1. Introduction:

The proposals only relate to the Early Years Single Funding Formula (EYSFF) for the 3 and 4 year old free entitlement and not the free entitlement for 2 year olds.

The local authority (LA) is proposing changes to the EYSFF from 2015/16 financial year, firstly because of the financial position and secondly to make it fairer, more transparent and simpler to understand.

There is a predicted shortfall in the funding available for the EYSFF to pay for the free entitlement to early years education. The reasons are complex, but the implications are that a gap of £1.2m exists between the present budget available and the projected annual costs and this will continue unless action is taken from 2015/16 onwards.

The local authority is asking providers to help in reducing this shortfall by considering the proposals within this consultation and giving their support or making alternative suggestions.

The financial implications are such that it is inevitable that many providers will see a reduction in the rate they receive per hour for the free entitlement. However, when responding to the consultation please remind yourselves of some of the facts contained within this document which explain why we are proposing certain changes and that the level of funding received from the DfE is less than we are currently paying to providers.

Alongside responding to the consultation, we would welcome your support in lobbying on behalf of the early years sector, your local politicians and members of parliament for more funding for Somerset and in particular the early years sector. Separate correspondence will be published about how you can help in this process.
**The shortfall in early years funding will not be achievable by these proposals alone:**

The LA has further recommendations for the Schools Forum (the committee that advises the Cabinet member for Children and Learning) to consider, with regards to increasing the budget, restricting the stretched offer to parents and utilising central schools expenditure set aside for early years. These other considerations will either be part of a separate consultation with providers or discussions later in the year when the Schools Forum consider the overall use of the money available for education in Somerset for 2015/16 financial year and beyond.

Somerset receives £3.77 per hour, per child from the Department for Education, but we pay providers an average of £4.07 per hour per child. The increase in the number of providers employing qualified staff, and offering flexibility of provision has enabled more choice of high quality provision to parents, but the downside is the cost has increased although the money from the Government has not. The local authority is predicting a shortfall of 7% in the early years budget, although it is only looking to achieve savings of 2.5% from the proposals set out in this consultation document, as it would not be prudent to ask providers to contribute towards the overall saving target. Further background information on the financial position is contained within Appendix A (at the end of this document).

2. **Alongside the proposals for consultation are some changes in terminology:**

   Schools are funded through a formula with 12 factors and these are split into 3 Elements. To bring some parity alongside school funding and to enable early years providers to understand the DfE terminology, the LA is proposing to identify early years funding under the following headings:

   **Basic entitlement – Element 1 funding**
   **Additional needs and contribution towards high needs – Element 2 funding**
   **High needs “top up” – Element 3 funding**

   These can be equated to the following parts of the EYSFF:

   - **Element 1** – Base rate, staff qualification supplement and other supplements
   - **Element 2** – Deprivation
   - **Element 3** – Early Years Action Plus

   Within Element 1 funding, a proportion of the money will contribute towards what’s known as ‘notional SEN’, this proportion alongside the Element 2 funding will be the amount paid to a provider to support those children with additional needs and high needs. However, those who meet the criteria for high needs will also receive some top up funding (Element 3), previously known as Early Years Action Plus.

   The amount of notional SEN funding will therefore be dependent on 3 factors, the first being the number of hours claimed for each child. The second is the proportion of the hourly rate determined to relate to SEN, whether that’s an amount per hour included within the base rate (for example 10 pence per hour) or a proportion of the base rate (for example 5%). The third factor will be based upon Element 2 funding which is the percentage of pupils/hours relating to children from a deprived background. Evidence shows that there is a positive correlation to the number of children with additional and high
needs in proportion to children living in deprived households. This evidence also indicates that the attainment of these pupils is significantly lower than their peers during their school life.

This change in terminology brings the early years funding in line with school funding and will enable a direct comparison when making future funding decisions about support for all children and those with additional needs and high needs.

An example of how this may be shown in the future funding statement is included in Appendix B at the end of this document.
3. The following information is provided to assist you in the completion of the online consultation on the proposed options for changes to the Early Years Single Funding Formula, for the delivery of the free entitlement for 3 and 4 year olds from April 2015.

