funding rate of at least £4.30 per hour for every local authority;

- A requirement for local authorities to pass 95% of their funding to providers from 2018;
- Additional funding, worth £55m per year, to support maintained nursery schools until the end of this Parliament [2019-20];
- A new Disability Access Fund worth £615 per child per year to support disabled three- and four-year olds to access their early years entitlement, and
- A requirement for all local authorities to have Inclusion Funds to channel additional support to children with Special Educational Needs.

Current situation

The Council has a statutory responsibility to ensure sufficient provision of childcare to meet prescribed needs. The Government in recent years has extended the free childcare from 15 hours for all children who are three and four year olds, to eligible children who are two years old. This is due to be expanded again to eligible 3 and 4 year olds for 30 hours from September 2017. Action is required to be taken to ensure that the Council supports the capacity within Harrow to meet the Government's agenda and the changes in Harrow's population. Within the context of concerns about the affordability and convenience of childcare costs, and the increasing demands on local providers, there is also a mismatch in key parts of Harrow of supply and demand. These areas are in most cases the most deprived and fastest growing wards. These include Canons, Marlborough, Wealdstone, Roxbourne and Harrow Weald.

The new EYSFF aims to enable the Council to fulfil its obligation to provide sufficient childcare for working parents and those seeking work.

The current funding formula is set out below:

Table 1 – Current 2016-17 Harrow EYSFF rates

Factor	Hourly Rate	% split	Description
Base rate	£3.60	83.92%	Universal
Graduate	£0.32	7.46%	EYP L6 or QT
Flexibility	£0.23	5.36%	Alternative to 5 morn/5
Quality	£0.09	2.10%	Ofsted rated Good or
Deprivation	£0.05	1.17%	Based on IDACI*
Total	£4.29	100.00%	

*Income Deprivation Affecting Children Index

Base Rate

A universal base rate for all providers based on participating 3&4 year olds

Graduate Leadership

Incentivising graduate leadership is key to sustaining the significant improvement in the quality of provision in the borough, whilst incentivising

flexibility will enable providers to make better use of existing capacity in response to increased demand. Providers are eligible if they employ a qualified teacher or Early Years Professional Level 6.

Flexibility

The Early Education and Childcare statutory guidance for local authorities states that local authorities should:

- Fund providers to deliver early education places at times and in patterns that support parents to maximise the use of their child's place.
- Encourage providers to offer flexible packages of early education.

By including a supplementary hourly rate for flexibility of the offer it encourages providers to increase the flexibility of the offer to something other than 5 mornings or 5 afternoons.

Quality

All children should be able to take up their entitlement to funded early education in a high quality setting. Evidence shows that a higher quality provision has greater developmental benefits for children, particularly for the most disadvantaged children. By including a supplementary hourly rate for settings which are Ofsted judged "good" or "outstanding" providers are financially incentivised to achieve these ratings. Providers which are not judged good or outstanding are supported through the existing learning networks.

Deprivation

This is a mandatory factor. Children who live in a postcode which is defined by the Income Deprivation Affecting Children Index as deprived.

The new allowable factors in the EYSFF from April 2017 are as follows:

- Base rate (mandatory) – a universal base rate for all providers based on participating 3&4 year olds
- **Deprivation [mandatory]**-reflecting the higher costs of proving quality education from backgrounds of socio-economic disadvantage.
- **Rurality/Sparsity [discretionary]**-populated rural areas
- **Flexibility [discretionary]**-Innovative and creative provision to meet the needs of parents
- **Quality [discretionary]**- a higher rate for more qualified staff, and Ofsted outcomes
- **English as an additional language [EAL] [discretionary]**

Due to the timescales for implementation, in October 2016 the Local Authority carried out an initial consultation with Harrow early years providers on the basis of the government consultation on the reform of Early Years Funding. In preparation for the consultation a working group was established by the Lead Early Years officer. The group consisted of members of Harrow Early Years team, the Head of the Family Information Service, and lead by the head of the Family Information Service. Represented in the group were Head Teachers(on behalf of maintained nursery classes and as Schools Forum

members) , PVI owners and child-minders. The consultation closed on the **30th November 2016**.

This consultation asked key questions about the supplements to be used in the EYSFF from April 2017. 2 provider responses were received and these are summarised at Appendix A. As a result of the launch of the Government's response to its consultation on 2nd December a number of changes were proposed to the original consultation which required the LA to carry out a second consultation which ran from 13th December 2016 to 3rd January 2017. 2 providers and 13 parent responses were received and these are summarised at Appendix A.

