

EARLY YEARS FUNDING: CHANGES TO FUNDING FOR 3 AND 4 YEAR OLDS
GOVERNMENT CONSULTATION RESPONSE – KEY ISSUES

1. On 1 December 2016 the DfE published the Government's consultation response along with a number of other technical documents.

2. The details are in the attached link: -

https://www.gov.uk/government/consultations/early-years-funding-changes-to-funding-for-3-and-4-year-olds?utm_source=EFA%20e-bulletin&utm_medium=email&utm_campaign=e-bulletin&mxmroi=2305-30964-65841-0

3. The consultation generated over 3,000 written responses and the key issues raised and Government Policy decisions are detailed in the following sections.

3.1. Overall

- The consultation generated considerable interest, receiving over 3,000 written responses.
- The proposals to improve the way the DfE allocates EY funding have been positively received, with strong agreement that funding must be allocated through a clear and transparent funding formula, and must reach front line early years providers.
- Every LA will receive a minimum funding rate of at least £4.30 per hour. This will give LAs the scope to pay providers an average funding rate of at least £4.00 per hour.
- This will be paid for by additional investment to ensuring that sufficient numbers of providers are willing and able to deliver the free EY entitlements nationwide.
- The DfE will also extend additional funding for maintained nursery schools to at least the end of this Parliament (2019-20).
- The government will introduce a new national 'Disability Access Fund' to support access for disabled children.
- The DfE will also ensure that all LAs have SEN inclusion funds to provide additional support for children with SEN.

3.2 Confirmed Policies

(a) National Funding to LAs

- Hourly funding rates (national average) will increase from £4.56 to £4.94 for 3 and 4 year olds (including the Early Years Pupil Premium, the Disability Access Fund as well as supplementary funding for maintained nursery schools, and quality and expertise funding).
- Hourly funding rates (national average) will increase from £5.09 to £5.39 for 2 year olds, based on the existing 2 year old formula.
- A new Early Years National Funding Formula (EYNFF) will allocate funding to LAs for the existing 15-hour entitlement for all 3 and 4 year olds and the additional 15 hours for 3 and 4 year old children of eligible working parents.
- The EYNFF will apply from April 2017 for the existing 15 hour entitlement and from September 2017, for the additional 15 hours of free childcare for working parents.

- The EYNFF formula allocations to LAs will be on a participation basis and the DfE will update allocations in due course to reflect any changes in the cohort of children.
- The EYNFF will consist of: -
 - A base rate.
 - An uplift for additional needs based on measures of free school meals.
 - Disability Living Allowance.
 - English as an additional language.
 - Area Cost Adjustment multiplier to reflect variations in local costs for the general labour market measure to reflect staff costs and the Nursery Rates Cost Adjustment (NRCA) to reflect premises costs.
- The formula will include a minimum funding rate of £4.30 per hour to LAs.
- The DfE contend this will give LAs the scope to pay providers an average funding rate of at least £4 per hour.
- 80% of LAs will see increases in their hourly funding rates.
- The DfE will set a funding floor to ensure that no LA will see a reduction of more than 10% as a result of the formula.
- Transitional protections will ensure that no LA sees an annual reduction in their hourly funding rates of more than 5%.
- As a consequence of these protections there will be no Minimum Funding Guarantee (MFG) for EY.
- DfE ambition remains that all LAs should be 'on formula' by 2019-20.
- On the proposal that in the DSG the free entitlement be capped at 30 hours for children of eligible working parents and 15 hours for all other children the DfE will transition this change not implementing it from 2017-18 but from 2019-20.

(b) Local Funding from LAs to Providers

- The DfE will require that all LAs pass 93% in 2017-18 then 95% from 2018-19 onwards of EY funding to providers.
- This is to ensure that the investment in the EY entitlements reaches the front line by limiting the degree to which LAs can retain money to spend centrally.
- However, under the existing system many LAs already have very low or zero reported levels of central spend, meaning that providers already receive the vast majority of the funding allocated by central government. With the introduction of the high pass-through policy, the DfE do not expect LAs to reduce the amount of central government funding they are already passing on to providers if it is already above the recommended level.
- If there are circumstances where this could create significant difficulties for LAs, Ministers are willing to consider representations on a case-by-case basis against very tightly defined criteria.
- LAs will need to use a universal base rate to fund providers for each hour of the free entitlement, by no later than 2019-20, bringing about greater equality in funding between different types of provider.
- The government will provide supplementary funding of LAs for maintained nursery schools for the duration of this Parliament, to keep their funding stable during the implementation of the EYNFF.
- LAs will be able to use a limited set of funding supplements, with a total value capped at 10% of allocated budget to providers.
- The permitted supplements are for: -
 - Deprivation is mandatory but LAs to decide locally the measures they use
 - Discretionary supplements for rurality/sparsity, flexibility, quality (to support workforce qualifications and system leadership) and EAL.

- There will be no supplements for efficiency or for delivery of additional 15 hours.

(c) Meeting Children's Additional Needs

- There will be a new Disability Access Fund (DAF) of £12.5m, equivalent to £615 per child per year to support access to the free entitlements. This Fund will be for 3 and 4 year olds who are taking up their free entitlement and are in receipt of Disability Living Allowance (DLA).
- The DfE will legislate for every LA to set up a Local Inclusion Fund (LIF) for children with SEN to support providers in driving outcomes for these children. LAs will need to include this in their Local Offer.
- The Early Years Pupil Premium (EYPP) will continue. In future, government will review the delivery mechanism for the EYPP alongside the DAF.