



North Tyneside Council

# Briefing

**To:** Schools Forum

**Author:** Commissioning and Investment

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**Title of Report: North Tyneside's Early Years Funding Formula 2017-18 & 2018-19**

## A. Introduction

1. This report provides details on North Tyneside's Early Years Funding formula for 2017-18 and 2018-19. It sets out:
  - The context for North Tyneside's local early years funding formula review;
  - an outline of the work undertaken by Schools Forum's Early Years Sub Group to develop a new local funding formula; and
  - a summary of the proposed new local funding formula.

## B. Context

2. In August 2016 the Department for Education published consultation on the proposed new national Early Years Funding Formula, which will commence in April 2017. The consultation proposed that local authorities should continue to operate early years single funding formulae, which enable early years funding to be tailored to local conditions.
3. The consultation states that the local early years single funding formulae should incorporate a universal base rate for all providers delivering the 3 and 4 year old funded childcare entitlement. The consultation also proposed that the 3 and 4 year old base rate should be the same for the universal 15 hours element and the additional 15 hours for working families (i.e. both elements of the forthcoming 30 hour offer).
4. The consultation recommends that the local authority funding formulae should be able to use funding 'supplements' to address extra need or to reflect local policy objectives. Local authorities must include a deprivation supplement in their formulae for the three- and four-year-old entitlement, but the use of other supplements is discretionary.
5. The consultation has proposed a limited set of supplements that local authorities can incorporate within their local funding formula:

- **Deprivation:** reflecting the additional costs of providing quality early education for children from backgrounds of socio-economic disadvantage. This is the only mandatory supplement.
  - **Rurality:** in recognition that a lack of scale economies may lead to higher costs to providers operating in very small settings, and that these may be unavoidable in sparsely populated rural areas with limited demand.
  - **Flexibility:** to encourage providers to offer flexible childcare, which accommodates parents' working patterns.
  - **Efficiency:** local authorities should be able to encourage providers to implement the efficiencies identified in the Cost of Childcare Review.
  - **Delivery of the additional 15 hours free childcare:** childcare providers will be under strong market incentives to expand their offer but this supplement offers an additional lever to encourage childcare providers to offer the additional 15 hours free childcare for working parents / carers.
6. The new national Early Years Funding Formula funding formula will be introduced in April 2017. The provisions relating to the additional 15 hours entitlement for 3 and 4 year olds, will be introduced from September 2017.
7. The Local Authority held consultation sessions for childcare providers and schools to review the national Early Years Funding Formula proposals and the feedback was reported to Schools Forum in September 2016.

## C. The Early Years Sub Group

8. It was agreed at the September 2016 meeting of Schools Forum that an early years sub group would be established to consider North Tyneside's local funding formula for 2017/18 and 2018/19.
9. All schools were invited to be part of the sub group. Private, voluntary and independent sector providers were invited to participate at the Early Years Network meetings and Early Years Funding Formula consultation meetings. A sub group was assembled which comprised representation from:
- 3 Private, voluntary and independent childcare providers;
  - 2 primary schools; and
  - 1 maintained nursery school
- (see Annex 2 for details)
10. The sub group met on 13<sup>th</sup> October 2016 to agree a local funding formula for three and four year olds that:
- Secured the sustainability of all providers;
  - ensured there was sufficient childcare to meet the needs of families;
  - was transparent;
  - supported business planning; and
  - minimised the administrative burden placed on the childcare sector.

11. The sub group considered the optional supplements in turn and assessed whether they should be included within North Tyneside's new local funding formula for 3 and 4 year old funding. The table below summarises the discussions around each proposed supplement.

<b>Supplement</b>	<b>Advantages</b>	<b>Disadvantages</b>	<b>Decision</b>
<b>Rurality</b>	n/a	n/a	Not applicable
<b>Efficiency</b>	Efficient use of public funds if it was deliverable	<ul style="list-style-type: none"> <li>- Absence of clear methodology would make implementation difficult,</li> <li>- Applicability across varied settings, provider types and business models would be problematic.</li> <li>- Potentially bureaucratic to administer.</li> <li>- Is the local authority best placed to act as an arbiter of efficiency?</li> <li>- Significant fairness issues.</li> </ul>	Do not include within formula for 2017/18 and 2018/19.
<b>30 hours</b>	<p>Potential to increase 30 hour capacity?</p> <p>Meet needs of working families.</p>	<ul style="list-style-type: none"> <li>- Market pressures are likely to be the main driver for providers to deliver 30 hours.</li> <li>- Likely to result in significant complexity.</li> <li>- Potential fairness issues i.e. settings working in partnership to deliver 30 hours.</li> <li>- High base rate for all providers is best incentive for delivering 30 hour capacity</li> </ul>	<p>Do not include within 2017/18 formula.</p> <p>Consider whether to review for 2018/19 following the introduction of the 30 hour entitlement.</p>
<b>Flexibility</b>	Families require flexible childcare.	<ul style="list-style-type: none"> <li>- Flexibility around traditional working day is not a major issue within North Tyneside's childcare market.</li> <li>- Supplement unlikely to change behaviours.</li> <li>- Flexibility beyond school day will be driven by market demand rather than supplement.</li> <li>- Administrative burden for settings.</li> </ul>	<p>Do not include within formula for 2017/18.</p> <p>Consider whether to review for 2018/19 following the introduction of the 30 hour entitlement, with reference to weekends and evenings.</p>

