



A GUIDE TO EARLY YEARS FUNDING AND DELIVERY CHANGES

Pre-school Learning Alliance

All three- and four-year-olds – and the 40% most disadvantaged two-year-olds – in England are currently eligible for funded early years provision for 15 hours per week, 38 weeks of the year.

In September 2017, this will increase to 30 hours per week for three- and four-year-olds from working families.

Ahead of this change, the Department for Education (DfE) is introducing a new approach to early years funding for three- and four-year-olds to try to make the way that funding is distributed between different local authorities and different providers fairer. The DfE is also implementing changes to the way in which funded early years provision can be delivered.

The Pre-school Learning Alliance has produced this guide to help providers understand these changes, and the general principles around the delivery of the 30-hour offer.

FUNDING

There are three main aspects to the government's funding changes.

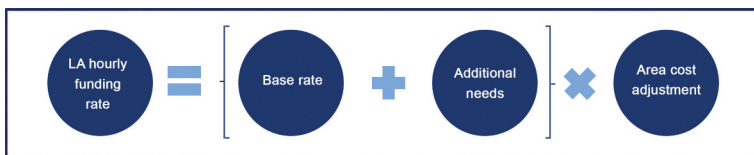
The first looks at how funding will get from central government to local authorities, while the second looks at how funding will get from local authorities to providers on the frontline. The third looks at new additional funding support for children with special educational needs and/or disabilities (SEND).

1. FUNDING FROM CENTRAL GOVERNMENT TO LOCAL AUTHORITIES

The DfE is introducing a new formula to calculate how much early years funding each local authority will receive from central government, called the early years national funding formula (EYNFF).

The aim of this formula is to ensure that the funding that each local authority receives reflects the cost of providing childcare in that area.

The formula is:



Under this formula, every local authority will receive the same 'base rate' of funding from government: **£3.53 per hour**.

On top of this, they will then receive extra funding to reflect the cost of providing care for children with additional needs, called an **additional needs factor**.

Additional needs factor

This is extra funding for children who:

- *are economically deprived* – the DfE will estimate how many children fall into this category by looking at how many primary age children in the area receive free school meals.
- *speak English as an additional language (EAL)* – the DfE will estimate how many children fall into this category by looking at how many primary age children in the area speak English as an additional language.
- *have special educational needs and/or disabilities (SEND)* – the DfE will estimate how many children fall into this category by looking at how many under-fives in the area claim the Disability Living Allowance (DLA).

The more children with additional needs living in an area, the more extra funding that area will receive through the additional needs factor.

Area cost adjustment

Once funding for additional needs has been added in, the total hourly rate so far will then be multiplied by what is called an **area cost adjustment** rating.

This is a number between 1 and 1.9 intended to reflect the costs to providers of operating in a particular local authority.

If the cost of operating in a local authority is low, the area cost adjustment rating will be closer to 1. If it is high, the area cost adjustment rating will be closer to 1.9.

The DfE will calculate each local authority's area cost adjustment rating by looking at two operating cost factors: local staff costs and local premises costs.

To estimate how high average childcare **staff costs** are in a local authority, the DfE has used data from the Department of Communities and Local Government on general labour market costs to give every local authority a rating of 1 (low labour costs) to 1.3 (high labour costs).

To estimate how high average childcare **premises costs** are in a local authority, the DfE has used data from the Valuation Office Agency on the rateable values of local childcare premises to give every local authority a rating of 1 (low premises costs) to 7.54 (high premises costs).

These two ratings are then combined to give the overall area cost adjustment, with staff costs given greater weighting (eight times as much as premises costs).

So how does this work in practice?

Let's take Newham as an example.

Under the EYNFF, like all local authorities, Newham will receive an initial base hourly rate of £3.53 from central government.

It will then receive an extra 38p per hour to support economically-deprived children in the area, 21p to support children speaking English as an additional language and 3p to support children with SEND. These figures are based on the number of children in Newham that fall into each of the three 'additional needs' categories, and will vary for different local authorities.

So at this stage, the hourly rate Newham Council will be receiving from central government is: **£3.53** (base rate) + **£0.62** (total additional needs funding) = a total of **£4.15**.

The next step is to apply the area cost adjustment. The DfE has estimated that Newham has below average staff costs and so has given it a staff cost rating of 1.1 (minimum = 1, maximum = 1.3).

