Document GI

SCHOOLS FORUM AGENDA ITEM

For Action ☐ For Information ■

Brief Description of Item *(including the purpose / reason for presenting this for consideration by the Forum)*

This report provides an update on Early Years DSG funding matters, including the DfE's consultation on the proposals for a National Funding Formula. The report asks for the Forum's view about areas of consensus that should be included in the Authority's response to this consultation. Feedback from the Early Years Working Group will be presented verbally to the meeting. This report is presented in advance of asking the Forum to agree its consultation on Bradford's Early Years Single Funding Formula for the 2017/18 financial year, which it is anticipated will be presented to 19 October meeting.

Date (s) of any Previous Discussion at the Forum

The DfE's consultation on an Early Years National Funding Formula has not yet been considered by the Schools Forum. The matter of the £1.2m under spending in the DSG 2 year old resources was referred to the Early Years Working Group at the Forum's meeting on 20 July 2016.

Background / Context

At the Schools Forum meeting 20 July 2016 it was reported that a further £1.2m of unspent resource is available from the DSG's earmarked funding previously allocated for the development of the 2 Year Old Offer. It was reported that the total under spending in this budget at 31 March 2016 was £1.95m, with £0.75m having already been committed by the Forum to continuing the development and take up of 2 year old places. The Business Advisor (Schools) recommended at the meeting, having discussed this with lead officers, that the £1.2m is released back to the DSG to support the significant financial pressures in the High Needs Block in 2016/17. The Forum asked that this be referred to the Early Years Working Group (EYWG) for consideration.

In previous presentations about the National Funding Formula proposals, we have explained that no details have been given about the future direction of Early Years formula funding; only that the DfE had promised a "parallel" consultation. We have briefed previously on our expectation that, because we currently fund our early years provision within the DSG at a rate that is significantly higher than the national average and in most other authorities (in excess of £1.00 more per hour), we are likely to lose from national funding formula arrangements. The rationale for our higher rate of funding has been less around the costs of childcare and more around early intervention.

For reference, Bradford's re-baselined 2016/17 DSG Early Years Block currently is £39.18m. This is 7.8% of the total DSG. It is made up of the following elements:

- 3 and 4 Year Old Offer £29.91m (76%)
- 2 Year Old Offer £8.93m (23%)
- Early Years Pupil Premium £0.34m (1%)

Our current 2016/17 Early Years Single Funding Formula allocates funding to providers as follows:

- A 2 Year Old Offer universal setting rate £4.83 per hour
- 3 and 4 Year Old setting base rates x3:
    - Nursery schools £5.70 per hour
    - PVI providers £4.62 per hour
    - Nursery classes £4.13 per hour
- An additional individual setting 3 and 4 year old deprivation rate, calculated using a 3 year rolling IDACI average. 13.2% of the total 3 and 4 year old budget is allocated via this factor. The mean average rate is £0.68 per hour.
- An additional sustainability lump sum, incorporating catering costs, for nursery schools; total allocation of £0.38m.
- An additional allocation, £333 per term, for Looked After Children in all settings.
- The Early Years Pupil Premium to the formula and conditions set by the DfE.

The distributions between settings of children taking up the free entitlement offers (based on 2016/17 indicative numbers) are as follows:

- 2 Year Old: 11% nursery schools; 18% nursery classes; 71% PVI providers
- 3 and 4 Year Old: 7% nursery schools; 37% PVI providers; 57% nursery classes

Background / Context (continued)

The Government's new 30 hours free entitlement for 3 and 4 years olds of working parents is to be implemented from September 2017. Bradford is an 'early innovator' authority. A project board is overseeing our development work, including the development of pilot delivery from September 2016. Funding will begin in and from the DSG for this additional offer from September 2017 (7/12ths in 2017/18). The DfE estimates an additional 2,398 PTE to be funded in Bradford, with DSG funding of £6.25m on a full year on-going basis.

Details of the Item for Consideration

The anticipated consultation on a national formula for the funding (NFF) of the early years free entitlement was published by the DfE on 11 August 2016. The deadline for responses to this consultation is 22 September 2016. The full consultation document can be found here. The proposed timeline for the full implementation of new NFF arrangements aligns with that of the primary and secondary NFF; full implementation at April 2019, with transition over the next 2 financial years.

