This is a consultation on the funding early years providers and schools in Islington will receive for funded early education for 2, 3 and 4 year olds from April 2018.

The Council’s proposals are in section 4 beginning on page 9 of this document.
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Please note: All funding is illustrative pending DfE decisions on specific funding issues in relation to Islington.

The consultation response form can be completed on line here: https://securesurvey.islington.gov.uk/selectsurvey/TakeSurvey.aspx?SurveyID=l4M1ln1

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1. National context and requirements

National context

The DfE introduced a National Funding Formula for Early Years (EYNFF) from April 2017 in preparation for the new statutory entitlement to free childcare for eligible 3 and 4 year olds in September 2017. 2018/19 is the second year of phasing in an EYNFF which comes in full in 2019/20. Updated operational guidance for the Early Years Block Dedicated Schools Grant (DSG) for 2018/19 was published by the DfE in late November 2017.

Some authorities, like Islington, were adversely affected by the funding change where the total funding available was redistributed between all local authorities. For Islington the change meant a 5% reduction in 2017-18 and a further 5% in 2018-19, and, although capped at these percentage levels, the impact on the centrally retained funding for early years was significant.

The statutory entitlements to 15 hours free childcare for all 3 and 4 year olds and an additional 15 hours free childcare for eligible families remains unchanged in 2018/19.

The entitlement to 15 hours free childcare for eligible 2 year olds also remains unchanged.

This consultation relates to the funding formulae for all these entitlements.

As well as the funding reductions in the Early Years Block, the DfE had stipulated a number of conditions that all local authorities should adhere to when implementing the 3 and 4-year-old EYNFF in their own authority. From 2018-19, these conditions remain in place and the key points on funding early years’ providers are that local authorities:

- should set a single funding rate (including the same base rate and supplements) for entitlements for 3 and 4 year olds (both the universal 15 hours, and the additional 15 hours for working parents)
- must plan to spend at least 95% of their 3 and 4-year-old funding from government on the delivery of the government entitlements for 3 and 4 year olds, thereby ensuring that 95% of the funding be passed through to early years providers
- may request that the 95% requirement be disapplied in specific, exceptional circumstances (to be discussed in further detail in the consultation)
- should be moving towards a universal base rate for all types of provider in their local 3 and 4 year old formula, and should do this by 2019 to 2020
- must use a deprivation supplement in their local 3 and 4 year old formula, and any other supplements used must fall within one of the allowable categories
- must not channel more than 10% of their funding for 3 and 4 year olds through funding supplements
- can continue to use ‘lump sums’ (as well as a differential base rate) to distribute Government funding, including the supplementary MNS funding for Maintained Nursery Schools to enable the protection of their 2016 to 2017 funding rates
- must provide a SEN Inclusion Fund (SENIF) for 3 and 4 year olds
- must pass on EYPP in full to providers for eligible 3 and 4 year olds
- must pass on DAF funding in full to providers for eligible 3 and 4 year olds
Please note that the Early Years Pupil Premium (EYPP) remains unchanged at £0.53 per hour per eligible child; maximum of £302.10 per year, and Disability Access Fund (DAF) remains unchanged at £615 per child.

**Funding from the DfE to Local Authorities**

The DfE will continue to allocate funding to local authority areas using the following formula:

\[
\text{LA hourly funding rate} = \text{Base rate} + \text{Additional needs} \times \text{Area cost adjustment}
\]

Reductions for local authorities that lose out (such as Islington) are capped at 10% after 2 years (5% in 2017/18 and a further 5% in 2018/19). The loss in funding for Islington is £1.55m over the two years.

**Central retention**

Local authorities are able to centrally retain funding for central services to lead and support the system. Central retention was capped at 7% of Early Years Block DSG funding in 2017/18 (a reduction from 13% in Islington in 2016/17) and reduces to 5% from 2018/19 onwards. This means that some centrally provided services/funding may need to end or be charged for.

Local authorities have been able in certain circumstances to submit requests to disapply these funding regulations for the two-year transition period where:

- disapplication is essential to avoid significant (greater than 100 children per authority) reduction in full-time places (or additional hours) offered under local eligibility criteria; or
- disapplication is essential to avoid a significant overall reduction in the level of specialist early years SEND services free or on a subsidised basis; or
- disapplication is essential for the local authority to meet its statutory early years duties, for example, delivering the entitlement for disadvantaged two year olds; and
- local authorities were required to gather views of providers on whether they would accept the funding rate if the disapplication is accepted.

