**WESTMINSTER CITY COUNCIL**

**SCHOOLS’ FORUM – 10 OCTOBER 2016**

**REPORT BY HEAD OF RESOURCES**

**DFE CONSULTATION: CHANGES TO FUNDING FOR 3 AND 4 YEAR OLDS**

This report summarises the Department for Education (DfE) Consultation Paper on the introduction of a national funding formula for 3 and 4 year olds.

**FOR INFORMATION**

1. **Background**
   1. On the 11 August 2016, the Department for Education (DfE) consulted on the introduction of a national funding formula for early years (EY) provision to ensure that funding is distributed “*fairly and transparently*” across the country from April 2017. The Consultation builds on previous announcements in November 2015 in the “*Review of childcare costs: an economic assessment of the early education and childcare market and providers’ costs*.
   2. This report provides the Schools Forum with the key points relating to the proposed new formula and highlights the potential impact on future early years funding for Westminster City Council (WCC) and the EY providers from whom local authority commission free entitlement places.
   3. The local authority has a statutory duty to ensure that all children can access their free EY entitlement. Current entitlements are: - universal entitlement for all 3 and 4 year old children 15 hours of free childcare during school term times (15 hours for 38 weeks of the academic year, 570 hours in total) - entitlement can be spread over the whole year with fewer hours taken each week if parent and provider agree - a similar entitlement for all 2 year old children if the family meet the free school meal eligibility criteria.
   4. Early years places are commissioned from a range of providers including primary and infant schools, private and voluntary pre-schools, nurseries and playgroups and childminders. The local authority receives its funding for the provision of these places as a separately specified element of the overall Dedicated Schools Grant. The total amount received each year is based on the numbers of children accessing provision at the time of the annual Early Years Census which takes place in January each year.
   5. Current rates of reimbursement to WCC providers for the provision of free places vary from £3.09 to £6.44 per hour per child in the Private, Voluntary and Independent (PVI) sector (higher rates reflects deprivation, flexibility and quality factors) and in primary and nursery schools, from £3.09 to £6.14 per hour per child (higher rates reflects deprivation, flexibility and quality factors).
2. **Consultation Response**
   1. Appendix A details Westminster City Council’s response to the Consultation which has been sent out to all providers. It is aligned to the London Council’s response which has had input from Council Officers.
3. **Details of the Proposed New Early Years Formula**
   1. There are four main themes to the new proposals:

a) transparency in the way funding is allocated from government to local authorities and, in turn, to providers

b) maximising the funding passed from the local authority to providers,

c) ensuring a fair distribution of funding to all types of providers

d) creating a better deal for disabled children and those with additional and special needs.

* 1. The DfE consulted on proposals to change the way it funds free early years education and childcare. Currently, the Early Years (EY) block funding received by LAs is distributed to schools on the basis of a locally agreed EY funding formula. They are introducing a new EY funding formula to cover the existing 15 hour entitlement for 3 and 4 year-olds from April 2017. This will be extended to cover the new additional 15 hour entitlement to eligible families from September 2017.
  2. The DfE’s consultation document explains that the proposed national formula for early years funding would be composed of:

-A universal base rate of funding for each child (which will make up 89.5%)

-An additional needs factor that reflects the extra costs of supporting children with additional needs (10.5%)

-An area cost adjustment that reflects the different costs of providing childcare in different areas of the country (using the local labour market costs and an element based on local rateable values).

* 1. LAs would continue to be able to include funding supplements and incentives in their local formulas but this is limited to 10% of the total with the deprivation factor a mandatory factor in local formulae. Maintained nursery schools, which bear costs above those of other providers, will be provided with supplementary funding for at least two years while these schools explore how to become more sustainable and efficient.
  2. The DfE proposes that local authorities should pool funding from early years and/or high needs DSG to create local Special Educational Needs Inclusion Funds.This is not a new funding stream but puts in place a new structure in local funding systems. Disability access funding would be allocated to LAs as a ring-fenced amount to be paid to all providers for each child who is in receipt of Disability Living Allowance. The consultation does not suggest the rates at which the proposed access fund would be paid to providers.
  3. Local Authorities are required to pass on 95% of funding to childcare providers. [93% in 2017-18 and 95% by 2018-19]. The DfE suggested that previously there had been a significant unexplained variation between local authorities of how much was retained for central spending.
  4. Funding for disadvantaged two year olds is not covered by this consultation.

1. **Implications and Challenges**
   1. At present the funding Westminster City Council receives from the DfE in respect of the free EY entitlement for three and four year olds is £7.20 per hour per child. The indicative new three and four year old funding rate for WCC provided by the DfE as part of the consultation process is £7.86 per hour per child (£8.30 during the transitional period). The expectation would be that the average hourly rate at which providers are funded would be £7.72 per hour per child. It is difficult to assess the impact on individual providers until there is clarity on how much flexibility will be allowed with regard to the use of supplements.
   2. There will be transitional funding for local authorities to protect those that lose from proposals, but fully implemented with no transitional protections by 2019-20. These transitional arrangements will limit any losses at local authority level for 2 years at 5%. Local authorities will continue to have some autonomy to fund providers at differential rates until 2019-20. At this date, all providers will receive the same basic rate of funding for every hour of the free entitlements. There is likely to be pressure from providers to move immediately to the new rate before 2019-20. However, the DfE’s transitional arrangements have been put in place to allow local authorities to plan how they are to deliver this to reduce unnecessary turbulence in the system.
   3. Currently the local authority funds some 3 and 4 year old full time places, which is over the statutory entitlement of 15 hours. This enhanced provision by the authority is at risk in the period leading up to September 2017 whilst transitioning to a new system.
   4. The government acknowledges that the speed of these changes to EY funding will be ‘challenging’ for local authorities as they will have to determine the funding approach, consult with providers, discuss with Schools Forums and Councillors and announce arrangements well in advance of April 2017. The government also acknowledges that the speed of these changes to EY funding will be ‘challenging’ for providers as they will have late notification of final funding figures.
2. **Recommendation**
   1. That the Schools’ Forum note the content of this report.

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**Background papers**

Full details, along with supporting documentation, can be found via the following link:

<https://consult.education.gov.uk/early-years-funding/eynff>

APPENDICES

A. Westminster City Council’s response to the consultation.

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