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Report title:	DfE Consultation on Early Years National Funding Formula Proposals	
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Executive Summary

This report provides an update on the DfE proposals for an Early Years National Funding Formula (EYNFF) and the council's response to their consultation that closed on 22nd September. The proposed EYNFF will support the funding for 30 hours of free entitlement for eligible working parents from September 2017.

Final proposals are promised to be issued at the same time as the 2017-18 initial DSG allocations. The DfE exemplifications for the DSG EY funding block indicate a 10% reduction in baseline funding by 2018-19 that has to accommodate 95% of the funding block being passed through to EY providers by that year.

This report also provides an update on the review of the Early Year Single Funding Formula commissioned by the October 2015 schools forum.

Schools Forum Actions

The Schools Forum is asked to note the DfE's proposals and the council's response.

Background

1. The DfE published on 11 August their proposals for the EYNFF with a response deadline of 22nd September. Final proposals will be issued this autumn to coincide with initial DSG allocation for 2017-18. This follows on from earlier consultations in April on national funding formulae for schools and high needs and the new Secretary of State for Education announced in August that the next stage on these proposals has been delayed for a year. At a recent London Councils session on the EYNFF a DfE official stated that there would be no similar delay for early years funding as implementing the 30 hours free entitlement by September 2017 was a manifesto commitment. The session was called to allow:
 - DfE officials to present the government's case for change in the proposals
 - Representatives from London's councils to clarify the governments intentions and to feedback the impact on individual authorities; and
 - London Council's officials to prepare a pan-London response to the DfE reflecting the overall view of it's members.
2. Although additional funding is being put into the system to fund the additional hours and to help facilitate the increase in funding rates received by providers, the proposed EYNFF would redistribute a significant amount of funding away from some councils to others. The DfE exemplifications show that seven inner London councils would lose 10% of their current funding by 2018-19. Southwark is one of these councils.

3. The exemplifications for Southwark are summarised below in Table 1:

Table 1: DfE Illustrative Exemplifications for EYNFF from 2017-18

Free Entitlement	2016/17 Baseline £m	2017/18 £m	Change from 2016/17 £m	2018/19 £m	Change from 2016/17 £m
15 Hours	20.642	19.615	-1.03	18.585	-2.057
Extra 15 Hours	0	2.623	2.62	2.485	2.485
Total funding	20.642	22.238	1.60	21.07	-0.43

- 4. The above shows that before additional funding for the additional 15 hours is taken into account Southwark would lose 10% of its baseline 2016-17 funding which reflects the maximum loss under the proposed transitional protection mechanism.
- 5. The EYNFF proposals underpin the delivery of 30 hours of free childcare and early education for eligible working parents from September 2017. The proposals are set out in the DfE document:

Part 1: Covers funding from central government to local authorities

Part 2: Looks at funding from local authorities to all providers

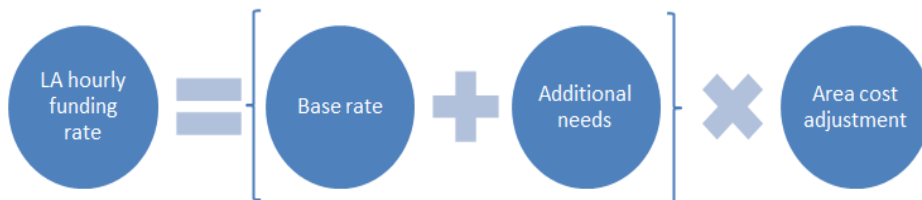
Part 3: Addresses meeting the needs of disabled children and children with special education needs

Part 4: Considers transition to the new funding arrangements.

- 6. The government set out the case for a change arising from the need to meet the anticipated 400,000 families who will be eligible for the 30 hours free entitlement from September 2017. They note that providers cannot be compelled to offer 30 hours but the additional funding, including the flexibility for a supplement for the additional 15 hours, is seen as the main way of incentivising them to do so.

Funding from Central Government to Local Authorities

7. The funding to local authorities for 3 and 4 year olds will reflect the following structure:



8. The proposed structure provides for:

- a) the move from a historic cost allocation basis to a formula allocation basis with the creation of the new EYNFF. This would consist of a national base rate with adjustments for deprivation and an Area Cost Adjustment (ACA) as follows:

- i) Deprivation through the additional needs factor would be based on FSM, DLA and EAL metrics
 - ii) The ACA multiplier would be based on the General Labour Market of pay rates and rateable values of nursery premises.
- b) New requirements for local authorities to pass through a large proportion (95% by 2018-19) of funding to providers
- c) Transitional protection for local authorities set to receive less funding through the EYNFF. The reductions have been capped at 5% in 2017-18 and a further 5% in 2018-19.
9. The Government are also proposing an increase in funding for the 2 Year Old free entitlement from April 2017.

