

FREE ENTITLEMENT FOR 3 & 4 YEAR OLDS – HOURLY RATE 2015-16**Purpose of the Report**

1. To consider options for the setting of an hourly rate to be used within the Early Years Single Funding Formula for the free entitlement for 3 & 4 year olds.

Background

2. Funding allocated for the provision of the free entitlement for 15 hours early education and childcare for all 3 & 4 year olds is distributed to settings according to Wiltshire's agreed Early Years Single Funding Formula (EYSFF). Within the EYSFF the main element of funding is a basic hourly rate paid according to hours taken up. The current hourly rates within the EYSFF are:

Childminders:	£6.50 per hour
Private, Voluntary & Independent sector providers:	£3.71 per hour
Maintained Nursery Classes:	£4.04 per hour

3. In line with the government's "flat cash" approach towards funding of the overall schools budget, these rates have not been increased for inflation in recent years.
4. Over the last financial year questions have been raised at the Early Years Reference Group as to the appropriateness of the differential hourly rates within the formula and the affordability of continuing to pay a substantially higher rate to Childminders.
5. Schools Forum is required to agree the hourly rates to be applied within the EYSFF for 2015-16.

Main Considerations***Consultation with Settings***

6. In September 2014 a consultation was issued to Early Years settings by the Early Years Reference Group on the principle of moving towards a single hourly rate for all providers and asking the following question: *"The current hourly rates are £3.71 for PVI settings, £4.04 for maintained settings, and £6.50 for childminders. These hourly rates were calculated following an across the sector analysis of provider costs associated with delivering Free Entitlement. Do you think this is still appropriate?"*. Two options were given for response:
 - Option A – prefer to continue with differential hourly rates
 - Option B – prefer to have a single hourly rate for all providers
7. There were 182 responses to this question with 173 expressing a view. Looking purely at the numbers opting for each option the responses can be analysed as follows:

Response	Count	Percent
Option A – continue with different hourly rate for providers	91	50%
Option B – one hourly rate for all providers	82	45%
Incomplete responses	9	5%

8. When this was discussed at the January Schools Forum meeting it was requested that the results be further analysed to reflect the different types of respondents and the numbers of children/hours supported.
9. Of the 173 respondents who supported either option A or B the breakdown of types of provider was as follows:

Childminder	78
Independent	1
Maintained nursery	3
Private	54
Voluntary	37

10. The responses have been analysed further in terms of the numbers of hours delivered by each category of respondent. This indicates that when responses are analysed in terms of hours delivered the favoured option is for a single hourly rate however the responses differ significantly between types of provider:

Provider Type	Option A (hrs)	Option B (hrs)	Option A (%)	Option B (%)
Childminder	21,842	196	99%	1%
Independent	4,550	0	100%	0%
Maintained nursery	9,871	0	100%	0%
Private	12,533	222,817	5%	95%
Voluntary	21,393	133,537	14%	86%
	16%	84%		

Calculation of Single Hourly Rate

11. In order to be affordable a single hourly rate needs to be funded from within the existing budget for the EYSFF. It has been assumed that other elements of the formula such as rurality and deprivation supplements will remain unchanged and therefore the funding available is that currently applied to the basic hourly rate. It is estimated that an affordable single hourly rate should be set at £3.81 per hour. The impact per provider type, based on the current numbers of hours being delivered is as follows:

Impact by Provider Type	Current hourly rate	Current cost of basic hourly rate	Single hourly rate	Difference in hourly rate	New basic pay under single funding rate	Difference	% change
Childminder	6.50	777,904	3.81	-2.69	455,517	-322,387	-41%
Private	3.71	7,129,775	3.81	0.10	7,314,652	184,876	3%
Voluntary	3.71	5,991,915	3.81	0.10	6,147,286	155,371	3%
Independent	3.71	796,385	3.81	0.10	817,035	20,650	3%
Maintained class	4.04	665,464	3.81	-0.23	626,953	-38,511	-6%
		15,361,443			15,361,443	0	0%

12. Compared with funding rates applied in 2014-15 the range of gains and losses is summarised in the table below:

Gains & Losses	Largest Gain	Smallest Gain	Largest Loss	Smallest Loss	Average Gain/Loss
Childminder			-£9,786.57	-£67.34	-£1,588.11
Private	£3,439.93	£9.43			£1,433.15
Voluntary	£3,055.80	£71.31			£1,168.21
Independent	£2,874.33	£384.08			£1,475.03
Maintained class			-£8,080.19	-£1,343.18	-£3,851.11

13. It can be seen from the table above that the implementation of a single hourly rate would result in an increased hourly rate for Private, Voluntary and Independent (PVI) providers of 3% and a reduction in the hourly rate for Childminders and Maintained Nursery Classes of 41% and 6% respectively.

