Early Years Single Funding Formula (EYSFF) 2017/18
Cabinet Member(s): Cllr Frances Nicholson – Cabinet Member for Children and Families
Division and Local Member(s): All
Lead Officer: Dave Farrow, Head of Outcomes and Sufficiency
Author: Charlotte Wilson, Service Manager, Early Years Commissioning
Contact Details: 01823 357386

Summary:
A new Early Years National Funding Formula for 3 and 4 year olds was announced on 1 December 2016.

The formula consists of a universal base rate plus factors for additional needs, using measures of free school meals; disability living allowance and English as an additional language.

The formula also includes an area cost adjustment multiplier to reflect variations in local costs. This uses the General Labour Market measure to indicate staff costs and Nursery Rates Cost Adjustment (NRCA) to indicate cost of premises.

The formula includes a minimum funding rate of £4.30 per hour to local authorities, which will give local authorities the scope to pay providers an average funding rate of at least £4 per hour. Somerset’s allocation from this new formula is:
- £4.30 for 3 and 4 year olds per child, per hour (30 hours rate is the same)
- £5.20 for eligible 2 year olds per child, per hour.
Due to the additional allocation, a consultation was carried out to determine the preferred method of distributing the funding to providers offering the free entitlement hours to 2, 3 and 4 year old children.

The LA proposes and the lead member decides on the formula and values. The Schools Forum and its Early Years sub group have been consulted and put forward recommendations for its preferred distribution option for funding in 2017/18.

**Recommendations:**

The Cabinet Member for Children and Families is recommended to approve the amendments to the EYSFF for 2017/18

1. **Removal of the £0.07 flexibility supplement, retain the remaining supplements and increase the deprivation value to £0.40 for 100% deprivation.**

2. **The base rate for the Early Years Single Funded formula for 2017/18 for 3 and 4 year olds to be set as £3.91 per child, per hour.**

3. **The hourly rate for eligible funded 2 year olds for 2017/18 being set at £5.04 per child per hour.**

**Reasons for Recommendations:**

The costs to the Early Years Sector are increasing in many different directions, as shown in the “Analysis of responses to the call for evidence on the cost of providing childcare” (Dec 2015). In real terms, the costs to Early Years Providers are increasing.

The results of the Early Years National Funding Formula consultation resulted in Somerset being allocated £4.30 per hour, per child for 3 and 4 year olds, and £5.20 for funded 2 year olds.

Schools Forum agreed a 97% pass through on the 2, 3 and 4 year old budget on 7th December 2016.

The additional allocation must be passed on to Somerset providers through their hourly rates to mitigate the increased pressure on the sector.

**Links to Priorities and Impact on Service Plans:**

The Schools Budget supports the Enjoying and Achieving aim within the Children’s Plan.

**Consultations and co-production undertaken:**

In 2015, the government undertook a review with providers and stakeholders of the cost of providing childcare. The government also commissioned Deloitte to collect extra evidence when the initial analysis proved overly complicated.

The results of the review were published on the 4th of December 2015 and can be found in “Analysis of responses to the call for evidence on the cost of providing childcare” (December 2015).
In 2016, the government carried out a consultation on the early years national funding formula. The final allocations of this can be accessed here: https://www.gov.uk/government/publications/early-years-national-funding-formula-allocations-and-guidance

Providers engaged in a consultation carried out by the early years commissioning team between December and January 9th 2016. A total of 169 (1 late proxy vote) took part in the consultation.

The following options were consulted on:

**Option 1:** Increase base rate to £3.87 and keep all current supplements

**Option 2:** Increase base rate to £3.91 by removing the flexibility supplement, keep the other supplements, and increase in deprivation value to £0.40 for 100% deprivation

**Option 3:** Increase base rate to £3.88 by removing flexibility supplement, keep the other supplements, and increase in deprivation value to £0.50 for 100% deprivation

**Option 4:** Increase base rate to £3.95, removal of flexibility supplement, increase in deprivation value to £0.50 for 100% deprivation, 40% reduction on all other supplements.

**Option 5:** Increase base rate to £4.04 and remove all supplements, increase in deprivation value to £0.50 for 100% deprivation.

Early years sub group assessed the results of the consultation and assessed the risks to the sector. Option 2 was voted via a ballot from members and accepted by the Chair of Early Years Sub Group on the 11th of January 2017.

**Financial Implications:**

- 2017 total early years block budget = £26,230,262
- 2017 total directed to providers= £25,451,843
- EY central budget (provides central services to providers)= £778,419

**Legal Implications:**

The School and Early Years Finance Regulations 2015 require the Local Authority to propose and decide on the funding formula, after consulting with and taking into consideration the view from the Schools Forum. This was carried out on the 18th of January 2017- Agenda item 6.