Graph 1 shows the distribution of projected hours for 2014/15 financial year based on the previous year’s take up:

![Graph 1: % of Actual Hours Claimed](image)

Table 1 shows the projected distribution of funding both in terms of money £,000 and percentage across the different provider types:

<table>
<thead>
<tr>
<th>Provider Type</th>
<th>Base Rate</th>
<th>Provider</th>
<th>Flexibility</th>
<th>Deprivation</th>
<th>Premises</th>
<th>Sparsity</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>LA Maintained Nursery</td>
<td>688</td>
<td>149</td>
<td>24</td>
<td>29</td>
<td>9</td>
<td>8</td>
<td>907</td>
<td>5.43%</td>
</tr>
<tr>
<td>Academies</td>
<td>585</td>
<td>126</td>
<td>19</td>
<td>24</td>
<td>8</td>
<td>0</td>
<td>762</td>
<td>4.57%</td>
</tr>
<tr>
<td>Private</td>
<td>5,902</td>
<td>213</td>
<td>300</td>
<td>121</td>
<td>71</td>
<td>5</td>
<td>6,612</td>
<td>39.61%</td>
</tr>
<tr>
<td>Voluntary</td>
<td>6,930</td>
<td>169</td>
<td>192</td>
<td>164</td>
<td>56</td>
<td>31</td>
<td>7,542</td>
<td>45.18%</td>
</tr>
<tr>
<td>Independent</td>
<td>602</td>
<td>40</td>
<td>35</td>
<td>2</td>
<td>8</td>
<td>0</td>
<td>687</td>
<td>4.12%</td>
</tr>
<tr>
<td>Childminder</td>
<td>147</td>
<td>29</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>182</td>
<td>1.09%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>14,854</strong></td>
<td><strong>726</strong></td>
<td><strong>574</strong></td>
<td><strong>340</strong></td>
<td><strong>154</strong></td>
<td><strong>44</strong></td>
<td><strong>16,692</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

3.1 The options described in Question 4 are:
- to reduce the value of the base rate and the supplements to achieve the saving target of 2.5%
- to keep the base rate at the present value of £3.61 and reduce the value of the supplements
- to increase the base rate and remove all the supplements apart from the mandatory deprivation supplement, or
- none of the above, with providers offering an alternative approach or a combination of the options being proposed.
3.2 The local authority preferred option supported by the Early Years sub group, is to increase the base rate for all providers, both in value and proportion of overall funding, achievable by removing some supplements or reducing the value and number of supplements. The value of the base rate as a proportion of the overall funding has reduced as more and more providers have become eligible for the supplements, as shown in Graph 2:

![Graph showing the proportion of base rate in overall funding from 2010/11 to 2014/15]

3.3 Potentially the base rate could be increased from £3.61 to £3.75 per hour and still achieve the required saving target of 2.5% within the overall budget, if there were significant reductions in the value and number of eligible supplements. Obviously, those providers eligible for the various supplements would see an increase in the base rate, but corresponding or further decrease in the supplements funding.

3.4 When completing question 5, which asks you to indicate the supplements you are currently in receipt of, this should allow you to work out whether a reduction or removal of some or all of the supplements will have a negative affect on your hourly rate, even if the base rate was to increase. Although, when answering the subsequent questions, you may wish to consider that a reduction in the number of supplements will mean that the EYSFF becomes simpler and more transparent. It will therefore be easier to predict the level of future funding; less information will be required and it will become less bureaucratic. You also need to know that the LA has no choice but to reduce the overall cost of the EYSFF; please bear this in mind in your response to the consultation.

3.5 The supplement for Deprivation is mandatory; the LA must continue to allocate some funds via a deprivation supplement, however the value can be amended. Question 6 asks whether the value should remain the same or whether the value should be reduced. When answering this question you may wish to consider the recent announcement that the coalition government is planning to extend the pupil premium grant to 3 and 4 year olds. The government hasn’t yet published details of the amount or how the pupil premium for 3 and 4 year olds will be distributed. However, they will shortly be consulting on this. For information the deprivation supplement is £340,000 and applies to the proportion of hours funded relating to children from deprived households (using the post code of the child and mapping this to the
Experian database). The amount paid is therefore based on a percentage multiplied by £0.36 pence per hour, for example a provider with 25% of the free entitlement hours relating to children deemed to be from deprived households would receive an additional £0.09 pence per hour.

3.6 The Provider Supplement relating to staff qualifications has increased from 27% to 60% of providers being eligible since EYSFF was first implemented. However, the differential in value for some types of provision has been an issue, and one we propose to reduce.