Implementation of a Single Hourly Rate

14. If Schools Forum agrees to move forward with a single hourly rate then it needs to be determined how and when this should be implemented. Providers have been consulted on the principles of a single hourly rate but not on an amount.
15. The Schools and Early Years Finance (England) Regulations 2013, chapter 1, paragraph 9 state that:
- (1) In determining the formulae under regulation 10 a local authority may make changes to the formulae they determined under regulation 10 of the 2012 Regulations.
 - (2) Subject to paragraph (4), a local authority must consult their schools forum and schools maintained by them about any proposed changes under paragraph (1), in relation to the factors and criteria taken into account, and the methods, principles and rules adopted.
 - (3) Where a local authority propose to make changes under paragraph (1) which will affect relevant early years providers or exempt early years providers in their area they must also consult those providers in relation to the factors and criteria taken into account, and the methods, principles and rules adopted**
16. Advice has been sought from the Education Funding Agency (EFA) as to the form that such consultation must take. The EFA has advised that the Local Authority must be able to demonstrate that consultation has been reasonable, and that enough early notice has been given to enable providers to deal with the impact on their budgets.
17. The Council would also need to have regard to its statutory duties in relation to sufficiency of provision across the County and any impact a change in funding arrangements might have. The Department for Education Statutory Guidance for Early Education states for those children who are entitled to Free Entitlement funding, Local Authorities are required by legislation to “Secure early education places offering 570 hours a year over no fewer than 38 weeks of the year for every child in their area.”
18. With this in mind it is the Local Authority’s view that no change can be implemented prior to September 2015 due to the need to give reasonable notice to all providers, particularly those who would receive a decrease in funding.
19. Schools Forum could then consider whether the change should be implemented on a transitional basis. Options could include:
- a. A transitional approach to implement the change over two academic years with 50% of the gain or reduction being implemented in year 1. This would mean 50% of the gain/reduction being implemented from September 2015 and 100% in September 2016;
 - b. A transitional approach which gives protection to those who would lose more than a specific amount of funding.
20. Under option (a) the following hourly rates would be agreed for 3 & 4 year olds from September 2015 to August 2016:

Childminder	£5.16
Private	£3.76
Voluntary	£3.76
Independent	£3.76
Maintained class	£3.90

21. A single hourly rate of £3.81 would then be implemented from September 2016.
22. For Option (b) maximum losses of £1,500 and £3,000 have been modelled. To limit losses to no more than £1,500 for any setting, hourly rates for childminders would need to be set at £6.09 and maintained nurseries at £4.00 per hour. This would only enable an increase to £3.72 per hour for PVI settings if increases are capped to fund the protection.
23. To limit losses to no more than £3,000 per setting the hourly rates would be £5.68 and £3.96 for childminders and maintained nurseries respectively with an increase for PVI nurseries to £3.74 per hour.
24. The Early Years Reference Group also requested that Option (b) be modelled with the protection funded from the DSG reserve. This would enable the PVI sector to receive the full increase to £3.81 per hour but would cost £0.319m in a full year to protect losses at £1,500 and £0.264m to protect losses over £3,000.

Views of Schools Forum Working Groups

25. The proposal for a single hourly rate has been considered by the Early Years Reference Group and the School Funding Working Group since the last Schools Forum meeting.
26. The Early Years Reference Group has recommended that a single hourly rate be implemented within the EYSFF for 3 & 4 year olds.
27. The School Funding Working Group has recommended that a single hourly rate be set with implementation on a phased basis to allow transition to the single rate.

Proposals

28. Schools Forum is asked to consider whether a single hourly rate of £3.81 should be implemented within the EYSFF for 3 & 4 year olds.
29. If a single hourly rate is to be implemented it is proposed that the implementation date be no earlier than September 2015.
30. Schools Forum is asked to consider whether further transitional arrangements should be put in to place as described in paragraph 19 options (a) or (b)..

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