



Education
Funding
Agency

Early years national funding formula

Operational guide

December 2016

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Introduction

About this guidance

1. This guide helps local authorities to plan the local implementation of changes to the early years funding system in the 2017-18 financial year.
2. The government will be introducing the necessary secondary legislation to formalise the rules and principles in this guidance. However, this guidance sets the overall framework and expectations on local authorities in implementing the new early years national funding formula.

Who is this guidance for?

This guidance is for:

- Local authorities
- Schools forums
- Early years providers

National funding to local authorities

Dedicated schools grant (DSG)

3. Local authorities will continue to be funded for early years provision through the early years block in the dedicated schools grant (DSG). Local authorities will receive their first payments under the early years national funding formula in April 2017.
4. There will continue to be a mid-year adjustment to the DSG, based on data from the early years and school censuses. Final funding allocations for 2017-18 for the core 15 hours offer will continue to be based on 5/12th of January 2017 child numbers (to cover the April 2017 to August 2017 period) and 7/12th of the January 2018 child numbers (to cover the September 2017 to March 2018 period), to acknowledge any in-year growth in child numbers. For the additional hours, we intend final funding allocations for 2017-18 to be based on child numbers recorded at the January 2018 census.
5. Local authority allocations are provided in the allocations table published alongside this guidance. Detail on the methodology underpinning is included in the technical note that also accompanies the allocations tables.

Early years national funding formula (EYNFF)

6. A new early years national funding formula for 3- and 4- year olds was announced on 1 December. The government response is published alongside this guidance.

The key points are:

- The new formula allocates funding to local authorities for the existing 15-hour entitlement for all three- and four-year-olds and the additional 15 hours for three- and four-year children of eligible working parents. The funding rates for both the existing 15-hour entitlement and the additional 15-hour entitlement are the same. Funding in 2017-18 for the additional 15-hour entitlement (the 30 hour childcare policy) is for part of the financial year, reflecting the fact that this policy begins in September 2017.
- 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.
- 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%.
- All local authorities should be funded by the early years national funding formula by 2019-20.

Funding for two-year olds

7. Funding for the most disadvantaged 2-year olds is already allocated on a formulaic basis. The Government has however committed to uplift the average two-year old hourly funding rate from £5.09 to £5.39 and to implement this we will retain the current two-year old formula.

Early years pupil premium (EYPP)

