

## **Early Education Funding for Two Year Olds from Lower Income Households**

November 2012

Dear Colleague,

1. This week I made a series of announcements on early education funding for two year olds. This letter provides further details on those announcements as well as links to related sections of the Department for Education's (the Department) website.

### **Duty to secure free early education for eligible two year olds**

2. Free early education will become a statutory entitlement for eligible two year olds from 1 September 2013, with the local authority having a duty to secure provision. Eligibility criteria are set out in The Local Authority (Duty to Secure Early Years Provision Free of Charge) Regulations 2012 (SI 2012/2488), made under Section 7 of the Childcare Act 2006 as amended by Section 1 of the Education Act 2011<sup>1</sup>. Some 130,000 children in England, around 20% of two year olds, are expected to receive free early education from September 2013.
3. The programme will be extended from September 2014 to include around 260,000 children, some 40% of two year olds. The Government recently consulted on proposed eligibility criteria for this extended entitlement. The consultation ended on 15 October 2012, and the Government expects to publish an analysis and conclusion in early 2013.

### **2013-14 Revenue funding for two year old early education**

4. The government announced in the *Government Response to Supporting Families in the Foundation Years: Consultation on Proposed Changes to Free Early Education and Childcare Sufficiency* (May 2012), that funding for free early education for two year olds will form part of the Dedicated Schools Grant (DSG) from 2013-14<sup>2</sup>. This

---

<sup>1</sup> From 1 September 2013, the duty to secure free early education for two year olds relates to: 1) Looked after children; 2) Children who meet the FSM criteria e.g. from families whose income is below £16,190 and their parents are in receipt of any of the following benefits: Income Support; Income-based Job Seekers' Allowance; Income-related Employment and Support Allowance; Support under Part VI of the Immigration and Asylum Act 1999; the Guarantee element of the State Pension Credit; or Child Tax Credit, provided they have an annual gross income of no more than £16,190, as assessed by Her Majesty's Revenue and Customs, and are not in receipt of Working Tax Credits (except during the four-week period immediately after their employment ceases, or after they start to work fewer than 16 hours per week).

<sup>2</sup>

<https://media.education.gov.uk/assets/files/pdf/g/government%20response%20proposed%20changes%20to%20free%20early%20education%20and%20childcare%20sufficiency.pdf>

reflects the fact that from September 2013 free early education for eligible two year olds will be statutory, in the same way as it is for all three and four year olds. Transferring the funding into the DSG integrates funding for all free early education.

5. Local authority allocations for two year old free early education will, alongside funding for three and four year olds, form part of the notional Early Years block within the reformed DSG.

#### Allocation details

6. In 2013-14 the Department is allocating £525m to local authorities and using £9m itself to support implementation of the new early years programme for two year olds from lower income families.
7. Local authority allocations have been calculated using a formula to divide the funding available between local authorities, based on an estimate of the number of eligible two years olds likely to receive provision in each local authority. The formula estimates the number of eligible children using free school meal data (from the School Census) for four to six year olds as a proxy, multiplied against population estimates for the number of two year olds in each local authority in September 2013. The formula then takes account of different costs in different local areas by using an area cost adjustment (ACA). For details of the formula, see the technical note.
8. Each local authority's allocation includes a notional amount for statutory places (which must be funded once the entitlement for 20% of two year olds comes into force from September 2013) and a notional amount for trajectory building which will be used, in the main, to create non-statutory places in preparation for the 2014 entitlement for 40% of two year olds. Alongside this is the estimate, drawn from the formula, of the number of eligible two year olds in each local authority based on the 20% entitlement.
9. The allocation has been split in this way to provide maximum transparency for local authorities and providers on the funding allocation each local authority will receive and the number of places this is intended to support. This should enable sensible budget setting to make the most effective use of funding. In particular, this should enable local authorities to set hourly rates in 2013-14 which can be sustained into 2014-15. Stable and sustainable funding rates are vital to give providers the confidence to offer new two year old places.
10. The result of the formula is that the Department is allocating funding to local authorities at an average hourly rate of £5.09 for statutory two year old places. This compares favourably to the Daycare Trust Cost Survey 2012 which shows average hourly childcare fees in England are £4.13 per hour for under-twos and £3.95 per hour for children aged two and over.

## Local funding arrangements

11. Local authorities will be required from April 2013 to fund two year old places through an Early Years Single Funding Formula (EYSFF). This requirement will be contained in the Schools and Early Years Finance Regulations 2013, which the Department intends to make shortly.
12. Local authorities should work with and consult providers to create their own EYSFF for two year old places, in a similar way to current arrangements for three and four year olds. The National Audit Office report 'Delivering the free entitlement to education for three and four year olds' (February 2012) highlighted the complexity of some local formulae. Local authorities are, therefore, strongly encouraged to fund providers on the basis of a flat hourly rate for two year old places with no additional supplements. Following consultation the Government has decided against introducing, through the Finance Regulations, a mandatory quality supplement for providers of two year old early education.
13. The funding allocated contains sufficient flexibility to provide additional support for two year olds with additional educational needs and Special Educational Needs. Funding included in the High Needs Block of the DSG may also be used to support two year olds with additional needs. Local authorities are encouraged to be clear with providers on the additional resource available to meet the needs of these children.
14. Research evidence is clear that high quality early education is critical to the success of the two year old entitlement. The Government expects local authorities to fund places in any settings that are rated good or outstanding by Ofsted. Our aspiration is that all eligible two year olds are able to receive early education in good and outstanding provision.
15. Local authorities are strongly encouraged to pass all available funding to providers to deliver two year old places. This will help create a sustainable, high quality early years offer. Local authorities are also reminded that, from 2013-14, they will be required to secure the permission of the Schools Forum for any early years centrally retained funding.
16. It is important to maximise the transparency of the funding allocated. This is why the Government has published separate notional statutory place and trajectory funding allocations. In addition, from 2013-14 local authorities will be required to submit to the Department details of the funding rates they pay providers for two, three and four year old places. This information will be collected through the new early years proforma as part of the Section 251 financial returns. Once collected, this information will be published on the Department's website and will enable providers and parents to compare funding rates in different areas. We will also update and expand the early years benchmarking information we publish using the information from the proforma.

### Future funding allocations

17. The Department is considering the most suitable formula for allocating funding to local authorities for 2014-15 for the 40% entitlement. More information will be made available on this in due course.
18. We see the key role of the local authority as raising awareness of the programme with parents and it is the government's strong intention to reward local authorities who achieve high levels of take-up by moving to participation funding. This is not possible in 2013, but we intend to do so as quickly as possible, from 2015.

### **Capital funding**

19. £100 million of capital funding will be allocated in 2012-13 as a contribution to local authorities' capital budgets.
20. This funding is being paid to local authorities under section 31 of the Local Government Act 2003 and is not ring-fenced for the early years programme for two year olds from lower income families. This additional funding may be used for any capital purpose, but it is intended to support implementation of early education for two year olds.
21. Local authority allocations have been calculated using the same formula used for revenue funding to estimate the number of eligible two year old children likely to receive provision in each area. Funding has then been distributed using a capital specific area cost adjustment.

### **Further Information**

22. Further information about the allocations is available at [www.education.gov.uk](http://www.education.gov.uk).

**Elizabeth Truss MP**  
**Parliamentary Under Secretary of State for Education and Childcare**