As current funding in Harrow reflects the DfE proposals, there will be limited impact on service provision from the LA, though there will be an impact following the ending of the 2 year project [ends around January 2018]- during the period of this project, Harrow has maintained quality at or above national trends for Ofsted [around 94% of settings good or better].

Context

Harrow Council's Early Years Strategy places the achievement of all children at its heart. The overarching aim of the Strategy is to close gaps in achievement so that all children are better prepared for school. There will be legislation that requires every area to set up a local inclusion fund for children with SEND to support providers in driving outcomes for these children – LAs will be required to publish details on how they are using their SEND inclusion fund, as part of the published Local Offer. This will include the fund's planned value, eligibility criteria and the process for allocating the fund to providers.

The Council's second consultation proposed the following structure to the EYSFF

- Universal base rate – 90% of the total available hourly rate (mandatory)
- Supplements – 10% of the total available hourly rate (mandatory)
 - Deprivation – 1% of the total 10% available for supplements (this is mandatory factor but the percentage is to be decided locally)
 - Flexibility – 4.5% of the total 10% available for supplements (this is an optional factor)
 - Quality - 4.5% of the total 10% available for supplements (this is an optional factor)
 - English as an Additional Language – it was not proposed to include this as a supplement in the EYSFF
 - Rural/Sparsity – this is not an applicable factor for Harrow

It also proposed three options for top slicing the overall funding available to providers to create an SEND Inclusion Fund.

The options proposed and financial values attached are shown at Appendix G.

The consultation closed on the **3rd January**. As a result of the consultation there were a total of 2 responses – both providers were keen to sustain quality but did not want flexibility as a supplement.

14 Parents/Carers responded and of that 5 out of 13 would not take the additional hours

The rationale for top slicing is set out below

Schools Forum was consulted as part of the consultation process. Schools Forum did not support a top slice of 5% believing instead that a higher universal rate would benefit providers. In addition Schools Forum had some concerns regarding the LA's eligibility criteria for distributing this funding which has not yet been determined. However, the LA is working towards this and it will be published by the LA as part of its Local Offer by the end of the financial year. The SEN Inclusion Fund is mandatory and the LA feels that incentivising providers financially who take children with low level and emerging SEN is a priority to ensure that all children can access provision.

From the consultation, Childcare Sufficiency Assessment and analysis of data and engagement with Early Years professionals, providers and officers, the Council proposes that the options set out in the consultation for the structure of the funding formula as set out above should be implemented.

There will be a mandatory base rate set at no less than 90% of funding allocated to providers

There will be three funding supplements totalling 10% of funding allocated to providers.

The Local Authority has to passport at least 93% in 2017-18 (and rising to 95% in 2018-19) of total early years funding to providers

Deprivation-Reflecting the higher costs of providing quality early education for children from backgrounds of socio-economic disadvantage, this factor remains mandatory.

This will be set at 1% of the total hourly rate available to providers. This is subject to child eligibility.

Quality- Creating sustainability for settings - to reward and recognise providers who make optimum use of their income to provide high quality childcare, invest in their workforce and develop their business models. This will be set at 4.5% of the total hourly rate available to providers. This is subject to provider eligibility.

Flexibility- The DfE want providers to offer flexible childcare which fits around parents' working patterns, and therefore believe that provision of a 'stretched offer' including holiday care, 'wraparound' to extend the day or out-of-hours provision should be encouraged. This will be set at 4.5% of the total hourly funding rate through this factor.

A summary of the proposed EYSFF and the hourly rates is shown below at Table 2

Table 2 – Proposed EYSFF 2017-18

Factor	Hourly Rate	% split
Universal Base Rate	£4.07	90.0%
Deprivation (based on IDACI)	£0.05	1.0%
Quality	£0.20	4.5%
Flexibility	£0.20	4.5%
Total	£4.52	100.00%

Meeting the needs of children with SEND

In addition to the revised EYSFF the Council is also required to establish an SEND Inclusion Fund. This is created by top slicing the total funding available to providers. The consultation offered options to top slice the following levels of funding. This fund is to support providers in improving outcomes for children with special educational needs. The fund will be focussed on children with lower level or emerging SEND, since those with more complex SEND can receive funding through the Education Health & Care Plan. LAs will be required to publish details of their eligibility criteria along with the planned value of the fund and the process for allocating funding to providers as part of the Local Offer. Funding will be passed to providers in the form of top up grants on a case by case basis.