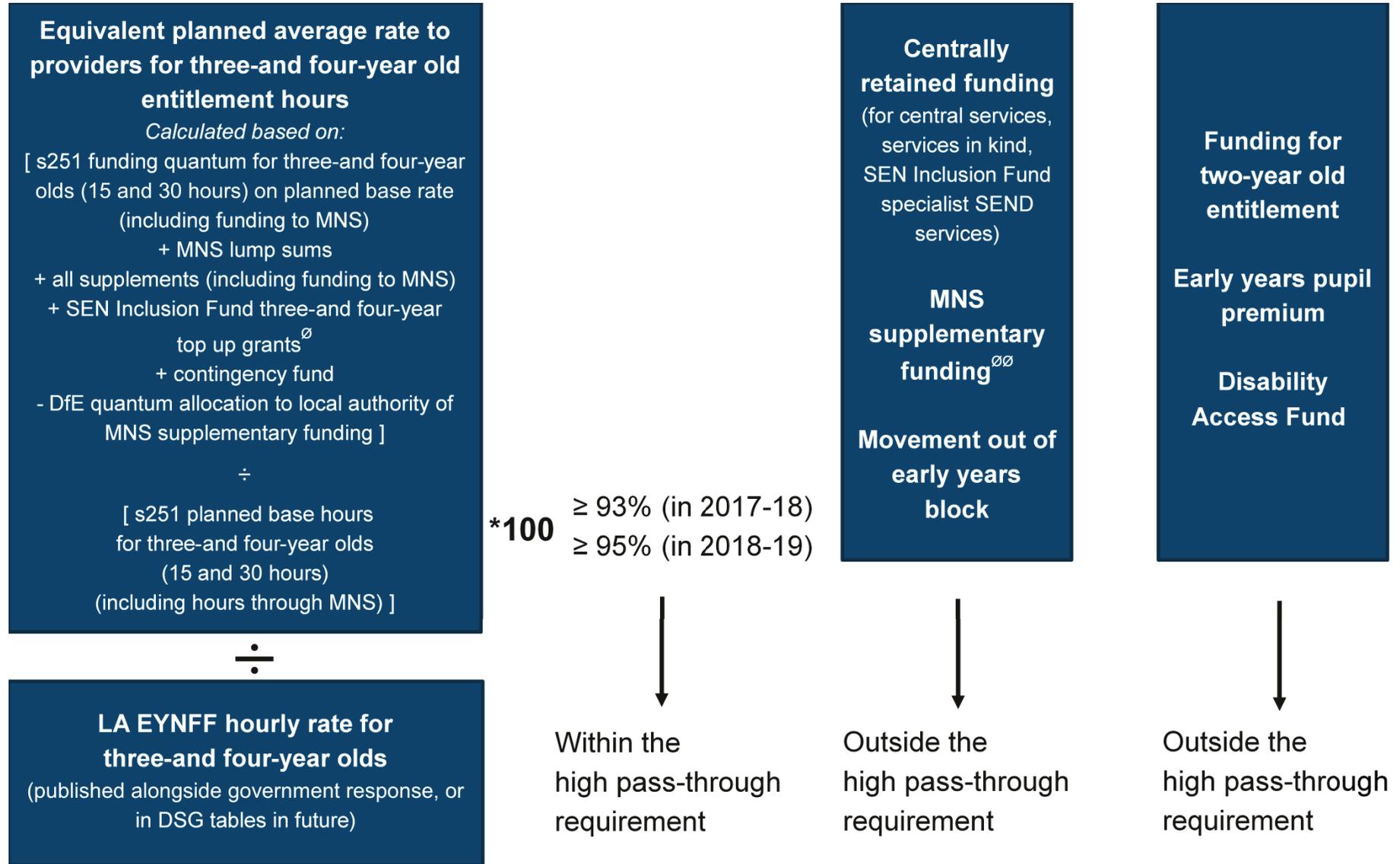
8. Additional funding continues to be provided to local authorities in order to support disadvantaged pupils through the early years pupil premium (EYPP).
9. The EYPP remains distinct from the early years national funding formula and will continue as a separate funding stream.
10. EYPP continues to be paid within the DSG and there are no funding changes for the EYPP for 2017-18.
11. The government has committed to review the delivery mechanism for EYPP, taking account of the delivery mechanism for the new disability access fund (DAF). We will provide further details in due course.
12. Further details can be found in the [existing guidance on the EYPP](#).

Local authority funding to providers

13. There are now a number of new requirements on how local authorities are able to allocate funding to providers from 2017-18.
14. These requirements are intended to ensure that funding provided by the EFA is fairly distributed to providers. The main changes are:
 - A minimum amount of funding to be passed through to providers.
 - A local universal base rate for all types of provider, to be set by local authorities by 2019-20 at the latest.
 - Supplementary funding for maintained nursery schools, for the duration of this Parliament.
 - Reforms to mandatory and discretionary supplements local authorities are able to use.
 - The introduction of a disability access fund.
 - A requirement for authorities to establish a special educational needs inclusion fund.

High pass-through requirement

15. There are new requirements on the amount of funding for 3- and 4-year olds that local authorities must pass to providers. This pass-through requirement is intended to ensure the maximum amount of funding allocated to local authorities by the EFA reaches providers.
16. The pass-through funding level is set at 93% in 2017-18. It will increase to 95% from 2018-19. This means that centrally retained funding (for central services or services in-kind) combined with any funding movement out of the early years block will be constrained to a maximum of 7% in 2017-18 and 5% from 2018-19.
17. In 2017-18 local authorities need to plan to spend at least 93% (95% from 2018-19) of the hourly rate they receive from the government directly on providers. Prior to each financial year, local authorities need to plan to meet this requirement in determining their planned budget allocations. (Please note that we also intend to monitor outturn data, and may change to assessing compliance based on outturn in future. We will also monitor provision on the ground in order to follow up any anomalous results).
18. The diagram overleaf sets out the requirements of local authorities:



[∅] SEN Inclusion Fund must be established by combining an amount from either one or both of their early years block and high needs block.