**HR Implications:**

The Early Years Commissioning team will need capacity to monitor the impact of these changes over the next year. This will include any increase in sustainability applications sent in to the Local Authority from providers who may experience difficulties from external rising costs.
Any increase in business support will impact on capacity for the Early Years Improvement team.

Early Years Providers may need to review their staffing and costs if they are affected by the removal of a flexibility supplement.

Some providers will not receive an increase in their hourly rate in 2017, or will get a reduced rate in comparison to the current allocation, these providers are already in receipt of a higher level of funding per hour and are being protected on the minimum funding guarantee.

Rising costs such as living wage, pensions, business rates, and mandatory training will reduce the real terms value of these increases. This poses a risk to their sustainability, which impacts on the ability to meet the statutory duty to ensure sufficient early years places in Somerset. This is mitigating by offering business support and sustainability grants to providers.

The budget allocation continues to be based on numbers recorded at January census. The actual numbers of children fluctuate during the year resulting in risk of overspend. The take up of 30 hours funding may be higher than the allocated amount by the DfE, and the number of providers claiming funded hours over the year may increase. This will result in an adjustment to the following years funding. The impact assessment is based on modelled figures, and until the formula is implemented the exact picture is not known, this is mitigated by some of the providers changing their staffing and recent closures.

### Likelihood | Impact | Risk Score
--- | --- | ---

<table>
<thead>
<tr>
<th>Other Implications (including due regard implications):</th>
<th><strong>Equalities Implications</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The new formula increases the amount of funding channelled to children from deprived areas, and to children with English as an additional language.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The increase in the Early Years central block can support the delivery of services such as advisory support for children with EAL, translations and interpreters.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Community Safety Implications</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>There are minimal implications for these changes. The majority of the early years sector should experience a positive impact and this should not limit their ability to provide safe care environments for children.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Sustainability Implications</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>There are no obvious implications for the environment in this decision. Some providers may experience no change in their hourly rate and some may experience reduced sustainability for their business. This is mitigated by the continuation of a sustainability grant administered by the Local Authority Early</td>
<td></td>
</tr>
</tbody>
</table>
Years Commissioning team, to help ensure that there are enough funded places to meet parental demand.

**Health and Safety Implications**
Early Years providers are responsible for their own health and safety and must adhere to relevant health and safety legislation. Ofsted regulate early years settings through inspection it is not the duty of the LA to regulate health and safety within the settings but it is a requirement of the Somerset Code of Practice that they do comply with relevant legislation.

**Privacy Implications**
No impacts on privacy have been identified.

**Health and Wellbeing Implications**
For the majority of providers, this increase in the formula will support them to continue to provide high quality care and education to children and families in Somerset. They will still be required to comply with the Somerset Code of Practice 2016.

Providers must be rated ‘good’ or ‘outstanding’ by Ofsted to claim funding for 2 year olds.

### Scrutiny comments / recommendation (if any):
Not applicable.

#### 1. Background

1.1. The Local Authority is proposing changes to the EYSFF from 2017/18 financial year.

1.2. In 2016/17, Schools Forum agreed to maintain the EYSFF formula and the following rates were set:

**Early Years Single Funding Formula**

<table>
<thead>
<tr>
<th>Formula factor for funding provision for 3 and 4 year olds</th>
<th>Formula value £ per hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base rate:</td>
<td>3.67</td>
</tr>
<tr>
<td>Deprivation factor:</td>
<td>0.36</td>
</tr>
<tr>
<td>based on the number of hours accessed by children from a deprived household, averaged over the past three years</td>
<td></td>
</tr>
<tr>
<td>Quality/staff qualification supplement:</td>
<td>0.50</td>
</tr>
<tr>
<td>Qualified teacher in an LA and academy nursery</td>
<td></td>
</tr>
<tr>
<td>0.60 Childminder with level 3 qualification</td>
<td></td>
</tr>
<tr>
<td>0.25 Early Years qualified teacher/professional</td>
<td></td>
</tr>
<tr>
<td>Flexibility supplement:</td>
<td>0.07</td>
</tr>
<tr>
<td>Open for 40 hours or more</td>
<td></td>
</tr>
</tbody>
</table>
1.3 The funding received by the Department for Education (DfE) for early years in Somerset was set at £3.77 for 2016/17 and was not sufficient to cover the costs of delivery of the funding rate for Somerset (as shown in 1.2).

Schools Forum agreed to transfer funds to the Early Years Block to cover the costs of the funding formula. This was an essential measure to ensure the sustainability of the early years sector, which faces increasing costs to provision of service bound by statutory requirements of the Early Years Foundation Stage.

1.4 The Early Years Foundation Stage Statutory Guidance sets minimum adult to child ratios for early year’s providers, as well as minimum qualifications for practitioners. 83% of settings reported staffing this as a cost driver in the government review “Analysis of responses to the call for evidence on the cost of providing childcare” (December 2015).

