

THE EARLY YEARS SINGLE FUNDING FORMULA – EXTENSION TO TWO YEAR OLDS**Introduction**

1. At its meeting on 21 January 2010 the Schools Forum received a report on the Early Years Single Funding Formula (EYSFF) and resolved to recommend that the EYSFF be adopted for implementation.
2. The Forum received a further report on 1 December 2011 and approved an amendment to the EYSFF to provide for a single hourly rate for each type of provider irrespective of size and to reduce the payment to accredited childminders with the savings being reallocated to support the rate for private, voluntary and independent settings to offset the loss which smaller settings would suffer.
3. The DfE has recently announced that funding for two year olds will be included in the Dedicated Schools Grant (DSG) from April 2013 and the Education Funding Agency (EFA) has advised that it should be administered as part of the EYSFF and has sought the views of local authorities and schools forums on three points.
4. This report considers the implications of this requirement and presents the recommendations of the Early Years Reference Group.

Review of Early Years Funding

5. Local authorities are required to manage funding for free early education for three and four year olds through the EYSFF. The funding for free early education for two year olds will be part of the DSG from 2013-14, alongside funding for early education for three and four year olds. The free entitlement to early education will be extended to 20% of two year olds from September 2013, and to 40% of two year olds from September 2014.
6. Local authorities will be required to fund free early education for two year olds through the EYSFF, as they do for three and four year olds. This requirement will start when these regulations commence, 1 April 2013.
7. Extending the EYSFF to two year olds has a number of advantages:
 - It recognises the two year old entitlement as an extension of the three and four year old entitlement, and may be delivered by many of the same providers. Thus, it is only sensible it is funded in the same way.
 - The EYSFF requires authorities to work with providers to determine the cost of delivery and calculate fair funding rates accordingly. As part of this, we call on providers and authorities to work together and engage afresh in an open and honest way.
 - The EYSFF enables the Department more easily to collect data on funding rates (base rates and supplements) paid to providers. This data is then more easily comparable across areas. Not using the EYSFF would make collecting comparable data more difficult.
8. The EFA invited views on three possible adjustments to the EYSFF with regard to funding for two year olds:

- i. to relax the requirement to have a mandatory deprivation supplement;
- ii. to relax the rules on place based funding to support capacity building;
- iii. whether to require a mandatory quality supplement in the EYSFF for two year olds.

Implications for Wiltshire

9. The EYSFF will need to be reviewed to extend its application to fund free entitlement places for two year olds.
10. The EYSFF adopted by the Schools Forum was developed over two years which included extensive consultation with providers to establish the cost of delivery and calculate fair funding rates. The EYRG believes that this forms a sound basis from which to incorporate two year old funding into the EYSFF and that the same methodology should be applied to calculate appropriate hourly rates.
11. A main factor of the EYSFF is that it recognises the statutory ratios of staff:children to which providers must operate. For private, voluntary and independent providers (PVI), this is 1:8 for three and four year-olds and 1:4 for two year olds. Nursery units operated within maintained schools are not authorised to accept two year olds. Childminders are required to maintain a ratio of no less than 1:3 for two, three and four year old children.
12. An analysis of other costs in the needs-led model which informs the EYSFF suggested that a small additional sum for consumable toiletries should be added in respect of two year olds. Members also felt that the staffing qualification criteria should be amended to include 75% at level 3 and 25% at level 2, with no unqualified staff, as this better reflected the level of staff needed to work with these more complex children and families. -
13. It is mandatory to include a supplement in the EYSFF for deprivation, i.e. relating to the number of children who are from deprived households. These children are identified by using an Experian analysis of home postcodes and the supplement allocated annually. As all two year olds eligible to receive free entitlement childcare will be identified as being from low income households, the EYRG recommends that the supplement be incorporated into the hourly rate if the EFA relaxes the requirement to have a mandatory deprivation supplement.

Possible Adjustments

14. The EYRG considered the possible adjustments proposed by the EFA and agreed that comments be submitted as follows:
 - i. The inclusion of a supplement for deprivation should not be mandatory. The families which will become eligible to receive free entitlement childcare for two-year-olds will be designated low income households, or targeted by virtue of other measures of deprivation and therefore, the hour rate paid should take this into account without a separate supplement. Providers find the incidence of supplements difficult to forecast with any accuracy, thereby frustrating their efforts to calculate their expected income.
 - ii. There is no support for payment for ghost places. The EYSF has cemented payment based upon actual provision and the introduction of place-payment for two-year-olds would be a retrograde step.
 - iii. The inclusion of a supplement for quality should not be mandatory.

Recommendations

15. The Early Years Reference Group recommends that Schools Forum:
 - i. apply the methodology of the existing EYSFF to calculate the hour rates for two year olds;
 - ii. amend the EYSFF to add £0.05 per hour for consumable toiletries in respect of two year olds;

- iii. amend the EYSFF staffing model to 75% level three and 25% level two assistants in respect of provision for two year olds;
- iv. adopt a single hourly rate for all PVI settings providing free entitlement childcare for two year olds;
- v. that the hourly rate paid to childminders be consistent with that for three and four year olds;
- vi. incorporate a deprivation supplement of £0.20 per hour into the basic hourly rate for two year olds (if allowed by regulations);
- vii. approve that the principle of applying the existing EYSFF, with the amendments above, be subject to consultation with all providers of free entitlement childcare for two year olds.

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Unpublished documents relied upon in the production of this report: None