It is proposed that 5% of the total funding available to providers is top sliced to set up to support the inclusion fund. This would create a fund of approximately £545k.

There are approximately 400 children with SEND known to PVI's with more children being identified during visits. Each setting in the current system receives £1000 annually.

The new inclusion fund will be child driven and will be a continuous source of funding for all children with lower level SEND. The Local Authority will need to pre-empt the number of children and ensure this source is available for those who need it.

Disability Access Fund

A Disability Access Fund is to be introduced from April 2017 to support Early Years providers to make initial reasonable adjustments and build the capacity of their setting to support disabled children. Providers will receive additional funding for children in their setting in receipt of Disability Living Allowance – this will be £615 per year per eligible child. Early years providers are responsible for identifying eligible children. Providers will be able to use the parent declaration form template due to be published alongside the Model Agreement in early 2017.

Early Years Pupil Premium

This will continue into 2017-18 at a rate of £0.53 per hour per eligible child.

Overall providers will see an increase in the hourly rates they receive as the total EYSFF hourly funding available will increase from £4.29 to £4.52. In addition, the new SEND inclusion fund will support providers to meet the needs of children with low level and emerging SEND, the new Disability Access Fund will provide funding to support providers to meet the needs of children with disabilities and finally the Early Years Pupil Premium funding will continue for those children from low or no income families.

Implications of the Recommendation

Resources, costs

The strategy is based on funding streams that enable the Council to provide additional staffing and resources over the next year. The focus is then on ensuring that systems are sustainable so that outcomes continue to improve.

Performance Issues

Over 90% of Harrows 108 Private, Voluntary and Independent Early Years settings in Harrow are rated good or outstanding.

As part of the funding formula we recommend quality to support sustainability within the setting.

Environmental Implication

There is no environmental implication arising directly from the new Single funding formula.

Risk Management Implications

Risk included on Directorate risk register? No

Separate risk register in place? No

Main risk	Likelihood	Impact	Controls
Increased risk of a lower percentage of contingency for local authorities to meet short fall in funding.	L	L	The strategy aims to help all childcare provision to be self-sustaining over time. Support and advice on business development and marketing is provided.

Implications of the quality of provision are not maintained due to funding caps. Implications for settings to meet the needs of SEND children.	L	L	Ofsted outcomes reviewed so that vulnerable settings [PVI's and Child-minders judged to require improvement or inadequate; and new settings] are given targeted support
Implications of not offering supplements for quality or graduate leadership.	L	L	Termly reviews will identify risks and target improvements in specific settings
Implications if the quality of children's outcomes does not improve	L	L	Improved data sharing will enable the early year's team to track the progress of vulnerable groups of children [including those with SEND, CLA, and EYPP] and offer support and advice

Legal Implications

Section 6 of the Childcare Act 2006 places a duty on local authorities to secure, so far as reasonably practicable, that the provision of childcare is sufficient to meet the requirements of working parents and those wishing to take up work or undertake education or training. Section 7 places a duty on local authorities to secure that early years provision is available free of charge for prescribed children. The current duty relates to 15 hours per week of free early education to all 3 and 4 year olds and 15 hours per week of free early education to prescribed disadvantaged 2 year olds. The Childcare Act 2016 sets out a new duty for eligible 3 and 4 year olds of working parents, which if brought into force would extend the free provision to 30 hours per week. Whilst the detail of the duty is reserved to regulations, the recent consultation indicates that the duty will take effect from September 2017 and will apply to working parents with a specified means test.

Under current legislation, local authorities are required to set and use a locally determined formula to fund all types of early years provision (the early years single funding formula) and supply to all providers an indicative budget at the beginning of the financial year and adjust budgets to reflect actual levels of participation. The formula must be constructed of either a single base rate for all providers or a number of base rates to differentiate by type of provision, based on unavoidable cost differences. The formula must include a deprivation supplement for 3 and 4 year olds and must be based on a count of children attending the provision. Local authorities are required to have a schools forum and to include representatives from the early years sector on This forum. Under the Schools Forum (England) Regulations 2012, a local authority must annually consult its schools forum in respect of its functions relating to schools budgets, in connection with arrangements for early years provision.

