

Government consultation on an early years national funding formula: PACEY's response

NB Questions 1 - 8 covered demographics and details of respondents

9. Should there be an early years national funding formula (to distribute money from Government to each local authority)?

- Yes
- No
- Unsure

10. Considering a universal base rate of funding which does not vary by local area...

	Yes	No	Unsure
Should a universal base rate be included in the early years national funding formula?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is 89.5% of overall funding the right amount to channel through this factor?	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

11. Considering an additional needs factor...

Yes

No

Unsure

Should an additional needs factor be included in the early years national funding formula?

Do we propose the correct set of metrics?

Do we propose the correct weightings for each metric?

12. Considering an area cost adjustment...

Yes

No

Unsure

Should the early years national funding formula include an area cost adjustment?

Should that adjustment be based on staff costs (based on the General Labour Market measure) and on nursery premises costs (based on rateable values)?

13. If you have any comments or recommendations for alternative metrics or weightings to be used in the early years national funding formula, please explain here:

PACEY strongly supports the introduction of an early years national funding formula to allocate funding to both local authorities and early years providers in a more fair and transparent way. We agree in principle with the three elements of the formula: a universal base rate, additional needs factor and an area cost adjustment. That said, it is extremely challenging to devise a truly fair formula that works for all types of early years provision, which the Department for Education itself noted has a 'striking' number of different business models.

Whilst we support the principle and spirit of the universal base rate for all early years providers, the fact is that the costs of different types of providers vary widely. The universal base rate will only be viable if it is set high enough to cover the costs of all different types of providers, or if their costs can be met in other ways, for example through targeted funding supplements. Under the proposed EYNFF, there are six local authorities projected to pay an hourly rate inclusive of supplements that is less than £3.76, which is what the Government's funding review said it costs a childminder to provide a place operating at maximum ratios and paid a fair wage. An additional 16 local authorities are projected to pay providers under £4.00 under the new formula. In PACEY's view, these rates are simply not high enough to provide a high quality place. It could be that the universal base rate of £3.53 is not high enough; there is certainly an argument for it to be made up more than 89.5% of the overall rate. In addition, the two additional elements of the formula require a re-think.

We acknowledge that local authorities with higher numbers of children with additional needs will require more funding from central government to reflect the greater cost of providing care. What is less clear is how the so-called additional needs factor should be calculated – and crucially how it should be passed on to providers. In our view, it does not make sense to pay *all* providers in a local authority a higher rate overall when disadvantage is frequently concentrated in specific pockets – and correspondingly specific providers – in the authority. For example, notably in a number of inner London boroughs (and elsewhere throughout the country) pockets of disadvantage and deprivation are found alongside extremely affluent communities, sometimes even on the same street. In our view more targeted funding through deprivation supplements, Early Years Pupil Premium (EYPP) and the proposed Disability Access Fund is a better way of ensuring funding reaches the children and providers who most need it.

The operating costs of early years providers do vary across the country, and we concur that the EYNFF requires an area cost adjustment to reflect this. We agree that this should be based primarily on staff costs based on the General Labour Market measure. However, we strongly disagree that rateable values for nursery premises are an additional fair and appropriate measure here. For one thing, these only apply to private nurseries and do not affect childminders, maintained or voluntary settings. In addition, business rates are frequently contested and based on out of date valuations. We note that the two-year-old funding formula is not benchmarked to business rates in any way.

Instead, we argue that there is a need for a new ratio measure in the formula to reflect the cost of providing childcare in view of the setting's statutory ratio requirements, which can have a significant impact on cost. The Government's own 2015 funding review found that childminder's costs on average were higher all other types of providers, particularly once they were paid a fair wage. The key reason for this is that childminders are restricted to a 1:3 ratio for all children under 5 (and even less if they have young children of their own), while group settings operate at a 1:8 or 1:13 ratio for 3- and 4-year-olds, depending on staff qualifications. In recognition of this, 20 local authorities currently pay a higher base rate for childminders than nurseries.

Finally, there is still a need for greater clarity from government about what charges are permitted under the free entitlement. We welcome the distinction between ‘consumables’ and ‘discretionary items’, but these need to be set out in more detail in statutory guidance so that all local authorities and providers adopt a consistent approach.