**SEN inclusion fund**

Outside of the limits on central retention, the DFE continue to require all local authorities to hold a centrally managed SEN Inclusion Fund to provide additional funding to providers to improve outcomes for 3 and 4 year old children with special educational needs and disabilities using funding from both Early Years and High Needs DSG.

**Local Early Years Single Funding Formula (EYSFF) for providers for 3 and 4 year olds**

The DfE continue to require that the EYSFF is made up of a universal hourly base rate, a mandatory factor for deprivation and optional additional needs factors for rurality / sparsity, flexibility, quality and English as an additional language. Under these arrangements, settings can only be funded on participation. The total value of supplements used in any authority is capped at 10%.
The DfE recognise that it is reasonable for local authorities to hold back contingency funds for in-year demographic growth outside of the central retention limits.

While maintained nursery schools in all local authority areas and children’s centre nurseries in some local authority areas (including Islington) lose significant levels of funding under a EYNFF, the DfE are only providing additional supplementary funding for maintained nursery schools until the end of the current Parliament to help manage the transition.

The supplementary funding for maintained nursery schools in Islington is £227k – significantly lower than the loss in funding they have incurred and continue to incur under an EYNFF.

2 year old funding

The funding rate for inner London authorities (including Islington) remains at £6.50 per hour in 2018/19 before allowing for central retention, to lead and support the system and SEND.
2. Continued impact of the EYNFF in Islington

The impact of the DfE’s funding changes for early years in Islington

The DfE’s funding changes have had wide-ranging implications for Islington children and Islington settings. The funding rate that the Council received from the DfE until 2015/16 was relatively high as there are high levels of deprivation in the borough. The impact of the loss in funding is significant, particularly for settings which take the poorest children. Local Authorities with high levels of deprivation, like Islington, which have historically prioritised funding for early education, are the hardest hit from these changes.

Some of the key concerns are as follows:

1) Many of the most disadvantaged children who would have received a full-time 30 hour place in primary school nursery classes or children’s centres are effectively excluded by these changes from accessing more than 15 hours early education. This means a significant proportion of FSM children are likely to fall further behind their better off peers and arrive in reception classes less ready to learn.

2) The government’s equalisation of funding across sectors results in a switch in funding for 3 and 4 year olds between sectors. In Islington, and nationally, this means less funding going to the maintained early years sector (nursery schools and children’s centre nurseries) and more funding going to other providers, particularly private settings.

The profile of children attending the range of providers in Islington is not similar, with the large majority of the most deprived children attending maintained settings. 30% of places at nursery schools and children’s centre nurseries are reserved for children who are referred for social, emotional and / or severe and complex special educational needs.

3) Providers in all sectors have a substantial number of empty 3 and 4 year old places as a result of the changes in funding which have resulted in an over-supply of places. Complications with the eligibility system, the lack of a national campaign mean that the expected number of eligible children have not materialised.

4) The changes to bring about a single funding rate across different types of provider particularly affect childminders whose rates in the past have been higher for 3 and 4 year olds in recognition of the different ratios they need to maintain. Childminders must maintain a ratio of 1 adult to 3 children under 5, whereas in group settings the ratio changes from 1:4 for 2 year olds to 1:8 for 3 and 4 year olds.

5) In the past, the flexibility to fund all age ranges and the higher percentage which was centrally retained meant there was sufficient resource to administer the funding and support the 2 year old offer. Therefore, the 2 year old funding from the government was all passported to providers. However, there is now a need to retain 5% of the 2 year old funding centrally, meaning that the funded 2 year old rate will decrease further this year, making the rate for 2 year olds lower in Islington than the rate for 3 and 4 year olds. This could result in providers ceasing to offer places to funded 2 year olds in favour of the greater income earned and lower cost incurred of providing places for 3 and 4 year olds.

6) Islington currently pays a higher rate for funded 2 year olds where the provision is led by an Early Years Teacher or someone with an appropriate early childhood degree. The most recent outcomes data has demonstrated the difference that good quality provision from the age of 2 can make to children’s outcomes at age 5. A cut in the 2 year old rate may mean that settings will have to employ fewer well-qualified or experienced staff to work with 2 year olds; and small standalone 2 year old provision will be unable to afford a leader with a degree level qualification.