Local Authorities Funding to Providers

10. The proposed structure for local authorities to fund providers for the 3 and 4 year old free entitlement should reflect:
- a) A universal base rate of funding. Although the rate can vary from council to council it must be the same for all providers within that local authority. Within Southwark and most other local authorities this will tend to result in an increased rate for the PVI sector and reduced rates for other providers.
 - b) The DfE expect local authorities to implement the universal base rate from 2017-18 but no later than 2019-20.
 - c) In addition the universal funding rate supplements will continue to be allowed but only relating to :
 - Deprivation (mandatory). Councils will be free to select their choice of metrics such as IDACI and IMD
 - Rurality/sparsity
 - Flexibility
 - Efficiency
 - Delivering the additional 15 hours
- A supplement to reflect and encourage improving the quality of provision will no longer be allowed.
- d) Limitations on the amount of EY DSG retained centrally to:
 - 7% in 2017-18 (93% pass through)
 - 5% in 2018-19 (95% pass through).

11. In recognition of the important role of maintained nursery schools (MNS), government propose that this sector will receive additional funding to maintain their sustainability up to the end of 2018-19. The funding exemplifications accompanying the proposals show Southwark receiving £1.2m for the next two years to support transition to the EYNFF. DfE state that this will allow sufficient time for these schools to 'explore' how to become more sustainable in the future. The DfE promise to consult further this Autumn on funding for the MNS sector.

Funding for Children with Disabilities and Special Education Needs

12. The proposals introduce new funding streams for EY settings to support children with disabilities and SEN as follows:

a) Creation of a £12.5m ring fenced Disability Access Fund so providers receive support for disabled pupils via an annual payment. Eligibility will be based on those children in receipt of Disability Living Allowance

b) Local inclusion fund to be created via contributions from EY and/or high needs DSG blocks to directly support providers with SEN/EHCP children.

EYNFF Consultation Questions

13. Following the introductory questions about the type of provider making the response, the main questions start at number 9 and conclude at question 43. Appendix A contains the Council's response to the main questions in the online submission.

14. After the meeting mentioned in Para 1 London Council's published their response to the DfE and this has informed the drafting of the Council's response along with specific references as to how Southwark would be affected. A summary of the main emphasis of the response is set out in Table 2 below.

Table 2: Summary of Southwark Council's Response to EYNFF Proposals

Question and Number	Council Response and comment
10. Should there be a universal base rate	No. A universal base rate cannot adequately reflect the costs of the large variety of providers
11. Should an additional needs factor be part of the EYNFF	Yes
12. Should an Area Cost Adjustment be part of the EYNFF	Yes
15. Should the current 2 Year Old funding formula be retained	Unsure. It should include the proposed ACA
17. Should the government set the proportion of funding passed through to providers	No – The council might not fulfil its statutory duties
18. Is 95% the correct amount to be passed through to providers	No its too high as it will severely limit the ability to target funding for additional needs
21. Should supplements continue	Yes, but efficiency supplement would be extremely difficult to assess and measure
26. Should delivery of the additional 15 hours be a separate supplement	Yes but it should be time limited. We note it discriminates against sessional providers who cannot offer 30 hours
29. Should there be a Disability Access Fund (DAF)	Yes but needs to be properly funded to reflect both need and costs
34. Should there be a local inclusion fund for SEN EY children	Yes but there should be new funding for the DAF as Southwark has no capacity to fund from EY and high needs blocks
39. Do you agree with the transition approach to the amount of DSG councils receive from government	Strongly disagree. The timescale to implement the EYNFF is unrealistic and a longer period is required to manage the inevitable turbulence

Question and Number	Council Response and comment
40. Do you agree with the proposed higher pass through rates from councils to providers	Strongly disagree. The timescale to implement the EYNFF is unrealistic and a longer period is required to manage the inevitable turbulence

Implications for Southwark

15. Based on the DSG exemplifications the Council faces significant challenges for delivering the EY NFF in the next two years budget cycles. In particular:
- a) Managing the transition by 2019-20 to the universal hourly base rate as currently providers receive:
 - Maintained Nursery Schools: £6.43 (also in receipt of lump sum and payment of rent/ rates & deprivation)
 - Nursery Class in Maintained Primary: £4.95
 - PVI's including childminders: £4.20
 - b) Transitioning to 5% central retention by 2018-19. The 2016-17 central retention was 14%
 - c) Creating the local inclusion fund for EY SEN children through contributions from the high needs and EY DSG blocks.
 - d) Maintaining the current level of Early Help support to providers
16. Officers will reflect the impact of the final EYSFF proposals in reports schools forum will receive as part of the annual budget process for 2017-18.