Table 2 shows the current value, number of eligible providers and the cost:

<table>
<thead>
<tr>
<th>Type of qualification</th>
<th>Value per hour</th>
<th>No. of providers</th>
<th>Cost £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified teacher in an LA or Academy nursery</td>
<td>£0.78</td>
<td>18</td>
<td>£274,984</td>
</tr>
<tr>
<td>Early Years Professional</td>
<td>£0.26</td>
<td>86</td>
<td>£314,928</td>
</tr>
<tr>
<td>Childminder with a level 3 early years qualification</td>
<td>£0.72</td>
<td>75</td>
<td>£29,358</td>
</tr>
<tr>
<td>Early Years Qualified Teacher Status</td>
<td>£0.22</td>
<td>33</td>
<td>£101,652</td>
</tr>
</tbody>
</table>

Question 7 asks for your thoughts on this supplement; you should note that the Early Year Professional and Early Years Qualified Teacher are now shown as the same qualification, following recent legislation changes and therefore these will be merged from April 2015. The local authorities preferred option is to reduce the values of the 3 types, partially offset by the proposed increase in the base rate, but allowing for less variance as well. Graph 3 shows the growth in the percentage of providers eligible for this supplement.
3.7 The Flexibility supplements were introduced to encourage providers to open longer and offer times to suit parental needs as stated in Question 8. The local authorities preferred option is to remove the flexibility supplements for providers open for 30 or more hours per week and those open for 40 or more hours per week. This is because the majority of providers now qualify for these supplements and therefore they are no longer required to encourage providers to offer greater flexibility to parents. The value of the supplements is £0.10 pence per hour for each, with a cost of £574,267 predicted for 2014/15. Graph 4 shows the proportion of providers eligible for the flexibility supplements:

![Graph 4: % of providers eligible for Flexibility](image)

3.8 Sparsity is only awarded to a small number of providers who meet the criteria of being 5km away from another setting. If it is kept the proposal is to review the criteria and include a factor which looks at the number of eligible children in the area.
3.9 The Premises supplement applies to those providers who either own or have responsibility for all the repairs and maintenance of their buildings. Graph 5 shows the percentage of providers eligible for the supplement. The local authorities preferred option is to remove the premises supplement as 4 out of 5 providers now qualify for it and therefore is not technically a supplement.

![Graph showing percentage of providers eligible for Premises]

% of providers eligible for Premises

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/11</td>
<td>63.53%</td>
</tr>
<tr>
<td>2011/12</td>
<td>62.96%</td>
</tr>
<tr>
<td>2012/13</td>
<td>66.38%</td>
</tr>
<tr>
<td>2013/14</td>
<td>76.07%</td>
</tr>
<tr>
<td>2014/15</td>
<td>79.49%</td>
</tr>
</tbody>
</table>

4. **Further information**

4.1 The options outlined within the consultation will inevitably result in some providers with a reduction in funding; therefore in the short term the local authority intends to ensure that no individual provider is disproportionately affected by the changes, and will limit the maximum loss per hour to 5% of the previous year’s hourly rate.

4.2 The LA will continue to offer support to providers in the form of information, advice and guidance where the providers are concerned about the continued viability of the setting, with less funding being received per hour.

4.3 The local authority and Early Years sub group realise providers are not going to be in favour of a reduction in the hourly rates paid, although by increasing the base rate, there will be a proportion of providers who will gain from the proposals. The LA wishes to make it clear that providers are not being asked to cover the entire shortfall, as this would be equivalent to a 7% reduction in funding and would put at risk the statutory requirement to ensure sufficient 3 and 4 year places. We are mindful that significant reductions would be detrimental to your business. To put this into context, if a similar proportion of funding was required from Schools and Academies it would equate to a reduction of £18.5m. Therefore, these proposals are one part of a plan to ensure future sustainability of early years funding and provision.

4.4 Somerset has provided more early years funding per hour than the majority of its neighbouring authorities in the South West and the statistical neighbours. Information taken from the Section 251 government return for 2013/14 financial year on planned spending, supports the fact that not only have we spent more than we’ve received, we
have funded more than comparable authorities, often when they have received more early years funding per hour.