12. The sub group agreed not to incorporate any of the optional supplements within the local funding formula for 2017/18. The sub group concluded that the proposed optional supplements were unlikely to change the behaviour of providers and that maintaining a high base rate for all providers was important for the sustainability of

the sector. The group were also concerned that supplements would generate winners and losers, which could impact upon the sustainability of certain childcare providers. The sub group concluded that a straightforward formula that delivered greater predictability in funding streams would also aide business planning.

## **Mandatory Deprivation Supplement**

13. The sub group considered the mandatory deprivation supplement and how this would operate in practice. The group were clear that additional funding should be targeted at those settings with higher levels of deprivation. The sub group agreed that based on the indicative funding figures, settings with the highest levels of deprivation would receive an additional £0.12 an hour (a 2.7% increase on the hourly rate). Settings in the 2<sup>nd</sup> most deprived quartile would get an additional £0.06 on their hourly rate, an additional 1.4% on the hourly rate. The increased hourly rate is paid for every 3 and 4 year old child attending the setting, regardless of whether they are from a deprived background.
14. Based on the DfE's indicative figures the new formula would result in:
  - a base rate of £4.34 per hour
  - an hourly rate of £4.46 for providers in the most deprived quartile
  - an hourly rate of £4.40 for providers in the second quartile for deprivation
15. Financial modelling based on the Department of Education's indicative funding figures, suggest that all settings will see an increase in their funding of between 15% and 25% under the proposed local funding formula, compared to the current funding formula.
16. The sub group were clear that securing a high base rate for all providers was a priority for the local funding formula. A high base rate strengthens the sustainability of all providers, helping to preserve North Tyneside's vibrant and diverse childcare provision. The proposed local funding formula for 3 and 4 year olds will offer providers greater clarity and predictability around funding rates, which is critical for business planning and therefore financial sustainability of providers. The group believe the proposed base rate is set at a level that will enable providers to deliver the forthcoming 30 hour entitlement to eligible working families.
17. The proposed formula also has the advantage of minimising the administrative burden upon settings, which is increasingly important as settings have to deal with diverse funding streams and the associated administrative workload. The sub group agreed to review the local funding formula ahead of 2018/19 with specific reference to the 30 hour and flexibility supplements.
18. The Early Years Pupil Premium will continue at the current rate and the indicative funding for 2017/18 is £133,000. This is targeted at the most deprived 20% of children and is worth up to £302 per child each year. The sub group concluded that the deprivation supplement, combined with the Early Years Pupil Premium payments will ensure that settings working with deprived children will receive an appropriate level of additional funding.
19. The proposed increase in 2 year old offer funding will continue to be allocated through a single hourly rate for all providers, which is in accordance with the Early

Years Funding Formula consultation. The indicative rate for the two year old offer is £5.20 per hour from April 2017. The current hourly rate is £4.85 for the 2 year old offer.

20. The sub group believe the proposed local funding formula will enable North Tyneside to maintain its vibrant, diverse, flexible and high-quality formal childcare sector and ensure settings are sustainable in the future.

## D. Recommendations

21. It is recommended that Schools Forum endorse the new local funding formula for 2017/18, with the option to review the formula ahead of 2018/19.

## E. Annexes

### Annex 1. Proposed North Tyneside Early Years Funding Formula for 2017/18

2 Year Old Base Rate		£5.20
3 and 4 Year Old Hourly Base Rate		£4.34
3 and 4 Year Old Hourly Deprivation Supplement	Quartile 1	£0.12
	Quartile 2	£0.06
Additional Payment to Maintained Nursery School		£38,143

### Annex 2. Membership of Early Years Sub Group

Wallsend Day Nursery  
 Children's Choice Nursery  
 Fieldhouse Day Nursery  
 Cullercoats Primary School  
 King Edwards Primary School  
 Sir James Knott Nursery School