It has also estimated that the area has slightly below average premises costs, so has given it a premises cost rating of **3.56** (minimum = 1, maximum = 7.54).

Combining these two figures, and applying the relevant weightings, gives a final area cost adjustment rating of **1.34** (minimum = 1, maximum = 1.9). *NB: If you would like more information on how this step of the formula works, please email feedback@pre-school.org.uk.*

Using the EYNFF, the next step is to multiply the base rate + additional needs total (£4.15) by the area cost adjustment rating (1.34). This gives us **£5.57** (with roundings).

This is the total hourly rate Newham will receive.

It's important to remember that this is the funding rate that Newham Council will receive from central government, not the funding rate that providers in Newham will receive. We will come onto how funding gets from local authorities to providers a bit later in this guide.

Minimum funding rate

Following the consultation on early years funding changes, the government will be introducing a minimum hourly funding rate for

local authorities of £4.30. This means that any local authority that would have received less than £4.30 as a result of the EYNFF will have their rate increased to this level.

For local authorities who would have already received more than £4.30 per hour as a result of the EYNFF (such as Newham), this change will have no effect.

Again, this minimum funding rate applies to the hourly funding rate received by local authorities, not providers.

Funding floor

The DfE estimates that around 80% of local authorities will receive more funding from central government than they currently do as a result of the introduction of the EYNFF.

For those that will receive less, the DfE has limited any falls in funding to 10% overall. This will be spread over two years, so the maximum reduction in funding any local authority will face is 5% in 2017/18 and 5% in 2018/19. The government calls this a 'funding floor'.

Other sources of funding for local authorities

Local authorities can receive other sources of funding from central government which are not included in the EYNFF.

This is funding for:

- the **Early Years Pupil Premium** (EYPP)
- supporting **maintained nursery schools** to transition to the new system

- supporting **quality and expertise** in the early years sector
- **disability access** i.e. funding to support providers to make any adjustments to their settings, including building capacity, needed to help care for children with disabilities

On average, local authorities were due to receive £4.71 per hour through the EYNFF and a total of 17p per hour through these additional sources of funding. This is where the £4.88 hourly rate the government announced in November 2015 came from ($£4.71 + 17p = £4.88$)

With the introduction of the minimum funding rate, local authorities will now receive, on average, £4.77 per hour through the EYNFF, plus the extra 17p through these additional sources of funding. This is why the government says that the average rate for local authorities is now £4.94 ($£4.77 + 17p = £4.94$).

It is important to note that this figure only refers to the funding that local authorities will receive from central government, not the funding that providers on the frontline will receive.

It is also important to note that this is an average figure: not all local authorities will receive the additional sources of funding listed above, and the amount that they will receive through the EYNFF will also vary.

2. FUNDING FROM LOCAL AUTHORITIES TO PROVIDERS

The EYNFF is used to calculate how much funding central government gives to local authorities. The next step is to determine how much funding local authorities will pass on to different providers in their area. The DfE is introducing a number of changes to the way this currently works.

What's staying the same?

- Local authorities will still use single funding formulas, with providers funded on a 'base rate + supplements' basis.
- Local authorities will still be able to retain contingency funding, to be passed onto providers later in the year. The DfE is proposing not to put a limit on the amount of contingency funding that can be held back.

What's changing?

- As of 2019/20, local authorities will no longer be able to use different base rates for different provider types. Instead, they will be required to use a 'universal base rate'. This means that all providers – whether they are PVI, primary school nursery classes, or maintained nursery schools – will receive the same base rate of funding from their local authority, although supplements may still vary.
- Local authorities will only be able to keep a maximum of 7% of funding as 'central spend' (e.g. spending on administration, provider support etc) in 2017/18, reduced further to a maximum of 5% in 2018/19. However, the government has now said that local authorities will be able to apply to opt out of this requirement, though this will only be considered in "exceptional circumstances" where there is evidence that local providers would still be happy to deliver the free entitlement.

