



Department
for Education

Free Early Education for Two-Year-Olds: Proposed Funding Arrangements

1. Funding for free early education for two year olds will, from 2013-14, be within the Dedicated Schools Grant (DSG), and the Department is currently consulting on aspects of how funding arrangements should operate. Several colleagues in local authorities have asked questions about the proposed arrangements. This note sets out:

- The level of national funding intended to support the development of two year old entitlement including capacity and quality building locally, as well as payment for two year old places;
- How we propose to allocate this funding from Government to local authorities (LAs);
- How LAs are expected to distribute funding to early years providers; and,
- Whether LAs may retain funds for checking whether children are eligible and building capacity and quality.

National funding

2. The amount of funding intended to support development of and payment for two year old places will grow substantially over the next two years. In 2012-13, £291m is included within the Early Intervention Grant. In 2013-14 some £530m, and in 2014-15 some £760m, will be in DSG.

3. Funding for two year old early education will not be ring-fenced within the DSG. However, the amount which is intended for two year olds will, from 2013-14, be identifiable in each LA's allocation.

4. In each year, funding is intended to support the delivery of places for children meeting national eligibility criteria (both before the entitlement start and after), places for other children at local discretion, and for work to build capacity and quality. So, for example, 2013-14 funding is intended:

- for delivery from September 2013 to children eligible in the first (20%) phase of the entitlement;
- for delivery:

- o earlier in the year to some children meeting the 20% criteria;
 - o to some children meeting the second (40%) phase eligibility criteria in advance of introduction of the September 2014 entitlement; and
 - o to other children at the LA's discretion;
- as well as for work to build capacity and quality.

How we propose to allocate funding from Government to local authorities

5. The Department is currently consulting, until 15 October, on proposed criteria for extending the two year old entitlement to more two year olds. Section 7 of the consultation document invites views on the methodology for allocating funding to LAs from 2013-14. The document is at:

<https://www.education.gov.uk/aboutdfe/departentalinformation/consultations/a00211261/extending-free-early-education-two-year-olds>

6. The consultation document explains that funding for free early education for **three and four year olds** is distributed to LAs on the basis of an annual count of actual participation. However, data on the number of eligible **two year olds** taking their entitlement in each LA cannot be available before the entitlement starts, and we will instead construct a funding formula which will use a proxy measure for the number of eligible children locally. The Department is clear that the formula must target funding locally towards need and eligibility against the entitlement. It must also recognise that the costs of delivery will vary between LAs, so include an area cost adjustment. The consultation invites views on how the funding formula for early education for two year olds should be constructed.

7. The formula approach will apply in 2013-14 and 2014-15. We will consider whether a move to distributing funding from DfE to LAs on the basis of actual participation is possible and desirable (and, if so, from when) once the entitlement is established and data is available.

How LAs are expected to distribute funding to early years providers

8. The Department is consulting, until 21 September, on draft School and Early Years Finance Regulations which govern operation of the DSG. For more information, see:

www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsvenuefunding/financeregulations/a00212052/finance-regulations-2013-england-

9. The covering letter to the draft regulations explains that LAs will be required to fund early years providers of free early education for two year olds

through an early years single funding formula (EYSFF) for two year olds, just as LAs currently have an EYSFF for three and four year olds. This requirement will start when these regulations commence, 1 April 2013. The April start date for the EYSFF for two year olds (rather than starting in September alongside the introduction of a statutory entitlement) reflects the financial year and avoids potentially two different approaches during one financial year, which might be confusing for providers and others. We are also keen to ensure providers have early notice of the rates they can expect to receive for two year old places to enable them to plan.

10. Requiring an EYSFF for two year olds has a number of advantages:

- It is an extension of the three and four year old entitlement, and may be delivered by many of the same providers, so it is sensible it is funded through the same mechanism.
- The EYSFF approach requires authorities to work with providers to determine the cost of delivery and calculate fair funding rates accordingly.
- The EYSFF approach enables comparability between areas on funding rates (base rates and supplements) paid to providers, enabling LAs and providers to compare across areas, supporting transparency and value for money.

11. However, we are proposing adjustments to how the EYSFF operates for two year olds. These are:

- To disapply the requirement to have a mandatory deprivation supplement. LAs would still be able to use a deprivation supplement if they wish, but making it mandatory in an already targeted entitlement does not seem necessary.
- To disapply rules on funding on the basis of actual participation. LAs must fund three and four year olds on the basis of actual participation, except for children with SEN or children in need, where they can fund on the basis of an agreed number of places. We propose to permit this place-based approach for two year olds, to support LAs working with providers to increase capacity in advance of delivering the 20% and 40% entitlements. This approach will support preparation for and initial introduction of the entitlement. We intend to review after 2014-15 how this place-based funding is operating.

12. Requiring an EYSFF for two year olds does **not** mean that LAs are expected to extend their current EYSFF for three and four year olds to apply to two year olds. Given the higher costs associated with provision for two year olds, LAs will want to determine a two year old specific funding rate. This is permitted under the regulations and is strongly encouraged by the Department.

13. The quality of provision is critical to the success of the two year old entitlement. We expect LAs and providers to work together to improve the quality of provision on offer. As with provision for three and four year olds, targeted funding can have a powerful role to play in supporting increases in quality. A quality supplement in the EYSFF can give LAs a means to target funding at incentivising increases in quality in provision. However, a mandatory quality supplement could constrain local flexibility. We are therefore seeking views through the consultation on School and Early Years Finance Regulations on whether to require a mandatory quality supplement in the EYSFF for two year olds.

14. LAs will wish to work closely with providers and others to determine an EYSFF for two year olds. Whilst LAs will have their own learning from successful delivery of the EYSFF for three and four year olds, the previous guidance on implementing the EYSFF can be accessed at:

<http://www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/delivery/funding/a0068705/eysff-guidance-for-local-authorities>

Checking eligibility of children, and building capacity and quality

15. LAs use DSG to support checking the eligibility of children for free school meals; the regulations make specific provision for this. This has been extended in the draft regulations to cover eligibility checking for two year olds.

16. As a general principle, the Department is keen to maximise the flexibility available to LAs, particular during the development phase of the two year old entitlement, to use the DSG locally in ways that support the most effective delivery of the two year old entitlement locally, subject to the normal assurances about regularity, propriety and VFM.

17. LAs may already use DSG to support the provision of free early education through spend other than that passed to providers through the EYSFF. This continues with two year old spending. This is currently recorded on section 251 as centrally retained early years spending, and is permitted under the draft regulations at Schedule 2, Part 3. (LAs must agree levels of early years central expenditure with the Schools Forum, or by the Secretary of State if the Schools Forum refuses). Potential uses include for example promoting the entitlement to parents and providers, and providing advice and support to providers. The Department does not intend to provide advice on potential areas of spend on a case by case basis: it is for LAs to decide how they use the DSG. The Department requires local authorities to provide assurances about how they have used the DSG and that it has been deployed with regards to regularity, propriety and value for money.

18. LAs may also want to consider how funding can best be used to increase the quality of provision available to two year olds. Funding could be passed to

providers, with the expectation that they should manage their own quality improvement, or it could be managed centrally by LAs. Both approaches are permitted under the DSG.

We welcome your views on how the Department will fund LAs (see paragraph 5) and on how funding through an EYSFF for two year olds will operate (see paragraph 8).

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