7) Currently, the central retention funds a range of services and grants, which are paid directly to providers, as well as the central infrastructure costs of running the Early Years Service to support the sector and administer the funding. With further cuts to the amount that can be centrally retained this year, the likely impact will be an increase in the cost of traded services
to the sector and a reduction in the range and amount of advice and support (including financial support) to providers in difficulties.

8) While the council has encouraged a consistent approach across Islington providers, there is evidence of an inconsistent offer of early education and childcare to families

**Steps the Council is taking in mitigation**

We are continuing to take a number of actions to mitigate the negative impact of these changes and minimise the disruption that has been caused to children and families and to providers:

1) The Council has submitted the following disapplication requests to the DfE for 2018/19:
   - (a) to continue to provide full-time places for up to 250 3 and 4 year olds who are eligible under the EYPR criteria
   - (b) to retain the 17/18 base rate for eligible 2 year olds and to provide a small increase in the quality factor in order to secure sustainability and maintain favourable staffing qualification levels

2) We will continue to encourage and support all providers to register for tax free childcare and for parents to take up the opportunity it provides to reclaim 20% of their childcare costs

3) We will work with partners in the Council to support parents who are not entitled to the 30 hours to take up training opportunities and seek work as soon as they are able.

4) We have worked with primary schools to introduce a charging policy to allow parents of non-eligible children to access more hours in the school nursery if that is what they wish.

5) We have provided workshops for providers from all sectors to raise awareness of the changes, encourage them to offer the extended as well as universal entitlements; explore sustainable business models and flexible delivery; and develop innovative partnerships

6) We have developed a communication strategy which includes a traditional and electronic media campaign to raise awareness of the 30 hour offer, ensuring the universal 15 hour offer continues to be communicated clearly, particularly for families not eligible for 30 hours; understanding and addressing the barriers to taking up the offer.

7) We will continue to work with schools and other providers across the maintained sector to ensure a consistent offer of early education and childcare for parents.
3. Underlying principles of the Council’s early years strategy and funding proposals

- **Prioritisation of funding for early education and childcare** – a growing body of evidence demonstrates a wide range of benefits to society, including better child well-being, more equitable child outcomes, a reduction in child poverty, increased intergenerational social mobility, more women participating in the labour market and better social and economic development.

- **The benefits to children of high quality childcare and early education from the age of two are exponential**: research shows an increasing positive impact on outcomes throughout the child’s school career.

- **Early identification of need and early intervention** afforded through high quality early years services has further benefits to society in that it reduces the need to spend on specialist services later on.

- **A strong emphasis on support for high quality provision** – having provided training and advice to all parts of the sector for nearly twenty years and until recently substantial funding to improve workforce qualifications, Ofsted outcomes in all areas (nursery schools, children’s centres, early years group settings and childminders) are higher than national averages and statistical neighbours.

- **Supporting the retention of high quality staff to lead provision for the most disadvantaged children** – in Islington, disadvantaged children are predominantly accessing graduate- or teacher-led early education provision in the maintained sector. Evidence shows qualified teachers have a demonstrable impact on children’s outcomes, particularly in communication, literacy, mathematics and science, and that disadvantaged children make most gains from their starting points in high quality settings where staff have higher levels of qualification and adult-child ratios are better.

- **Making good quality childcare more affordable for working parents, particularly those on low incomes.** The Council currently subsidises about 1,500 childcare places for children under five in children’s centre nurseries and some community nurseries. Charges are based on a sliding scale in inverse proportion to family income. 35% of families receiving a subsidised place in a children’s centre nursery earn less than £25,000 per year.

- **All providers within the maintained sector, as well as partners in the voluntary and private sector, are key to the delivery of universal and targeted early education and childcare in the borough.**
4. Funding proposals & consultation questions

The provider rates and other financial assumptions included in this section are based on the Council obtaining approval for the planned disapplication requests submitted to the DfE for consideration by Ministers.

Provider rates

For 2018/19 we intend to increase provider rates for 2, 3 and 4 year olds through a combination of disapplication and retaining less funding centrally this year in line with DfE requirements.

The proposed base rate for all 3 and 4 year olds is £5.58 per hour, a 3% increase on the 2017/18 hourly rate. The deprivation rate will remain at the current level of £0.78 per hour.