14. To what extent do you agree with the proposed funding floor limit, so that no local authority would face a reduction in its hourly funding rate of greater than 10%?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

15. To implement the increased hourly rate for the two-year old free entitlement...

	Yes	No	Unsure
Should we retain the current two-year-old funding formula?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Should we use the additional funding secured at the spending review to uplift local authorities' allocations based upon this?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

16. Considering the Dedicated Schools Grant, should the free entitlement be capped at 30 hours for children of eligible working parents and 15 hours for all other children?

- Yes
- No
- Unsure

17. Should Government set the proportion of early years funding that must be passed on to providers?

- Yes
- No
- Unsure

18. Do you think that 95% is the correct minimum proportion of the money that should be passed from local authorities to providers?

- Yes, I agree
- No, 95% is too high
- No, 95% is too low
- Unsure

19. If you would like to explain a response you've submitted on this page in more detail, please do so here:

We strongly disagree with the proposal of a funding floor so that no local authority faces a reduction in its hourly funding rate of greater than 10%. A funding floor is wholly contradictory to the overriding aim of the EYNFF, which is to distribute funding more equitably throughout the country based on actual needs and costs – not historical precedent. It is hard to see the point of the whole exercise if all authorities are not following the same formula. We note that there is still an extremely wide variation in funding rates between authorities under the proposed EYNFF and query whether this is due primarily to the funding floor and historical precedent rather than the actual cost of providing childcare in the area.

As mentioned previously, under the proposed EYNFF, there are 22 local authorities with an hourly rate of under £4. At the other end of the spectrum, there are 7 authorities with a rate over £7, and one with a rate over £8 (Camden). It is hard to see how this can be justified on the basis of actual cost. Does it really cost more than twice as much to provide childcare in Dorset (£3.60) than Camden (£8.24)? We note that the variations between authorities are significantly lower under the two-year old funding formula, which does not utilise a funding floor. The proposed rates in Dorset and Camden under the two-year-old formula in 2017-18 are £5.23 and £6.50, respectively.

Our overall experience of the 2-year-old funding formula is that it works reasonably well. Across the country, PACEY members, and particularly childminders, report that hourly rates for 2-year-olds are much more likely to be in line with their own rates than the rates for 3- and 4-year-olds. These views have been reinforced by independent research; the 2014 SEED report on childminders noted that 2-year-old funding levels were 'generally felt to be adequate'. This is one of the key reasons that there are higher numbers of childminders delivering 2-year-old places than 3- and 4-year-old places, despite the fact that there are fewer numbers of children eligible for the former. However, at the moment there is little incentive for childminders to carry on caring for funded children who turn three, because they are penalised with a significant decrease in rate.

In principle we would prefer that the 2-year-old entitlement and 3- and 4-year-old entitlement were based on the same underlying formula. This would be simpler for everyone, providers and local authorities alike. However, we believe the 2-year-old formula is more successful and fair than the

proposed EYNFF and therefore would like to see it retained. We agree that local authority allocations should be increased, as there are a number of areas in which the two-year-old rate is significantly lower than the 3- and 4-year-old rate. This is not based on actual cost. It is more expensive for most providers to care for 2-year-olds than 3- and 4-year-olds, as the statutory ratios are significantly higher (1:8 vs 1:4). The exception is childminders, who have the same 1:3 ratio for all children under 5 (and therefore generally charge a flat rate that does not distinguish between 2-, 3- and 4-year-olds).

20. Should local authorities be required to give the same universal hourly base rate to all childcare providers in their area?

- Yes
- No
- Unsure

21. Considering funding supplements that local authorities could choose to use (above the universal base rate)...

	Yes	No	Unsure
Should local authorities be able to use funding supplements?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Should there be a cap on the proportion of funding that is channelled through supplements?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

22. If you agree that there should be cap on the proportion of funding that is channelled through supplements, should the cap be set at 10%?

- Yes, I agree with a 10% cap
- No, the cap should be higher than 10%
- No, the cap should be lower than 10%
- I'm unsure

23. Should the following supplements be permitted?

	Yes	No	Unsure
Deprivation	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sparsity / rural areas	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Flexibility	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Additional 15 hours of childcare	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

24. When using funding supplements, should local authorities have discretion over the metrics they use and the amount of money channelled through each one?

	Yes - over the metric they use	Yes - over the amount of money	No - over the metric they use	No - over the amount of money	Unsure when it comes to metrics	Unsure when it comes to the amount of money
Deprivation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sparsity / rural areas	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flexibility	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Additional 15 hours of childcare	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

25. If you agree that efficiency (efficient business practices that provide excellent value for money) should be included in the set of supplements, do you have a suggestion of how should it be designed?