- All local authorities will be required to limit the amount of funding they channel through supplements to 10%. Following the consultation, the supplements councils can use are:
 - Deprivation (the only compulsory supplement)
 - Rurality/sparsity
 - Flexibility
 - Quality
 - English as an additional language

It should be noted that the optional quality supplement will be used “to recognise workforce qualifications and system leadership”, rather than for providers who are rated as ‘good’ or ‘outstanding’. Plans for ‘efficiency’ and ‘30-hour’ supplements have been scrapped, though the government has said it is keeping the option of a ‘30-hour’ supplement under review for possible future inclusion.

Local authorities must consult locally on their individual single funding formulas before implementing them in April 2017, when the new funding system comes into effect. The government has said that schools forums must be consulted on changes to local early years funding formulas, including agreeing central spend, by 28 February 2017.

3. SEND SUPPORT

The DfE will provide additional funding to support the provision of early years care and education for children with SEND through:

- 1) the introduction of disability access funding
- 2) the establishment of local inclusion funds for children with special educational needs (SEN)

Disability access funding

The DfE will introduce disability access funding to support the provision of care for children with disabilities.

A total of £12.5m in funding will be available for all eligible children. This means children who:

- are in receipt of the child disability living allowance
- receive funded early years provision (although they do not need to take up the full entitlement)

and equates to a one-off payment of £615 per year per eligible child.

Providers will be ultimately responsible for identifying eligible children and will be able to use a parent declaration form template to do so, which will be published in early 2017. However, it is local authorities who must check that a child does, in fact, meet the disability access funding criteria (for example, by obtaining a copy of their child disability living allowance award letter).

If an eligible child takes up their funded provision at more than one provider, local authorities will give the funding to the setting that the parent nominates as 'the main setting'.

SEN inclusion funding

The DfE will require all local authorities to set up a local SEN inclusion fund from April 2017. This will entail pooling funding from their early years and/or high needs funding blocks to spend on support for children with “lower level or emerging” SEN.

The DfE expects local authorities to use this funding to top up provider funding on a case-by-case basis. It will allow councils to decide for themselves which children with SEN should be eligible for inclusion funding.

CAPITAL FUNDING

The government has distributed £40m to a range of early years capital funding projects, such as new-build settings, extensions, refurbishments and conversions.

In 2017, the DfE will also set up an Early Years Investment Fund, which will combine £10 million of DfE funding with up to £20 million of external investment. This fund will “provide finance for PVI childcare providers who may be unable to attract traditional, commercial financial investment”.

ELIGIBILITY

Parents will be able to access the 30-hour entitlement if they (each, in dual-parent families):

- earn at least the equivalent of 16 hours per week at the national living wage – or national minimum wage for those aged under 25
- earn less than £100,000 per year.

It is important to note that the minimum threshold is based on money earned, not hours worked – so if a parent works for 10 hours per week but still earns the equivalent of 16 hours at national minimum or living wage, they will be eligible for the 30-hour offer.

The self-employed, parents on zero-hours contracts and those on sick or parental leave are also eligible. The additional funded hours will also be available where one parent is employed but the other has substantial caring responsibilities or is disabled.

In cases where parents are separated, eligibility applies to the parent with whom the child 'normally lives'. Where the parent of a child has a 'partner' – i.e. a person to whom they are married, have a civil partnership, or live with, the eligibility criteria also applies to that partner.

Determining eligibility

Parents will be able to apply for the 30-hour scheme (as well as the tax-free childcare scheme) through a joint online application developed by HMRC, which includes an eligibility checking system.

Once parents successfully apply online, they will be given a code which they can then present to their chosen provider(s). Providers can then use the eligibility checking system to check that the code is valid, and if it is, book that parent's place. If they have no places available, providers are expected to refer parents to the local authority who can look to find alternative providers.

Parents will be expected to reconfirm their eligibility every three months. Any parents who provide false information about their eligibility can be fined between £300 and £3000.

Changing circumstances

If a parent's circumstances change and they become eligible for the 30-hour offer, local authorities are expected to secure a funded place for their child or children "as soon as is reasonably practicable" during the term they become eligible and no later than the start of the next term.

If a parent's circumstances change and they become ineligible for the 30-hour offer, local authorities will be required to continue funding their place for a 'grace period', which will be the same across the country. At the time of writing, this government had not confirmed the length of this grace period. This grace period will be automatically administered through the eligibility checking system.