In summary:

- A quite substantial (7%) increase in funding for the 2 year old offer from April 2017 (£0.6m gain to Bradford on January 2016 numbers) – rate of funding per hour possibly increasing from £4.85 to £5.20.
- A substantial (10%) reduction in funding for the 3 and 4 year old offer, of £3.01m in the DSG on January 2016 numbers, meaning funding rates for 3 and 4 year old free entitlement provision will need to reduce, especially for nursery schools and PVI providers, starting from April 2017. This is funding lost from the District; it is not retained to be recycled into another part of the DSG.
- Nationally, 112 authorities are gaining from NFF proposals; 38 are losing (a number of London authorities are particularly negatively affected; our position is the worst of Yorkshire regional authorities).
- A significant alteration in the distribution of remaining funding between providers. A flattening of this distribution as a result of the proposal for a universal base rate.
- Very significant implications for the levels of DSG funding to nursery schools. The DfE indicates that there will be further consultation on this, with transitional protection in place "for at least" 2 years.
- An apparent weakening of the proportion of general funding allocated to deprivation (so a further flattening of the distribution on top of that from the universal base rate).
- Transitional protections in place 2017-19 meaning the full value of loss is not felt immediately, but substantial losses will still need to be managed in these transitional years (especially in 2018/19).
- Some lack of clarity on whether various restrictions come into place at April 2017 or April 2019.
- A new grant stream within the DSG, which will allocate funding on an annual basis for children in receipt of Disability Living Allowance (DLA).
- The Early Years Pupil Premium will continue.

A headline summary of the structural proposals behind these points:

- The Early Years Block, and the calculation of allocations to providers, will remain under the management of local authorities but under very tight national statutory restrictions.
- 2 year old funding and the Early Years Pupil Premium, on their existing formulae, will continue.
- Funding at DSG level for the 3 and 4 year old entitlement to be calculated on a simple formula: (Base Rate (89.5%) + AEN Factor (10%) x area costs + separate payments to providers for every children in receipt of Disability Living Allowance (0.5%), which are to be passed onto providers. The AEN factor is to be based on a combination of proxy measures (FSM, EAL and Disability Living Allowance).
- Authorities must have established a single universal base rate of funding for all providers, for the full 30 hours entitlement, by April 2019 at the latest (with encouragement for earlier implementation).
- The amount by which the Early Years Block can be 'topsliced' for centrally managed funds is restricted to 5% of the total budget. We currently topslice 1% and this is reducing.
- Authorities must have a deprivation factor and can continue to set their own method for allocating this to providers, but the total of spending on all supplements is limited to 10% of the budget. We currently spend 13.2% on deprivation alone. Unclear whether this restriction applies from April 2017.
- The types of supplements authorities can use will be restricted to: deprivation (mandatory), rurality (optional), key policy objectives e.g. flexibility (optional). We have not previously employed any of these supplements. However, this means that our current lump sum funding (to nursery schools) and sustainability mechanisms would not be permitted. Unclear whether this restriction applies from April 2017.
- Authorities are encouraged to introduce (if not in place) funds for inclusion for SEND children. These can be funded from the Early Years Block. We have this in place.
- The Minimum Funding Guarantee will no longer be applied in the Early Years Block.

Details of the Item for Consideration (continued)

The key messages on impact are:

- It is expected that our rate of funding for the 2 year old offer will increase from April 2017. Our current rate of funding is £4.85 per hour. The Government has committed to uplift the average rate from £5.09 to £5.39 per hour, which is a 5.9% increase. The consultation suggests our rate of funding in 2017/18 will be £5.20, which would represent an increase of £0.35 per hour (£0.6m on January 2016 numbers).

- The proposed new formula-led approach however, at April 2019 and on current data, will reduce our DSG rate of per hour funding for the 3 and 4 year old offer from £5.08 per hour to £4.55 per hour. At this level of reduction, we hit the DfE's proposed 10% floor, so our rate would not fall below £4.57. £4.57 is a reduction of £0.51 per hour and, on January 2016 census numbers, a loss of £3.01m of DSG funding out of the District. There will be additional transitional protection for 2 years, but sliding scale losses will need to be managed in these years, with the majority of the reduction taking place from April 2018. It is assumed that the 10% floor will be an on-going feature of the formula moving forward. If this is removed, our rate would drop by £0.02 to £4.55 on current data.