^{∅∅} DfE allocated MNS supplementary funding quantum to local authority

Monitoring policy compliance of the high pass-through

19. The pass-through is based on local authority planned budget, and we will monitor policy implementation through annual s251 budget returns. The calculation to determine compliance will be made as follows:

A = s251 funding quantum for 3-and 4-year olds on planned base rate (including funding to MNS), MNS lump sums , all supplements (including funding to MNS), SEN Inclusion Fund top up grants, contingency fund.

B = DfE quantum allocation to local authority of MNS supplementary funding (published alongside government response).

C = s251 planned base hours for three-and four-year olds (including hours through MNS).

D = equivalent average rate to providers for three-and four-year old entitlement hours = $(A-B) / C$.

E = LA EYNFF hourly rate for three-and four-year olds (published alongside government response, or in DSG tables in future).

$F = (D / E) * 100\%$.

A local authority will be considered meeting the requirement if:

$F \geq 93\%$ (in 2017-18) or 95% (from 2018-19).

20. While MNS supplementary funding is not considered in the determination of the high pass-through, we would expect local authorities to use this to maintain MNS stability.

This calculation is set out as a worked example:

Calc	Line	Description	Amount
	1	Anticipated budget for base rate (including funding to MNS) for 3 and 4 year olds	£12,900,000
	2	Anticipated budget for MNS lump sums for 3 and 4 year olds	£640,000

A	3	Anticipated budget for supplements for 3 and 4 year olds: Deprivation (including funding to MNS)	£500,000	
	4	Anticipated budget for supplements for 3 and 4 year olds: Quality (including funding to MNS)	£265,000	
	5	Anticipated budget for supplements for 3 and 4 year olds: Flexibility (including funding to MNS)	£200,000	
	6	Anticipated budget for supplements for 3 and 4 year olds: Rurality (including funding to MNS)	£350,000	
	7	Anticipated budget for supplements for 3 and 4 year olds: EAL (including funding to MNS)	£100,000	
	8	Anticipated budget for 3 and 4 year old SEN inclusion fund (top up grants element)	£400,000	
	9	Anticipated budget for 3 and 4 year old contingency	£1,000,000	
			Subtotal =	£16,355, 000
	B	10	DfE quantum allocation to local authority of MNS supplementary funding	£98,000
C	11	Planned total base rate hours for core 15 and additional 15 hours for 3 and 4 year olds	2,965,000 hours	
D	12	Equivalent average rate to providers for three- and four-year old entitlement hours = (A-B) / C = (lines 1+2+3+4+5+6+7+8+9 - 10) / (line 11)	£5.48 per hour	
E	13	LA EYNFF hourly rate for three-and four-year olds (published alongside government response, or in DSG tables in future)	£5.83 per hour	
F	14	Test of meeting requirement $F = (D / E) * 100\% = ((\text{line } 12) / (\text{line } 13)) * 100\%$	94%	

In this example, since the local authority is passing on 94% of the hourly rate they receive from central government for 3 and 4 year olds to their providers (ie $\geq 93\%$), the local authority will meet the policy requirement in 2017-18. It would not however meet the requirement in 2018-19 as the figure is not $\geq 95\%$).

Table 1: worked example of pass-through.

Local universal base rate

21. Local authorities are required to set a universal base rate in their local single funding formulae, meaning there must be a base rate the same for all types of provider, by no later than 2019-20. We will monitor progress in moving toward the universal base rate over the next two years.