The proposed base rate for eligible 2 year olds assuming a successful disapplication for 2017/18 is £6.00 per hour, a retention of last year’s rate. We intend to increase the quality supplement to £0.65, an increase from £0.63 last year.

The rest of this section sets out how these rates are arrived at, following calculations for SEN Inclusion Fund, central retention and the planned disapplication, and invites providers to comment.

SEN Inclusion Fund

We propose that the SEN Inclusion Fund will continue to provide additional SEN funding for providers to improve outcomes for 3 and 4 year old children with special educational needs and disabilities. The total value of the fund for 2018/19 will remain at 545k. Access to this funding is through the termly SEN Funding Panel.

Question 1: Do you agree that we should continue providing an SEN Inclusion Fund at the level as set out above to support pupils with SEND? Y / N

Central retention

In line with the DfE’s changes we will centrally retain 5% of Early Years Block DSG funding for 3 and 4 year olds to fund central services.

Central services include the strategic and operational leadership and management of the early years system and its finances; the administration of funding to all providers in line with statutory responsibilities including ensuring the proper use of public funding; eligibility checking; family information service; childcare sufficiency duty and place planning; safeguarding and child protection advice; data analysis and reporting; support and challenge to providers to meet requirements, raise standards and improve outcomes. It is through these central services that the Council is able to take actions to mitigate the negative impact of the changes brought about by EYNFF as outlined on page 7 in order to minimise the disruption to children and families and to providers.

We will also retain a 3.7% contingency for demographic growth for providers in year in line with the DfE’s changes. This will be used to fund increasing numbers of 3 and 4 year olds in the summer term and new provision.

Question 2: Do you have any comments about central retention? Comments

Question 3: Do you have any comments about retaining a 3.7% contingency for demographic growth in line with the DfE’s changes? Comments
SEND funding in the High Needs Block

We will continue to fund the 36 Under Fives Advisory Group (UFAG) places in children’s centres for children with severe and complex needs, top-up funding for under 3s (as this cannot come from the new SEN Inclusion Fund under the DfE’s reforms), Area SEN Co-ordinators (SENCOs), and the EYPR team from the High Needs Block. The High Needs block also funds a contribution to Speech and Language Therapy and CAMHS services for children under 5.

We intend to review how we fund SEND during the transition phase to ensure that we can continue to meet increasing need in the longer-term. Consultation proposals have recently been received from the DfE on the reform of high needs DSG funding which may have implications on funding for SEND in early years from 2018/19.

<table>
<thead>
<tr>
<th>Item</th>
<th>£k</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>36 Under Fives Advisory Group (UFAG) places</td>
<td>684</td>
<td>Located at 10 children’s centres for children with severe and complex needs</td>
</tr>
<tr>
<td>Additional SEND funding for providers (under 3s)</td>
<td>165</td>
<td>Includes an additional sum to meet growing SEND needs across all sectors and for children under 3.</td>
</tr>
<tr>
<td>Area SENCOs and EYPR team</td>
<td>288</td>
<td>Current Area SENCO and EYPR staffing complement plus £46K to meet growing level of need</td>
</tr>
<tr>
<td>Speech and Language Therapy (SLT)</td>
<td>213</td>
<td>Speech and language activities for under 5s and support for practitioners to develop understanding of speech and language</td>
</tr>
<tr>
<td>Child and Adolescent Mental Health Services (CAMHS)</td>
<td>74</td>
<td>Contribution to CAMHS services for under 5s including advice to parents.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,424</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Question 4:** Do you have any comments about SEND funding for early years in the High Needs block? Comments

Disapplication proposals

The Council intends to disapply the restriction on the central retention of 3 and 4 year old funding in order to support the most disadvantaged children who are negatively affected by the EYNFF.

A successful disapplication will enable us to:

- fund an additional 15 hours of early education for up to 250 3 and 4-year-old children who meet the EYPR eligibility criteria. This will ensure that the most disadvantaged children can benefit from 30 hours of good quality childcare and early education, which will support them in their school readiness by the time they start reception.

- maintain the current (2017/18) hourly base rate for providers taking eligible 2 year olds and provide a small increase in the quality supplement. This will allow us to maintain the differential between the 2 year old rate which requires a 1:4 ratio and the 3 and 4 year old rate which requires a 1:8 or 1:13 ratio.
3 and 4 year old EYSFF

After allowing for central retention at 5% in 2018/19, a contingency budget of 3.7% in line with the DfE’s regulations, our proposals in relation to the SEN Inclusion Fund and disapplications, the proposed universal base rate for all 3 and 4 year olds for 2018/19 will be £5.58 per hour, a 3% increase on the 2017/18 hourly rate.