4.5 In contrast to the amount being funded by the authority, the majority of providers are charging less per hour for additional hours than the amount received through the EYSFF for the free entitlement. This would suggest that the EYSFF more than covers the provider costs and therefore a reduction should be manageable, or that some providers are using the EYSFF to subsidise the chargeable hours to parents, which is misuse of public funds. If the latter applies then the practice needs to stop, as the local authority has responsibility for ensuring that it is receiving value for money from the use of public funds at its disposal and not subsidizing parents who choose additional early years education above the free entitlement. The proposals to remove many of the supplements and simplify the funding should remove any confusion about why some of the supplements were being paid. This was a reason given for charging less than was being received for the free entitlement by some providers.
Background Information:

1. The Department for Education (DfE) is interested to learn why Somerset and other local authorities have been saying that they are now experiencing problems with meeting the costs of the free entitlement and require additional funds, when they believe they had set up a funding system to reflect growth in participation. They recently visited Somerset where it was explained that the annual census return didn’t fully recompense the costs being paid, even in a lagged system (i.e. additional funding is received in the following financial year for the previous period, based upon the latest EY census). It has been proposed to move to using the termly census data; however this will not come into effect for at least a year and it is difficult to assess the impact until we know the detailed plans.

2. The DfE allocate an amount per full time equivalent child per annum, which when calculated at an hourly level, equates to £3.77 per hour. Somerset presently pays out £4.07 per hour on average to providers. This difference further explains the financial position being experienced by Somerset. The DfE will argue that the rate they fund was based upon the amount the LA was spending on Early Years in 2012/13. However, the values were subsequently increased from September 2012 and there has been a steady increase in the number of providers becoming eligible for supplements, which increases the average cost per hour. The DfE amount per annum was determined by using an annual budget return where the LA was required to make a prediction of expenditure for the following year. A prediction or forecast for the free entitlement is not something that can be exact as it is dependent on the decisions of 8,000 parents on where and for how many hours of the free entitlement they should use. The return was not designed for or expected to be used for the purpose that the DfE have since used it.

Summary of the LA plan

3. The local authority needs to take action now to reduce the costs of EYSFF or find a way of increasing the available funding for the EYSFF. The plan is to revise the value and number of supplements used in the EYSFF, lobby the government for more money and request some additional funding from the Dedicated Schools Grant (DSG) to better reflect the budget requirements of the early years sector. There is also the possibility of utilising some existing funding spent centrally on behalf of early years and restrict policies such as the ‘stretched offer’ to reduce costs.

4. The above approach is required to ensure we don’t face an unsustainable position in 2015/16. Therefore, the intention is to:
   • overhaul the EYSFF for 2015/16, consulting with providers over the Summer term
   • to engage in discussion with providers, councillors and politicians on the implications of an underfunded early years sector to enable an effective campaign to bring more government funding for early years in Somerset
   • to ensure the early years voice is heard by senior officers, councillors and representative bodies when discussing the use of DSG for 2015/16, where pressures exist across the age range 0-25.

5. In the last financial year 13/14 and this financial year, funding for eligible 2 year olds has been used to bridge the funding gap for 3 and 4 year olds. In March 2015 it is unlikely that 2 year old funding will be aligned to 3 and 4 year old funding and only
paid upon participation as identified in the census. This will mean that in the future there will be no contingency funding available from the budget for 2 year olds to help plug the gap

**The Financial Position:**

6. **2013/14 financial year**
The Department for Education (DfE) introduced School Funding Reforms from April 2013; these were primarily aimed at the way schools were funded, simplifying the funding formula to make it fairer, more transparent and bringing some uniformity as a precursor to the implementation of a national funding formula. The reforms required the Dedicated Schools Grant (the grant available for the educational provision and support services) to be aligned into three blocks; Early Years, Schools and High Needs.

7. For the 2013/14 financial year, the amount of money available for the Early years block was determined by the number of full time equivalent children initially based on January 2012 Early Years census and an estimate of January 2013 Early Years census. The LA in conjunction with the Somerset Schools Forum agreed how much of the projected funding should be made available for distribution to providers through the EYSFF, and how much was required to be transferred to or from the High Needs and Schools Blocks for commitments related to Early Years. The amount available for the 3 and 4 year old free entitlement was £15.035m.

8. The projected cost of EYSFF for 2013/14 financial year based upon the previous years actual paid hours, was £15.533m. Therefore, the budget initially was insufficient to cover the projected costs, however the DSG was updated in June 2013 for the January 2013 Early Years census, which in theory should have provided additional funds as the take up of hours and number of children had increased. However, the number of children recorded on the census return was the same as the previous year and no additional funding was available.

9. In addition to the shortfall in budget at the start of the financial year, the stretched offer and increase in overall hours (parental choice) has increased the cost to approx £17m, i.e. £2m more than the original budget. The size of the shortfall was not known until the Autumn term 2013, after the claim forms were received and when the Summer term actual spend was compared to the projected spend. It was therefore too late to consult with providers on changing the EYSFF for 2014/15.