Early Years Funding Formula Review Working Group

17. The October 2015 Schools Forum agreed to set up a working group to review the EYSFF and a verbal update on progress was made to the July meeting who were informed that the initial focus will on the MNS sector. Whilst the membership of the Working Group has been confirmed, owing to the summer holiday period it has not proved possible to convene the first meeting at the time of drafting this report.
18. Over the summer officers reviewed current funding for the MNS sector and completed some analysis of comparative funding in inner-London using the DfE's benchmarking tool for 2015-16. This compares the per pupil unit of funding contained in the S251 return for 2015-16 for the MNS sector for the 3 and 4 year old free entitlement. The comparison is contained in Table 3.

Table 3: Inner London MNS Per Pupil Unit of Funding 2015-16

	2015/16 DfE Benchmarking Data	MNS delegated
Inner London	Inner London	
	Southwark	6,419
	Hackney	8,006
	Lambeth	8,256
	Islington	5,016
	Greenwich	5,740
	Lewisham	7,507
	Camden	7,727
	Kensington and Chelsea	6,007
	Wandsworth	6,959
	Tower Hamlets	5,524
	Newham	5,200
	Hammersmith and Fulham	5,052
	Westminster	9,523
	Average Inner London	6,710
	Southwark as a % of the average	96%
	Inner London	Per Pupil Extra
	Average	291

19. As shown above, the DfE's tool reveals that Southwark funds at 96% of the average for inner London 3 and 4 year old free entitlement, or £291 less per pupil. By way of indication if the average rate had been paid in 2016-17 the extra cost would have been £97,445, as set out in Table 4.

Table 4: Additional Cost of Funding at Inner London Average

School	Average FTE	Extra £291
Kintore Way	106	30,730
Sumner Nursery School	50	14,685
Dulwich Wood	36	10,476
Nell Gwynn	95	27,587
Grove Children & Family Centre	48	13,968
Totals	335	97,445

20. The impact of the government's proposals for the EYNFF is mentioned earlier in this report and reference is made to the additional funding to sustain the MNS sector over the next two financial years. Of particular concern for Southwark's MNS will be the need to transition to a universal base rate by 2019-20.

21. As mentioned above officers will be taking the EYNFF proposals into account as part of the budgeting process for 2017-18 and the Working Group will be consulted on the overall impact for the whole of the EY sector including MNS. This will have regard to:

- Initial EY DSG funding block for 2017-18; and
- DfE's EY Benchmarking data for 2016-17 for all sectors.

22. A summary of the DfE's positive comments about the MNS sector contained in the EYNFF proposals is set out below.

- There would be supplementary funding for maintained nursery schools for at least two years to keep their transition to a universal base rate manageable
- A desire to minimise disruption and reassure maintained nursery schools on their position
- MNS sector has well-deserved reputation for providing high quality early years education and childcare
- The majority of schools are based in disadvantaged areas, and they therefore make valuable contributions to the improvement of the life chances of the children who live there
- The MNS sector continues to thrive where they have evolved to meet the changing needs of parents
- This additional funding takes account of maintained nursery schools' current costs and will provide much needed stability to the nursery school sector while they explore how to become more sustainable in the longer term, including exploiting scope for efficiencies. We will consult on further detail in due course.

**Appendix A: EYNFF Southwark Council's Response to the Consultation
Sent 22 September 2016**

Early Years National Funding Formula

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

Unsure

10 Considering a universal base rate of funding which does not vary by local area...
Base rate (EYNFF) - Should a universal base rate be included in the early years national funding formula?:

No

Base rate (EYNFF) - Is 89.5% of overall funding the right amount to channel through this factor?:

No

11 Considering an additional needs factor and the proposed metrics..
Should an additional needs factor be included in the early years national funding formula?:

Yes

Do we propose the correct set of metrics?:

Yes

Do we propose the correct weightings for each metric?:

No

12 Considering an area cost adjustment...

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

Yes

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

Yes

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:

Southwark is concerned that the universal base rate does not adequately reflect the real costs of providers for delivering the free entitlement. In particular the large variety of providers in the PVI sector cannot be addressed by the universal rate. We believe the research did not accurately reflect the true position based on the sample taken by the consultants.

We concur with the London Councils response that greater protection is needed over a longer transition to allow those councils like Southwark who, under these proposals, would see a significant reduction in funding.

The proposals on the one hand recognise the important role of maintained nursery schools in supporting high quality early education and childcare to disadvantaged areas particularly in London but at the same time delays a more sustainable solution by promising further consultation.

The two year old formula should be aligned with the structure of the EY NFF to maintain consistency e.g. applying the ACA and funding for children with a disability and/or SEN

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 disagree

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

Should we retain the current two-year-old funding formula?:

Unsure

Should we use the additional funding secured at the spending review to uplift local authorities' allocations based upon this?:

Yes

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?