Maintained nursery school (MNS) supplementary funding

22. Supplementary funding for maintained nursery schools will enable local authorities to maintain their current maintained nursery schools funding levels. The methodology for allocating the additional MNS funding is explained in the technical note.
23. As the universal base rate is introduced, we will allow local authorities to continue to provide a higher level of funding to maintained nursery schools.
24. The EFA will be undertaking a data assurance exercise to verify current expenditure levels in those authorities with MNSs. This will take place in the early part of 2017. We will provide more information to local authorities in due course.

Use of supplements

25. Local authorities will continue to have the ability to use funding supplements. Supplements are amounts of funding which are given in addition to the base rate to reflect local needs or policy objectives.

Supplement cap

26. The total value of supplements used in any authority must not be more than 10% of the total value of planned funding to be passed through to providers.
27. The 10% cap is therefore calculated as follows:

X = supplements quantum from planned s251 budget.

Y = total base rates for 3 and 4 year olds quantum + supplements quantum from planned s251.

$$Z = X/Y.$$

If $Z \leq 10\%$ then LA meeting requirement.

So an authority with a £13.5m base rates quantum would be able to grant supplements up to a total of £1.5m - $\frac{£1.5m}{£13.5m} + £1.5m$.

Funding supplements

28. The below lists the categories of mandatory and discretionary supplements. Any additional funding passed to providers must fall within one of these categories. For all categories, authorities have the freedom to choose the appropriate metric for allocating funding but should be open and transparent with the metric chosen.

Mandatory supplements

Deprivation:

29. Local authorities must use this supplement to recognise deprivation in their areas. Local authorities can choose the amount of funding to channel through this supplement as long as the total value of all supplements used does not exceed the 10% cap.

Discretionary supplements

Rurality/sparsity:

30. A rurality/sparsity supplement is permitted to allow local authorities to support providers serving rural areas less likely to benefit from economies of scale.

Flexibility:

31. A flexibility supplement is permitted to support providers in offering flexible provision for parents. This could, for example, be childcare wraparound care, out-of-hours provision or to encourage a particular type of provider in an area (such as to meet a need for childminders in an area).

Quality:

32. A quality supplement is permitted to:

- support workforce qualifications, and/or;
- support system leadership (supporting high quality providers leading other providers in the local area).

English as an additional language (EAL):

33. An English as an Additional Language (EAL) supplement is permitted.

Provision for disabled children and children with special educational needs (SEN)

34. The Equality Act 2010 ensures that local authorities and settings must not discriminate, harass or victimise disabled children, and must make reasonable adjustments. Local authorities must ensure that disabled children entitled to a place are found suitable provision.

35. Two new measures are being introduced for 2017-18 to support children with disabilities or SEN:

- the disability access fund aids access to early years places by, for example, supporting providers in making reasonable adjustments to their settings and/or helping with building capacity (be that for the child in question or for the benefit of children as a whole attending the setting);
- the SEN inclusion fund requires local authorities to set up a fund to help providers better address the needs of individual children.

Disability access fund (DAF)

Eligibility

36. 3- and 4-year olds will be eligible for the DAF if they meet the following criteria:

- the child is in receipt of child disability living allowance and;
- the child [receives free early education](#).

37. Please note that four-year olds in primary school reception classes are not eligible for DAF funding. Children become eligible for free early education at different points in the year depending on when they turn 3. Details of the dates [when children become eligible are available in existing guidance](#).

Entitlement

38. The settings of three- and four-year-olds eligible for the DAF will be entitled to receive a one-off payment of £615 per year. The DAF is not based on an hourly rate and is an additional entitlement.

39. Children do not have to take up the full 570 hours of early education they are entitled to in order to receive the DAF. Children in receipt of the DAF will be eligible where they take-up any period of free entitlement.

Identifying eligible children

40. Early years providers are ultimately responsible for identifying eligible children. However, local authorities should encourage providers to speak to parents in order to find out who is eligible for the DAF.
41. Providers will be able to use the parent declaration form template, due to be published alongside the Model Agreement in early 2017. The template is for parents whose child is attending their setting and is due to include a box for parents to tick if their child is in receipt of disability living allowance.