It is proposed that the new system will be based on three funding factors, namely a universal base rate for each child, an additional needs factor to reflect the additional costs of supporting children with additional needs and an area cost adjustment. Whilst it is envisaged that the majority of local authority areas will gain funding, for those that will lose funding, it is proposed to introduce a funding floor, meaning that no local authority will face a reduction in its hourly funding rate of more than 10% against the 2016-17 baseline. In order to ensure that providers are receiving the highest possible proportion of funding, it is proposed to introduce a minimum threshold on the proportion of funding to be passed on to providers of 93% in 2017-18 and 95% thereafter. It is proposed to introduce transitional provisions meaning that local authorities will have until 2019-20 to fully implement the proposals, although early adoption is also permissible.

Financial Implications

The Early Years Single Funding Formula is funded by the Dedicated Schools Grant (DSG). The local authority receives funding based on participation taken from the Early Years Census in January. The funding received for 2017-18 will be based on 5/12ths of the January 2016 and 7/12ths of the January 2017 Early Years Censuses. The initial budget allocation for 2017-18 is £5.12 per hour based on 4,015 participating children. This equates to £11.717m. The revised EYSFF has been developed to ensure that there is no financial impact on current budgets.

The breakdown of the funding available and distribution of the overall Early Years Funding is shown below:

Description	Hourly £	Total £'000
Hourly rate to LA	£5.12	£11,717
LA to retain 7% for central Early Years functions		£820
Funding available to providers	£4.76	£10,897
Top slice SEN inclusion fund		£545

Funding available to providers through formula	£4.52	£10,352
Base rate minimum 90%	£4.07	£9,317
Supplements 10%	£0.45	£1,035
Funding available to providers through formula	£4.52	£10,352
Breakdown of supplements		
- Deprivation (IDACI) 10%	£0.05	£103
- Flexibility 45%	£0.20	£466
- Quality 45%	£0.20	£466
Total Supplements at 10% of overall allocation	£0.45	£1,035

There is a risk that participation increases at a higher growth rate than the lagged funding will accommodate. However, for the purposes of the financial modelling it has been assumed that all providers will be eligible for all supplements when in reality this will not be the case. This will therefore provide some element of contingency to ensure that the funding formula is affordable within the financial year.

The funding for the additional 15 hours entitlement provided to the Council for the period September 2017 to March 2018 is based on an estimated take up of 660 children. However, if take up is higher than this there is also a risk that the additional funding provided may not be sufficient within the financial year. This will be monitored closely as the year progresses. Any pressure on this area of the DSG will have to be met from centrally held DSG ring fenced contingencies or carried forward as a deficit and funded from the following years' DSG allocation.

Equalities implications / Public Sector Equality Duty

Equalities Impact Assessment has been undertaken and is attached at Appendix D. The assessment identifies that Harrow has higher proportions of children with special educational needs (than in outer London and England) that are eligible for 2, 3 and 4 year old funded early education entitlement. Also that a higher proportion of parents of children with special needs report not using childcare, finding it harder all year to access childcare and being less satisfied with childcare. There is also evidence that indicates some minority ethnic groups are not taking up their entitlement to free childcare, especially for 2 year olds.

The early year's strategy and funding proposals recognises the importance of local businesses and communities in supporting the childcare needs of vulnerable families. In particular the strategy places a high priority on meeting the needs of children with SEND. In addition, the strategy focuses on the needs of particular minority ethnic communities that currently do not access their entitlement to free childcare.

Council Priorities

The Council's vision for building a better Harrow has three priorities:

Working Together to Make a Difference for Harrow

- Build a Better Harrow
- Be more Business-like and Business Friendly
- Protect the Most Vulnerable and Support Families.

Section 3 - Statutory Officer Clearance

Name: Jo Frost	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 3 February 2017		
Name: Sarah Wilson	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 6 February 2017		

Ward Councillors notified:	NO, as it impacts on all Wards
EqIA carried out:	YES
EqIA cleared by:	Johanna Morgan, DETG Chair, People Services

Section 4 - Contact Details and Background Papers

Contact: Brian Netto, Senior School Improvement Adviser
020 84209497 brian.netto@harrow.gov.uk

Background Papers: None.

**Call-In Waived by the
Chair of Overview and
Scrutiny Committee**

NOT APPLICABLE

[Call-in applies]