No

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

No

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

No, 95% is too high

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

The 95% in Southwark will severely limit our ability to target funding at additional needs and continue to support providers in improving quality and parents access to the free entitlement. We agree with London Councils that any cap should be based on a more solid evidence base. Limiting the funding that local authorities are able to retain to support early years providers will make it difficult for local authorities to be able to fulfil these statutory duties and will add significant risk into the system.

How money is distributed from local authorities to childcare providers

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

No

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

Should local authorities be able to use funding supplements?:

Yes

Should there be a cap on the proportion of funding that is channelled through supplements?:

Unsure

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%?

No, the cap should be higher than 10%

23 Should the following supplements be permitted?

Deprivation:

Yes

Sparsity / rural areas:

Unsure

Flexibility:

Unsure

Efficiency:

No

Additional 15 hours of childcare:

Yes

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

Deprivation:

Yes

Sparsity / rural areas:

Yes

Flexibility:

(No response submitted)

Efficiency:

(No response submitted)

Additional 15 hours of childcare:

Unsure when it comes to the amount of money

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?

Efficiency is particularly hard to measure and VFM is too subjective to be used as a basis for a payment.

A quality supplement should be allowed to encourage the recruitment of graduate entrants to this sector thereby ensuring sustainable and high quality provision particularly for disadvantaged children.

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?

Whilst we agree that a supplement for the additional 15 hours should be allowed it discriminates against those providers who are unable to offer this provision such as sessional providers whose landlord prevents extended use of the premises. Accordingly it should be time limited to increase capacity.

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:

Quality based on Ofsted ratings

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 welcome the inclusion of additional funding for maintained nurseries and the decision to allow local authorities till 2019/20 to introduce the universal base rate.

We support London Councils in seeing the basis for the additional nursery school funding. We believe the full calculations behind this transitional funding should be published for boroughs to verify.

Southwark, like London Councils, is strongly concerned about the transitional approach and long-term viability of maintained nurseries as a result of the proposed changes.

Funding for disabled children

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

Yes

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

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?

Unsure

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

We welcome the focus on the challenges around access and funding for early years SEN. However, funding pressure within the Dedicated Schools Grant means that any new financial support will require new funding in order to be effective. Like many councils in London we are currently experiencing huge pressures on our high needs block due to the huge growth in SEN and EHCP cases in recent years. There is no scope to transfer funding into a new inclusion fund from this source.

Funding for children with special educational needs

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)

Disagree

34 When it comes to establishing an inclusion fund...
Should local authorities be required to establish an inclusion fund?:

Strongly agree

Would an inclusion fund help improve the supply of appropriate support children receive when in an early years setting?:

Neither agree nor disagree

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 concur with London Councils that additional new funding is required to support this fund to make it effective

The creation of a new fund without new funding is unlikely to be successful as Southwark currently has huge pressure on its High Needs block arising from the

increased numbers of EHCPs and has no capacity to contribute to an inclusion fund..

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

The children for which the inclusion fund is used?:

Yes

The value of the fund?:

Yes

The process of allocating the funding?:

Yes

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

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

We welcome the inclusion of additional funding for maintained nurseries and the decision not to implement the universal base rate immediately. The methodology behind the additional maintained nursery funding does not appear to capture current levels of funding accurately for all local authorities. The calculation is based only on the difference in per hour rates between providers in local formulas, without taking into account any funding distributed through specific, separate nursery supplements. This appears to lead to significant and arbitrary under-allocations for those boroughs that rely on the supplement option to provide higher funding to maintained nurseries. We believe the full calculations behind this transitional funding should be published for boroughs to verify.

As outlined earlier, London Councils is strongly concerned about the transitional approach and long-term viability of maintained nurseries as a result of the proposed changes.

Transitions to a new funding system

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 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 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 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 disagree

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

This box allows you to write an answer freely:

We agree that a transition approach to the EYNFF implementation is necessary but we feel the consultation to implementation in 6½ months is unrealistic even with the proposed transition and protection arrangements

A 5% cut for two consecutive years in the EY block presents significant risks to LAs and providers and ultimately to outcomes for children.

A longer transition period is required to manage the turbulence that will arise from these changes. Regular updates in the data sources used in the NFF is a pre-requisite to manage stability and reflect changes in need.

The proposed high pass through from LAs to providers is too high and the implementation too swift.

The proposed arrangements for funding central activities ignores the fact that EY administrative functions will be increased by the new entitlement, inclusion fund and DAF.

The tight timescale is unrealistic if the creation of a traded service is to be developed. The pace of implementation threatens our ability to meet statutory EY duties.

44 Please provide any representations and/or evidence on the impact of our proposals for the purposes of the Public Sector Equality Duty (Equality Act 2010). The protected characteristics are: age; disability; gender reassignment; pregnancy and maternity; race (including ethnicity); religion or belief; sex and sexual orientation.