Eligibility checking

42. Local authorities must check that the DAF eligibility requirements are met. Local authorities should be satisfied that the child in question is receiving disability living allowance. They may wish to see evidence of the child's disability living allowance award letter. Local authorities should keep a copy of this evidence on file.

Funding local authorities for DAF

43. In the financial year 2017 to 2018, the DAF funding each local authority receives is based on the latest available data (February 2016) from the Department for Work and Pensions on the number of children entitled to DLA aged three and four in England. We have adjusted the number of 4-year-olds in this dataset to account for the estimated percentage of 4-year-olds in each local authority who are in reception year instead of taking up the free entitlement.
44. The estimate of the amount of funding a local authority will receive in 2017-2018 financial year is available in the allocation tables accompanying this guidance. Details of how these initial allocations are calculated are found in the technical note.
45. From January 2018, we will collect data from local authorities about DAF take-up via the [school census](#) and [early years census](#). You should therefore record the children in your area that are taking up the DAF.

Distributing DAF funding to early years providers

46. Local authorities must fund all early years settings providing a place for each child eligible for the DAF in their area at the fixed annual rate of £615 per eligible child.
47. The DAF should not be offset against any other funding which an authority may ordinarily be providing for children eligible for the DAF.
48. The DAF is payable as a lump sum once a year per eligible child. If a child eligible for the DAF is splitting their free entitlement across two or more providers, local

authorities should ask parents to nominate the main setting. This setting will be where local authorities should pay the DAF for the child.

49. If a child receiving DAF moves from one setting to another within a financial year, the new setting is not eligible to receive DAF funding for this child within the same financial year. DAF funding received by the original setting will not be recouped.
50. In cases where a child who lives in one authority area attends a provider in a different local authority, the provider's local authority is responsible for funding the DAF for the child and eligibility checking.
51. All early years providers who are eligible to receive funding for the 3- and 4-year-old early entitlement education are also eligible to receive the DAF.

Compliance

52. Local authorities must record details about of DAF allocations on the annual s251 budget return to the EFA. We will consult on the necessary changes to the early years proforma in due course.

SEN inclusion fund

53. All local authorities are required to establish an inclusion fund in their local funding systems for 3- and 4-year olds with SEN taking the free entitlement. The purpose of the fund is to support local authorities to work with providers to address the needs of individual children with SEN. This structure will also support local authorities to undertake their responsibilities to strategically commission SEN services as required under the Children and Families Act 2014.
54. Local authorities may already have an SEN inclusion fund in their local funding system. Both new and existing SEN inclusion funds must comply with this guidance.

Eligibility

55. The SEN inclusion fund is for 3- and 4-year-olds who are taking up any number of hours of free entitlement. 2-year-olds are not eligible to receive this funding. Local authorities may wish to use a similar approach for two-year olds but we are not making this a requirement.
56. Local authorities should target the fund at children with lower level or emerging SEN. Children with more complex needs and those in receipt of an Education, Health and Care Plan (EHCP) continue to be eligible to receive funding via the high needs block of the DSG.

Value

57. In order to establish an SEN inclusion fund, local authorities will combine the amount from either one or both of their early years block and high needs block of the DSG. Local authorities must consult with early years providers to set the value of their local SEN inclusion fund. The value of the fund must take into account the number of children with SEN in the local area, their level of need, and the overall capacity of the local childcare market to support these children.

Allocating SEN inclusion funding to early years providers

58. Local authorities must consult with early years providers, parents and SEN specialists on how the SEN inclusion fund will be allocated, as part of the preparation and review of their 'Local Offer'.

59. Under this 'Local Offer', local authorities must publish details on how they are using their SEN inclusion fund to support their early years SEN cohort. These details must include the eligibility criteria for the fund, the planned value of the fund at the start of the year, and the process for allocating the fund to providers.