- Rates of funding for the 3 and 4 year old offer (and the rate for April 2019 when we get there) will be subject to annual variations due to changes in data – FSM, EAL etc. If the 10% floor is a permanent feature, because we are funded on this, our rate could go up if our FSM levels increased, for example, but would not reduce below £4.57.unless the DfE made specific decisions to alter arrangements. It is likely that we will set the principle of passporting for the Early Years Block (annual changes in funding both up and down will be managed within the Early Years Block through adjusting funding rates for providers).

- Our loss is made harder (it increases our financial pressures further) because we must fund more hours in the future on this lower rate. The new additional 15 hour entitlement at September 2017 will be implemented at the same time as all settings are responding to a fairly significant reduction in their levels of funding across 2017-2019. This is likely to make the introduction of the 30 hours entitlement very challenging. Our consultations on how we establish new reduced funding rates are also likely to be so.

- The options to sustain current levels of spend on early years by taking contributions from the Schools or High Needs Blocks are very limited, given the adoption of NFF arrangements in these other blocks and the pressure that is currently within the High Needs Block. We will need the Early Years Block to 'live within its means'. At the same time, because of these reductions, the ability of the Early Years Block to significantly contribute to High Needs Block pressures in 2017/18 and beyond is also very limited. However, the Early Years Block is permitted to contribute to resources for SEND inclusion and we would propose that it does so, to alleviate some of the pressure in the High Needs Block.

- Authorities will be required to set a single universal base rate of funding for the 3 and 4 year old offer for all providers, by April 2019 at the latest. This will have a significant impact in changing the distribution of funding at provider level. The requirement to reduce funding across the board (with the loss of the £3.01m) will mean rates for most settings will reduce, especially the rates for the PVI sector and for nursery schools. Also, together with the loss of lump sum funding for stand alone setting costs, this reduction in rates will have a serious impact on nursery schools.

- The size of impact will differ for providers, because our current base rates are different. This difference in rates comes from detailed cost analysis work. 2016/17 rates are:
    - Nursery Schools £5.70
    - PVI providers £4.62
    - Nursery Classes £4.13

- In the future, simply, the universal base rate would be calculated on a mean average, by dividing the budget by the number of hours to fund, having first reduced the available budget by e.g. 10% for deprivation, for SEND inclusion and for central managed costs. In 2016/17, our mean average is £4.41. So if we had applied this universal rate this year, rates would have changed as follows:
    - Nursery Schools - £1.29
    - PVI providers - £0.21
    - Nursery Classes +£0.28

Details of the Item for Consideration (continued)

- However, the mean average in the future will need to reduce in response to the reduction down to the £4.57 total DSG per hour funding rate; our £4.41 mean is currently based on the £5.08. We need to carry out work to calculate this reduction and model impact at provider level. We will do this with the School Forum's Early Years Working Group.

- Alongside this, the rates of funding allocated to support deprivation will reduce as the proposals will limit our spending to 10% of our budget; we currently allocate 13.2% of our budget to deprivation and also have a specific looked after children funding stream. If we wish to have other supplements in our formula e.g. to promote flexibility, our spending on deprivation would need to reduce below 10% to incorporate these. Again, we need to carry out more work on how the distribution of funding will change. However, this will generally flatten the distribution of funding and reduce the extent to which formula funding is targeted at vulnerable children. However, the new Disability Living Allowance funding stream will provide some new resource targeting SEND, alongside the Early Years Pupil Premium, which will continue to target deprivation and children in care.

The draft of the Authority's response to the DfE's consultation is attached at Appendix 1. Members are asked for feedback on areas of consensus that should be included in the Authority's response.

The EYWG is continuing to consider the options available for our funding approach for 2017/18 based on what we currently know. It is anticipated that our consultation document on 2017/18 arrangements will be presented to the Forum at the next meeting.

Implications for the Dedicated Schools Grant (DSG) *(if any)*

Direct implications – as outlined.

How does this item support the achievement of the District's Education Priorities

This is an item for information only.

Recommendations

The Schools Forum is asked to consider and to note the matters raised in the report and also to recommend areas of consensus that should be included in the Authority's response to the DfE's consultation.

List of Supporting Appendices / Papers *(where applicable)*

Appendix 1 – Bradford Authority's draft response to the DfE's consultation.

Contact Officer *(name, telephone number and email address)*

Andrew Redding, Business Advisor (Schools)
01274 432678
andrew.redding@bradford.gov.uk