Any child who is no longer eligible for the 30-hour offer will still be eligible for the universal 15-hour free entitlement offer. If they had previously been taking up their 30-hour place at more than one provider, their parent can either choose the provider they want to continue to take up their 15-hour place with, or continue to split their 15-hour entitlement between these providers.

DELIVERY

The 30-hour scheme, like the universal 15-hour offer, is optional and the government has confirmed that providers will not be penalised for opting out. Providers who opt not to deliver the 30-hour scheme can continue to deliver the existing 15-hour offer.

Providers can offer the extended entitlement in part (i.e. less than 30 hours but more than 15 hours). Similarly, parents do not have to take up the full 30 hours – if an eligible parent wants to take up, for example, 25 hours per week, these will still be funded.

Flexibility

How many...

... weeks of the year?

Like the current 15-hour offer, the 30-hour offer doesn't need to be taken over 38 weeks of the year. The actual entitlement is 1140 hours per year (compared to 570 hours for the universal offer) meaning that providers can choose to deliver a 'stretched offer' (for example, 23.75 hours a week over 48 weeks of the year).

The DfE has also confirmed that providers do not have to be open for 38 weeks of the year or more to offer the free entitlement.

However, such providers must make clear to parents that they will not be receiving their full entitlement and that they cannot increase their hours per week to make up for the reduced entitlement, before they take up a place.

... hours of the day?

From September 2017, providers will be able to deliver the free entitlement from as early as 6am, and to as late as 8pm. However, the rule that no session should be longer than 10 hours is remaining, so, for example, a funded session that started at 6am would have to end by no later than 4pm. There will be no minimum session length. These rules apply to both the 15 and 30 hour offers.

... providers?

The government will limit the number of sites on which children can take up their free entitlement in a single day to two. However, there is no restriction on the number of providers that parents can use in a week or a month, although the DfE says that “parents and providers should be mindful of the impact on the continuity of care for the child when using a number of providers”.

The DfE has also highlighted the fact that in order to receive funding to deliver early education places, providers must be delivering funded places to children during the January census week as Dedicated Schools Grant allocations to local authorities are based on the January census data.

Local authority delivery model

All councils will be expected to pay local providers on a monthly basis by September 2018, unless providers request an alternative payment frequency.

The government will also develop a standardised model agreement template to “bring clarity and consistency to agreements between local authorities and providers”.

Additional charges

As with the 15-hour offer, the government has stated that funding for the 30-hour offer is only for the provision of early years education and care, and is not intended to cover the cost of consumable items, such as drinks, meals or nappies, or additional services, such as music lessons and trips.

Early years providers can charge parents for such items or services but cannot make them a condition of taking up a funded place. This means that, for example, a parent can choose to pay for lunches in addition to taking up a funded place at a provider, but that provider cannot say to parents: “You can only take up your funded place if you pay for lunches”.

The DfE expects providers to ensure that children are not disadvantaged if their parents choose not to purchase additional services. It states that “children should benefit from the learning and development requirements of the EYFS at all times, including when they are receiving their free early education place, and we would encourage providers to take account of this when planning the curriculum”.

The DfE has also confirmed that parents must not be charged a deposit in order for them to take up their child’s funded place. This applies to both the existing 15-hour universal entitlement and the extended 30-hour entitlement.

TIMELINE

Winter 2016/2017

- Local authorities consult on indicative provider rates
- The DfE publishes the model agreement template, flexibility guidance and draft statutory guidance
- The early years workforce strategy is published
- The revised EYFS Framework is published
- The government launches a consultation on maintained nursery schools

Spring 2017

- Local authorities announce final funding rates to providers
- Updated statutory guidance is published
- Capital build works begin
- The online application system for 30 hours and tax-free childcare is rolled out
- The government holds an Early Implementer National Findings event
- A fund manager for the Early Years Investment Fund is appointed

April 2017

- New funding rates for both the three- and four-year old offer, and the two-year-old offer, come into effect. The amount of funding that local authorities can retain as central spend is limited to 7%

Summer 2017

- The final Early Implementer evaluation report is published

September 2017

- The 30-hour offer is implemented

April 2018

- The amount of funding that local authorities can retain as central spend is limited to 5%

September 2018

- Local authorities are required to pay providers on a monthly basis, unless an alternative payment frequency is requested

April 2019

- All local authorities are required to move to a universal base rate

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