60. Local authorities should pass the majority of their SEN inclusion fund to providers in the form of top up grants on a case by case basis. Local authorities can also use part of their SEN inclusion fund to support specialist SEN services in their local area. However, any funding used in this way will not count towards the high pass-through.

Eligible providers

61. All early years providers who are eligible to receive funding for the 3- and 4-year-old early education entitlement are also eligible to receive support from the SEN inclusion fund.

Compliance

62. Local authorities must record the value of their SEN inclusion fund in their s251 return. We will consult on the necessary changes to the early years proforma in due course.

Evaluating best practice

63. For the DAF and the SEN inclusion fund, we will provide further guidance on how we will evaluate best practice across different local areas.

Disapplications

64. We do not expect that many local authorities will need to disapply funding regulations. However, Ministers are willing to consider individual requests to disapply the high pass-through requirement in exceptional circumstances, until 2019-20 while early years funding changes bed in. We are publishing criteria for such dis-applications now so that local authorities are clear on how we will consider requests:
65. First, local authorities must present strong evidence that, were disapplication allowed, entitlement delivery (ie 15 hours and 30 hours delivery) would not be jeopardised. Such evidence would need to include an assessment of demand for, and supply of, 15 and 30 hours entitlement places. Data on demand would need to be evidenced via, for example, historic take-up data (for 15 hours) and forecasting on likely take-up of 30 hours. Information on supply would need to be evidenced via, for example, agreements from providers to offer the required number of places at the local funding rate available (ie at a lower rate than if the authority complied with the high pass-through requirement). DfE will look to validate assessments of supply and demand against other data and intelligence.
66. Local authorities must also present evidence that one or more of the following conditions are met.
- a) Disapplication is essential to avoid significant (>100 children per authority) reduction in full-time places (or additional hours) offered under local eligibility criteria (ie places offered beyond the national entitlements of 15 hours and 30 hours for working parents). Such evidence might include financial data setting out costs of providing such places, and the degree to which this would need to be constrained were the local authority to comply with the high pass-through requirement.
 - b) Disapplication is essential to avoid a significant overall reduction in level of specialist early years SEND services offered to providers free or on a subsidised basis. Such evidence might include a description and costing of current services, an assessment of how these might need to be constrained were the local authority to comply with the high pass-through requirement, and the impact this would have. Evidence should also be provided on why it is not possible for providers to obtain such services on a 'buy-back' model.
 - c) Disapplication is essential for the local authority to meet its statutory early years duties. Such evidence might include a description and costing of meeting the local authority existing statutory duties, an assessment of how these might need to be constrained were the local authority to comply with the high pass-through requirement, and the impact this would have. Evidence should also be provided on why it is not possible to implement a more efficient operating model.

67. If a local authority does consider that there is a need to apply, details should be submitted by the 31st December through [the exceptions and disapplications proforma](#).

Early years collection and proforma

68. We are intending to make changes to the s251 early years collection and proforma, budget and outturn. We will consult on these changes in due course.

Local authority consultation

69. Local authorities are required to consult providers on their local formula. While local authority consultations clearly need to be meaningful, this does not necessarily mean they need to be undertaken over an extended time period. This is particularly the case if local authorities already undertook preliminary planning on their early years funding formula in light of our August consultation, and engaged providers in this.
70. We recognise the challenging timetable for local authorities to determine their funding approach, consult with providers and schools forums and engage local democratic processes, but we strongly encourage local authorities to issue consultations before Christmas 2016.
71. Schools forums must be consulted on changes to local early years funding formulae, including agreeing central spend by 28th February, although the final decision rests with the local authority. We expect schools forums to engage with local authorities in a timely way without creating undue delay. We recognise that this may need to be outside the routine school forum schedule of meetings.

Additional Support

72. Childcare Works, the DFE support contractor will monitor and advise on local authority implementation. They will conduct regular reviews and support intervention with those facing particular challenges.
73. The EFA values the regional meetings of local authority finance officers, which provide the opportunity to discuss practical issues and share best practice. Please make every effort to attend and we will ensure that officials continue to attend these meetings.



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