We propose to continue to use the mandatory deprivation factor only which will account for 10% of funding amount (as per 2017/18), the maximum amount allowed under the DfE’s regulations. We will maintain the deprivation rate at £0.78. We do not propose to apply any of the optional factors as described on p.4 (rurality, sparsity etc). Using the deprivation factor will enable funding to be targeted at children with the greatest need.

Our measure of deprivation is Early Years Pupil Premium eligibility as this includes children that are or have been looked after, but is reliant on providers submitting full, accurate and timely data to enable it to be used.

Where the deprivation supplement applies, the proposed maximum funding rate for providers will be £6.36 per hour.

In last year’s consultation document we proposed phasing in the new EYSFF for 3 and 4 year olds over two years in line with the DfE’s changes to maintain stability and give settings time to adjust their business models for the new entitlement and funding regime. 2018/19 will be the second year of phasing in the EYSFF in Islington. We will continue to do this by:

- capping settings that gain to redirect funding to settings that lose so their losses are protected when compared to the current funding formula;
- We are proposing to continue to maintain funding for childminders at existing levels for the remainder of the transition period as they do not have either the same economies of scale or ratio requirements as other providers.

The following table sets out the current and proposed EYSFF rates for 3 and 4 year olds:
### Question 9:
During the transitional period, do you agree that we should continue to protect settings that lose funding overall as a result of the funding formula in 2018/19 by capping those that gain overall? Y/N/Comments

### 2 year old EYSFF

The funding rate for inner London authorities (including Islington) remains at £6.50 per hour in 2018/19 without allowing for any central retention for SEND and to lead and support the system.

For several years we have funded providers who meet optional quality requirements at a higher rate than we receive through DSG using a balance from one-off set-up (trajectory) funding for 2 year olds allocated when the entitlement was first introduced. For 2018/19 disapplications to the central retention requirement for 3 and 4 year old funding in order to support LAs to meet the 2YO duty are allowed. Individual settings continue to be able to pool their 2 year old and 3 and 4 year old funding, regardless of the outcome of the disapplication.

We do not propose increasing the hourly base rate for two year olds but we are proposing a small increase to the quality supplement from 0.63 in 2017/18 to 0.65 in 2018/19 as a reflection of our local commitment to providing high quality provision for our most disadvantaged children.

It is proposed to maintain the current structure to funding rates: a base rate and quality factor for nursery schools, primary schools, children’s centres and PVI settings; and a base rate and small setting factor for childminders. It is proposed that childminder funding remains unchanged in 2018/19.

The following table sets out the current and proposed EYSFF rate for funded 2 year olds:

<table>
<thead>
<tr>
<th>Setting</th>
<th>Factor</th>
<th>2017/18</th>
<th>2018/19 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nursery schools, primary schools, children’s centres and PVI settings</td>
<td>Base rate (90%)</td>
<td>£6.00</td>
<td>£6.00</td>
</tr>
<tr>
<td></td>
<td>Quality factor (10%)</td>
<td>£0.63</td>
<td>£0.65</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>£6.63</td>
<td>£6.65</td>
</tr>
<tr>
<td>Childminders</td>
<td>Base rate (90% in 18/19)</td>
<td>£6.00</td>
<td>£6.00</td>
</tr>
<tr>
<td></td>
<td>Small setting</td>
<td>£0.50</td>
<td>£0.50</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>£6.50</td>
<td>£6.50</td>
</tr>
</tbody>
</table>
**Question 10**: Do you agree that we continue to use a quality factor in the 2 year old funding formula for nursery schools, primary schools, children’s centres and PVI settings? Y/N/Comments

**Question 11**: Do you agree that we continue to use a small setting factor in the funding formula for childminders? Y/N/Comments

**Question 12**: Do you agree with protecting the 2 year old funding rate during 2018/19? Y/N/Comments

**Question 13**: Given all the information above, will you continue to provide funded early education for 2, 3 and 4 year olds (as appropriate to your setting) at the proposed rates set out above?

**Question 14**: Do you have any additional comments on our proposals? Comments