10. The predicted overspend will reduce as the 2013/14 DSG will be adjusted for the period from September 2013 to March 2014 based upon the January 2014 Early Years census data. The recorded number of full time equivalent children has increased and is expected to bring an additional £0.7m of DSG funding, this has recently been confirmed by the DfE. The EYSFF overspend is set to reduce to £1.3m.

11. A short term solution recommended to the Somerset Schools Forum and the Early Years sub group is to offset the £1.3m overspend in 2013/14 by using the unspent money received for 2 year old provision (the LA was allocated funding for more places
than were taken up during the year). The second recommendation is to use the one
off trajectory funding available to the LA to grow the market for 2 year old places.

12. The use of most of the trajectory funding to offset the overspend on EYSFF will impact
on the LA’s ability to grow the number of providers and 2 year old places. The local
authority’s intention was to use a major proportion of the trajectory funding in
supporting providers to find and fund appropriate premises, to enable the authority to
achieve its 2 year old target.

13. **2014/15 financial year**
The EYSFF is projected to cost £17m for 2014/15, based upon the previous year’s
actual hours and provider data on eligibility to supplements. The cost has only
recently been calculated after the delayed collation of the provider data collected last
term. The initial budget available after Schools Forum supported transfers to and from
other blocks is £14.684m, a reduction of 2.3%. The EYSFF values and format have
not changed, with the exception of the definition of eligibility to the provider
supplement. The EYSFF budget was agreed prior to the January 2014 Early Years
census, therefore based on the previous year’s census data. The additional funding
expected for the 2014/15 financial year using the January 2014 Early Years census is
between £1m and £1.2m, although the DfE will not confirm the figure until June 2014.

14. The LA can expect a shortfall between budget and costs of £1.2m in 2014/15. If the
number of free entitlement hours increases, which it is expected, then in theory the
additional hours would be offset by a retrospective increase in DSG using the January
2015 Early Years census. For the 2013/14 financial year it is clear that the Early
Years census in January (even allowing for the stretched offer) does not fully reflect
the actual take up during the year.

15. Following on from 2013/14 the same short term solution will be required, using
unspent 2 year provision funding, where the number of funded places exceed the
actual take up, and the second year of trajectory funding. This maybe insufficient to
cover the overspend and therefore the only other alternative is to use DSG reserves,
which are currently being utilised to offset a predicted overspend in High Needs. This
would leave the LA without any DSG reserves and potentially in deficit by the end of
2014/15. If the overall DSG is overspent then the deficit is taken as a first call from the
following years DSG budget.
Appendix B

Example of how the change in terminology could be shown on future budget statements for the Early Years Single Funding Formula (EYSFF)

A setting with 20 children accessing the free entitlement for 15 hours over 38 weeks, with a qualified member of staff leading the learning, with 10% of the children from a deprived household.

Example Only: Rates shown are purely for this example

<table>
<thead>
<tr>
<th>Element 1</th>
<th>Base rate</th>
<th>£3.70 * 20 children * 570hrs = £42,180 (5% SEN)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Staff supplement</td>
<td>£0.20 * 20 children * 570hrs = £2,280</td>
</tr>
<tr>
<td>Element 2</td>
<td>Deprivation</td>
<td>£0.25 * 2 (10% of children) * 570hrs = £285 (100% SEN)</td>
</tr>
</tbody>
</table>

Total funding for the free entitlement £44,745

Element 3 High Needs top up (example only) £2,000

Notional SEN included above: Element 1 - 5% of base rate £2,109
Element 2 – 100% deprivation £285

Notional SEN Total included above £2,394

This example also highlights for providers the funding received for the basic entitlement (Element 1), which is what we would expect providers to charge parents for additional hours. **Element 1 funding only**, means we wouldn’t expect providers to charge a higher rate because they have a higher proportion of children from deprived households and therefore receive a higher rate per hour for free entitlement than a provider with fewer children from a deprived household. These would be the parents least likely to be able to afford additional hours. We would expect providers to include in their charges the notional SEN % included in the base rate – Element 1, as they should expect that a proportion of pupils accessing the free entitlement or additional hours, will have additional needs. The cost of provision for pupils with additional needs should be reflected in the charging policy to all parents, alongside the cost of qualified staff and any other supplements which form part of Element 1.