PACEY strongly disagrees with the proposal of an efficiency supplement. In our view, providers will already have to be extremely efficient to deliver the entitlement – particularly the full 30 hours – in order to remain sustainable. Efficiency will therefore be inherent in the provision of the entitlement. Moreover, an efficiency supplement could have perverse incentives, forcing settings to prioritise efficiency over quality. For example, we do not think that settings that deliberately choose higher adult: child ratios should be penalised. The 2015 SEED report on childminder provision found higher adult: child ratios one of the most important factors positively affecting quality in a childminding setting. However, under the EYNFF, most childminders will be forced to operate at maximum ratios in order to come close to breaking even. This will be even more difficult for those childminders caring for young children of their own, as they are restricted by even smaller ratios.

We do agree that supplements should be used to incentivise providers to provide high quality childcare and invest in their workforce – and help cover the higher costs of doing so. However, this is more likely to be achieved through a quality rather than an efficiency supplement (see no. 27 below).

26. If you agree the delivery of the additional 15 hours of free childcare should be included in the set of supplements, do you have a suggestion of how should it be designed?

We agree that this could be a very useful supplement to encourage providers to deliver the 30-hour entitlement. In view of the projected rates, many local authorities are likely to experience a deficit of providers willing to provide the full 30 hours. It will be crucial that they have a tool at their disposal to incentivise delivery by aligning their own funding rates more closely to market rates.

27. If you think that any additional supplements should be permitted which are not mentioned here, please set out what they are and why you believe they should be included:

We strongly disagree with the decision not to retain a quality supplement. In principle good quality provision should be expected as a condition of delivering the entitlement. PACEY therefore favours restricting delivery of the entitlement to ‘good’ and ‘outstanding’ providers, as is the case for the 2-year-old offer. At the moment, ‘requires improvement’/‘satisfactory’ providers are still able to participate, and they are more likely to be concentrated in deprived areas, with 18% of settings in the most deprived areas rated less than ‘good’ compared with 8% in the least deprived.

All the evidence shows that the key to providing high quality childcare and early education is well-trained and qualified professionals. This requires a substantial investment on the part of the provider. There is therefore a need for a quality supplement to reward settings that invest in training and qualifications for their staff, and to reflect the higher cost of graduate leadership in particular. At the moment nearly half of local authorities (70 of 152) use a quality supplement of some kind in their early years funding formula according to 2016 research from the Family and Childcare Trust. Some of these are based on Ofsted grade; some are based on graduate qualifications; and some are based on a combination of factors.

Of course, it goes without saying that restricting provision to ‘good’ and ‘outstanding’ providers and introducing a quality supplement will not be enough on their own to ensure high quality early years

provision for all children. This must be accompanied by a workforce strategy which sets out a concrete plan to improve the skills, qualifications and progression routes of everyone working in early years, as well as attract talented new entrants.

28. Finally, for this page, if you want to explain a response you've submitted on this page in more detail, please do so here:

We agree that there should be a flexibility supplement, and would like to see it used by local authorities to incentivise creative and innovative partnership working between different providers in order to provide wraparound care which extends the day, as well as fairly compensating providers that alter their opening hours to meet the needs of working parents.

We also agree with the idea of a funding cap on supplements in principle to promote more consistency across local authorities, but we think that 10% is too low to have any real impact. Currently quality supplements alone are set at around 14% of the base rate on average – with qualifications-based supplements closer to 19%. An absolute cap of 20% would be more effective.

29. Should there be a Disability Access Fund to support disabled children to access their free entitlement?

- Yes
- No
- Unsure

30. Should eligibility for the Disability Access Fund be children aged 3 or 4 which are a) taking up their free entitlement and b) in receipt of Disability Living Allowance?

- Yes
- No
- Unsure

31. When it comes to delivering the funding for the Disability Access Fund, is the most appropriate way the existing framework of the Early Years Pupil Premium?

- Yes
- No
- Unsure

32. If you want to explain a response you've submitted on this page in more detail, please do so here:

We strongly support the proposal for a Disability Access Fund to help cover the higher cost of provision care for disabled children. However, we note that children under 5 are significantly less

likely to be receiving Disability Living Allowance (DLA) than older children and therefore do not agree that this is the best measure of eligibility. When it comes to the two-year-old offer, eligibility around SEND is based on whether a child has an education, health and care (EHC) plan. We think this would be a more suitable measure for the Disability Access Fund.