In the review, running costs were also the second most mentioned category, with 79% of all responses identifying this as a financial pressure. The chart below shows the areas of costs that were identified the most within this category as a percentage of all responses that mentioned running costs.

![Running costs most frequently identified as driving costs](chart)

1.5 A new early year’s national funding formula for 3- and 4- year olds was announced on 1 December 2016. The formula consists of a universal base rate plus factors for additional needs, using measures of free school meals; disability living allowance and English as an additional language.

The formula also includes an area cost adjustment multiplier to reflect variations in local costs. This uses the General Labour Market measure to indicate staff costs and Nursery Rates Cost Adjustment (NRCA) to indicate cost of premises. The formula includes a minimum funding rate of £4.30 per hour to Somerset local authority, which gives the scope to pay providers an average funding rate of at least £4 per hour.

A funding floor ensures that no local authority can face a reduction in its hourly funding rate of greater than 10% against its 2016-17 baseline. Transitional protections ensure that in any year, no local authority sees an annual reduction in their hourly funding rate of more than 5%.

1.6 Somerset’s allocation from the national funding formula is:
• £4.30 for 3 and 4 year olds, per child, per hour (30 hour rate is the same)
• £5.20 for eligible 2 year olds per child, per hour.
Schools Forum has approved a pass through rate of 97% to early years providers agreeing the EYSFF 2017/18 and this means the base rate proposed for 3 and 4 year olds is £3.91 per child, per hour and the hourly rate for funded 2 year olds will be £5.04 per child, per hour.

2. Options considered and reasons for rejecting them

2.1. Providers were presented with five options as part of the consultation and the results were considered by Early Years Sub group, who recommended Option 2 to Schools Forum,

2.2. Option One:
Increase the base rate to £3.87 and keep all current supplements
29% (53) votes for this option were received in the consultation. This was considered, but carried the high risk of overspend and therefore potentially having to change the rate again in 2018-19. Members of Early Years Sub Group considered this as an option and voted on this in the ballot.

2.3. Option Two:
Increase the base rate to £3.91 by removing the flexibility supplement and keep the other supplements and increase the value in deprivation to £0.40 for 100% Deprivation 32% (60) votes were received for this option. This is the recommended option agreed by Schools Forum.

2.4. Option Three:
Increase base rate to £3.88 by removing flexibility supplement, keep the other supplements, and increase in deprivation value to £0.50 for 100% deprivation
Only 3% (6) providers voted for this option.

2.5. Option Four:
Increase base rate to £3.95, removal of flexibility supplement, increase in deprivation value to £0.50 for 100% deprivation, 40% reduction on all other supplements. Only 1% (2) providers voted for this option.

2.6. Option Five:
Increase base rate to £4.04 and remove all supplements, increase in deprivation value to £0.50 for 100% deprivation. 35% (64) providers voted for this option. Members of Early Years Sub Group considered this as an option and able to vote on this in the ballot. It received 2 votes in the ballot.
The impact assessment indicated that 141 providers would receive a lower rate and particularly affected Childminders.

2.7. Do nothing: this is not an option as the guidelines require a minimum of 95% pass through of the budget allocation to providers.

3. Background Papers

3.1. Summary of responses to Somerset’s consultation held with early years providers 12 December 2016 – 9 January 2017 (copies available on request from report author)
3.2. Schools Forum paper for 18th January 2017 – Agenda Item 6

3.3. Analysis of responses to the call for evidence on the cost of providing childcare (October 2015).


3.4 Early Years National Funding Formula: Allocations and guidance 2017/18


3.5 Key decision paper on funding formulas for schools, academies and early years and the allocation of funding between the 3 funding blocks. Author: Sharon Campbell, Finance Strategic Manager. Plan Ref: FP/16/10/07
Equality Impact Assessment Form and Action Table 2015
(Expand the boxes as appropriate, please see guidance
(www.somerset.gov.uk/impactassessment) to assist with completion)

“...due regard" means and how the courts interpret it. The courts have made it clear that having due regard is more than having a cursory glance at a document before arriving at a preconceived conclusion. Due regard requires public authorities, in formulating a policy, to give equality considerations the weight which is proportionate in the circumstances, given the potential impact of the policy on equality. It is not a question of box-ticking; it requires the equality impact to be considered rigorously and with an open mind."

Baroness Thornton, March 2010

What are you completing the Impact Assessment on (which policy, service, MTFP reference, cluster etc)?

<table>
<thead>
<tr>
<th>Version</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24 January 2017</td>
</tr>
</tbody>
</table>

Early Years Single Funding Formula 2017/18

Section 1 – Description of what is being impact assessed

The impact is on the early years providers who currently deliver funded places as the changes will affect the amount of funding they receive from the local authority.

Assessing the impact of amending the early years funding formula to:
1. Reflect the removal of the £0.07 flexibility supplement, retention of all other supplements, and increase deprivation value to £0.40 for 100% deprivation.
2. Change the base rate for the Early Years Single Funded formula for 2017/18 for 3 and 4 year olds to £3.91 per child, per hour an increase from the current rate of £3.67 per child per hour.
3. Increase the hourly rate for funded 2 year olds for 17/18 to £5.04 per child, per hour

Section 2A – People or communities that are targeted or could be affected (taking particular note of the Protected Characteristic listed in action table)

- 491 Early Years providers are registered on Somerset’s Directory to provide funded entitlement places for 3 and 4 year olds of these 449 also offer funded places for eligible 2 year olds

Adopting the proposals outlined in section 1 will mean that 95.6% of providers offering entitlement places will see a rate increase and 4.4% will see a decrease or no change.

Section 2B – People who are delivering the policy or service

The local authority works in partnership with early years providers in the Private, voluntary and independent sector to ensure access to sufficient funded childcare places for parents who require childcare for work or to undertake training as far as is reasonably practicable. Childcare Act 2016

The local authority compiles sufficiency reports to show the where there

Section 3 – Evidence and data used for the assessment (Attach documents where appropriate)

- Summary of responses to the consultation with early years providers on changes to the Early Years Single Funding Formula (available from report author on request)
Section 4 – Conclusions drawn about the equalities impact (positive or negative) of the proposed change or new service/policy (Please use prompt sheet in the guidance for help with what to consider):

The aim is to ensure that there are sufficient funded early years places for parents to access in their local communities. Where there are insufficient places the local authority provides sustainability funding for providers on application and supports providers in extending or setting up new businesses.

All providers registered to deliver the early years entitlement must agree to abide by Somerset’s Code of Practice for the provision of the early years entitlement. This includes abiding by the Equalities Act 2010 and also meeting the local offer and SEND requirements.

Early Years settings are required to be fully inclusive and cater for children with additional needs and minority groups. All eligible children are funded in an equitable way through the Early Years Single Funding Formula. A deprivation supplement is applied via the Early Years Single Funding Formula to help fund early years entitlement places in deprived areas.
If you have identified any negative impacts you will need to consider how these can be mitigated to either reduce or remove them. In the table below let us know what mitigation you will take. (Please add rows where needed)

<table>
<thead>
<tr>
<th>Identified issue drawn from your conclusions</th>
<th>Actions needed – can you mitigate the impacts? If you can how will you mitigate the impacts?</th>
<th>Who is responsible for the actions? When will the action be completed?</th>
<th>How will it be monitored? What is the expected outcome from the action?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age</strong></td>
<td>Providers may increase their fees to parents wanting places outside of entitlement places to make their business sustainable. Early Years Commissioning has commissioned business support to early years providers to help with financial planning.</td>
<td>The local authority do not have control over the fees early years providers set, we can only signpost to business support.</td>
<td>Number of complaints about fees. The local authority collects information about fees annually and can monitor significant rises.</td>
</tr>
<tr>
<td><strong>Disability</strong></td>
<td>No expected negative impacts</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gender Reassignment</strong></td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Marriage and Civil Partnership</strong></td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pregnancy and Maternity</strong></td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Race</strong> (including ethnicity or national origin, colour, nationality and Gypsies and Travellers)</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Religion and Belief</strong></td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sex</strong></td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sexual Orientation</strong></td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other</strong> (including caring responsibilities, rurality, low income, Military Status etc)</td>
<td>Rural and settings in sparsely populated areas may continue to experience sustainability issues The local authority provides sustainability funding for providers on application. Early Years Commissioning and Service Manager, Schools Finance</td>
<td>Number of applications received and granted</td>
<td></td>
</tr>
</tbody>
</table>
Section 6 - How will the assessment, consultation and outcomes be published and communicated? E.g. reflected in final strategy, published. What steps are in place to review the Impact Assessment

Early Years providers offering entitlement places will be advised in writing of their new hourly rates under the revised EYSFF formula. The revised formula will be published in the Code of Practice for delivery of the early years entitlement which is available at [www.somerset.gov.uk/eye](http://www.somerset.gov.uk/eye)

<table>
<thead>
<tr>
<th>Completed by:</th>
<th>Charlotte Wilson</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>24 January 2017</td>
</tr>
<tr>
<td>Signed off by:</td>
<td>Dave Farrow, Head of Outcomes and Sufficiency</td>
</tr>
<tr>
<td>Date</td>
<td>08/02/2017</td>
</tr>
<tr>
<td>Compliance sign off Date</td>
<td>26/01/2017</td>
</tr>
<tr>
<td>To be reviewed by:</td>
<td>Charlotte Wilson</td>
</tr>
<tr>
<td>Review date:</td>
<td>November 2017</td>
</tr>
</tbody>
</table>