We are in favour of an up-front, directly targeted funding supplement along the lines of the Early Years Pupil Premium (EYPP). However, we note there are a number of problems with EYPP that are currently inhibiting its effectiveness. As with the free entitlement, each local authority has a different system for administering EYPP – and some do it much better than others. PACEY has heard numerous reports of delays from local authorities in both confirming a child’s eligibility for EYPP (which must be verified annually) and dispensing EYPP payments, significantly hampering providers’ ability to use EYPP effectively. For example, we have heard multiple cases of providers only receiving the funding three to four months after the child has left the setting and started school. Providers need prompt notice of eligibility and payment up front so they can use the funding to benefit eligible children in their setting.

In addition, EYPP is substantially less than the equivalent for schools (£302.10 vs £1,320). This is too low to allow providers to achieve a meaningful impact on outcomes, particularly for smaller providers. Larger settings with more eligible children are better able to pool funding and therefore make more substantial interventions. Some providers are finding they can get more from their EYPP funding by collaborating with other settings in their areas, though this can be difficult in practice.

We envisage that there could be similar problems with the Disability Access Fund if it is not made simple to administer – and crucially if the amount is set too low to make an impact for small providers.

33. To what extent do you agree that a lack of clarity on how parents / childcare providers can access financial support results in children with special educational needs not receiving appropriate support? (We mean children who do not already have an Education, Health and Care Plan)

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

34. When it comes to establishing an inclusion fund...

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Should local authorities be required to establish an inclusion fund?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Would an inclusion fund help improve the supply of appropriate support children receive when in an early years setting?	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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35. If you envisage any barriers, arising from existing practice or future proposals, to introducing a new requirement on local authorities to establish an inclusion fund, please tell us what they are and how they might be overcome:

We agree with the requirement on local authorities to establish a SEN inclusion fund. However, local authorities face a huge number of funding pressures on multiple fronts, and this is likely to continue in the coming years. There is very strong sector-wide support for the inclusion fund to be made a statutory requirement. In addition, to encourage a degree of consistency across local authorities, we recommend that government set out in statutory guidance the core aims of the inclusion fund and what local authorities are expected to achieve.

36. When it comes to the SEN inclusion fund, should local authorities be responsible for deciding...

	Yes	No	Unsure
The children for which the inclusion fund is used?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
The value of the fund?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Yes

No

Unsure

The process of allocating the funding?

37. Where specialist SEN or SEND services are delivered free at the point of use, should they be considered as funding passed directly to providers for the purposes of the 95% high pass-through?

- Agree
- Disagree
- Unsure

38. If you want to explain a response you've submitted on this page in more detail, please do so here:

39. To what extent do you agree with the transition approach proposed for the Early Years National Funding Formula (money distributed from Government to local authorities)?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

40. To what extent do you agree with the transition approach proposed for the high pass-through of early years funding from local authorities to providers?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

41. To what extent do you agree that our proposals on the high pass-through of funding from local authorities to childcare providers makes the existing Minimum Funding Guarantee for the early years unnecessary?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

42. To what extent do you agree with the transition approach proposed for introducing the universal base rate for all providers in a local authority area?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

43. If you want to explain a response you've submitted on this page in more detail, please do so here:

Our view of the transition proposals is they are overly cautious and potentially put the successful delivery of the new extended entitlement at risk. Providers cannot deliver funded places, particularly for the full 30 hours, unless the money they are given from their local authority meets the actual cost of providing those places. Earlier this year, the National Audit Office highlighted that delivering the existing early years entitlement has caused many providers significant financial hardship. Funding has been frozen since 2013-14, and a number of authorities have actually cut their provider rates in 2016-17. Many providers have forced to rely on volunteers and goodwill to remain sustainable – or have increased their fees for parents using hours outside of the free entitlement. All of this will become unsustainable for most settings under the 30-hour entitlement.

PACEY is also deeply concerned that there is no mechanism built into the EYNFF to ensure that funding rates are reviewed on a regular basis to ensure they keep pace with inflation and changes in the cost of living. Such a review mechanism is essential in order to provide a high quality and sustainable early education and childcare entitlement in the long term.