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Report title:	Early Years Funding 2017-18 under the new National Funding Formula (EYNFF)	
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Executive Summary

This report is part of the overall school budget process for 2017-18 and provides the Schools Forum with proposals for funding early years providers under the auspices of the Early Years National Funding Formula (EYNFF) effective from April 2017.

Schools Forum Actions

The Schools Forum is asked to:

- Note the final proposals from the government for the EYNFF following consultation
- Express its view on the proposed 2017-18 EYNFF funding rates for all providers set out in this report, to inform final decision by Local Authority; and
- Note the new centrally retained limit on the EY Dedicated Schools Grant (DSG) block and that a decision will be made at the March meeting of Schools Forum on the areas to be funded following a review.

Introduction and Background

1. The October SF received a report outlining the government's proposals and consultation process for an EYNFF to be introduced from April 2017. Following consultation the response and final proposals were issued on 1 December by the Department For Education (DFE) which reflected the original proposals in terms of:
 - Funding from central government to local authorities; and
 - Funding from local authorities to providers.
2. The structure and mandatory requirements for local authority funding to providers remain unchanged save for:

- Supplementary funding for the Maintained Nursery School (MNS) sector being extended to include 2019-20 with the 2017-18 allocation set at £1.257m
 - Permitted supplements to include flexibility and quality and to exclude efficiency and additional 15 hours.
3. The accompanying spreadsheet confirmed the EY DSG block allocations for 2017-18 as well as illustrative allocations when the transitional protection is removed after 2018-19. Both sets of figures are the same as those included with the original proposals presented to the October meeting and were confirmed in the DfE’s 20 December announcement to Parliament of the schools revenue funding settlement for 2017-18. The allocations are reproduced below in Table 1.

Table 1: DfE EYNFF 3 and 4 Year Old DSG Allocations Under the EYNFF

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. At this stage in order to set the new mandatory pass through and central retention levels of 93% and 7% respectively (see paragraph 10) only the 15 hours EYDSG allocation has been used. This is because accurate data for numbers of eligible 3 and 4 year olds for the 30 hour free entitlement is not yet available and the DfE can only offer an estimate of take up based on:
- Using a number of proxies abstracted from available national surveys; then
 - Applying an estimate of eligible pupils who would take up this funding.
5. The DfE have provided more details on how the proposed funding for EY pupils with SEN and disabilities through the new SEN Local Inclusion Fund (SENLIF) and Disabilities Access Fund (DAF) will operate. This is covered in paragraphs 26 to 28 and 29 to 32 respectively below.
6. A key driver of the EYNFF is to support the Government’s manifesto commitment to introduce 30 hours of free childcare for children of working parents from September 2017. The Government has confirmed the statutory duty for local authorities to ensure sufficient supply of 30 hours places for eligible children from this date. The changes to funding, including moving to equalised rates for all providers and reducing centrally retained funds, are intended to increase funding levels to most providers and in doing so incentivise them to participate in the 30 hours scheme.

2016-17 Early Years Funding

7. The 2016-17 funding to all early years providers is set out in Table 2. This illustrates the current inconsistency of funding rates across all categories of EY providers.

Table 2: Early Years Funding 2016-17

	Maintained nursery schools	Nursery class in maintained primary schools and academies	PVI
Base rate - 3 year olds	£6.43	£4.95	£4.10
Base rate - 2 year olds	£6.00	£6.00	£6.00
Supplement – deprivation hourly rate:			
IDACI band 1	£0.65	£0.39	N/A
IDACI band 2	£1.29	£0.78	N/A
IDACI band 3	£1.94	£1.17	N/A
IDACI band 4	£2.59	£1.56	N/A
IMD: 30% most deprived	N/A	N/A	£0.40
Other formula: lump sum	£200,000	N/A	N/A
Other formula: EAL (per eligible child)	£299.72	N/A	N/A
Other formula: NNDR/rates	Actual cost	N/A	N/A

8. In addition, £126,000 of funding is allocated to Maintained Nursery Schools for meeting needs of children with SEN. PVI settings are able to apply for SEN Support funding from the SEND team.
9. In addition to the £1.0m of lump sum funding allocated to Maintained Nursery Schools, £1.4m of lump sum funding has been allocated to the Council's directly managed Day Nurseries (see paragraph 21).

EYNFF Mandatory Requirements

10. The EYNFF sets out mandatory requirements for 2017-18 that impact upon the use of the EY DSG block allocation. They are summarised below and reflected in the funding proposals covered in the rest of this report.
- 93% pass through of EYDSG block to providers
 - Maximum central retention of 7% of DSG allocation
 - Deprivation funding not to exceed 10% of total cost of 93% pass through
 - Universal base rate no later than April 2019
 - Introduction of SEN local inclusion fund.
 - Management of and eligibility checking for the new Disability Access Fund

2017-18 Early Years Funding Proposals

11. As reported to the December meeting, the Early Years Funding Working Group (the Working Group) had its first meeting on 14th November and received some initial illustrations of 2017-18 funding rates under the EYNFF. As the final EYNFF proposals have not changed, the confirmed pass through and central retention percentages of 93% and 7% respectively set the following funding levels for next year:

- 93% Pass through £18.242m
- 7% Central retention £1.373m
- Total £19.615m.

12. The EY Working Group meeting of 11 January 2017 was consulted on the proposals set out in Tables 3 and 4. Officers drew attention to the fact that the cost of £17.794m was a 91% pass through meaning there was £448,000 unallocated that could be allocated to either the base rates and/or deprivation or the new SENLIF described in paragraphs 26 to 28.

13. The Working Group supported the use of the 'headroom' to allocate the £448,000 to the SENLIF with officers developing a process for providers to access this funding from April 2017. This would bring the pass through up to the required 93%.

Table 3: Base Rate

Provider	2016-17 Base Rates £	Proposed 2017-18 Base Rates £
MNS	6.43	6.43
Primary	4.95	5.95
PVI	4.20	5.95

Table 4: Deprivation Funding

Provider	2016-17 Hourly Rates			2017-18 Proposed Hourly Rates		
	MNS £	Primary £	PVI £	MNS £	Primary £	PVI £
IDACI 1	0.65	0.39		0.65	0.31	0.31
IDACI 2	1.29	0.78		1.29	0.62	0.62
IDACI 3	1.94	1.17		1.94	0.94	0.94
IDACI 4	2.59	1.56		2.59	1.25	1.25
IMD			0.40			

14. The EY Working Group agreed that the supplementary funding for nursery schools of £1.257m, now confirmed to continue to 2019-20, should be used to maintain the 2016-17 lump sum, EAL funding and NNDR support as set out in

Table 5 below at a total cost of £1.106m. This funding would also support the development of cost saving opportunities (invest to save) as trailed in the initial EYNFF proposals issued in August 2016.

15. The DFE has indicated that use of this funding to make nursery schools more sustainable is outside the 93% pass through. MNS heads will consider suitable opportunities to use this funding to reduce operating costs.
16. As rateable values are being revalued with effect from April 2017, the supplementary funding would need to cover any increased cost arising from the revaluation for MNS.

Table 5: MNS Additional Funding

Element	Basis	Total Cost £
Lump sum (per school)	£200,000	1,000,000
EAL (per eligible child)	£299.72	25,000
NNDR/business rates	Actual cost	81,000
	Total	1,106,000

17. The costs of the 2017-18 EYNFF proposals are set out in Table 6 below.

Table 6: 2017-18 EYNFF Proposals (Excluding MNS Additional Funding)

Provider Category	Hourly Base Rate £	Base Rate Funding £	Deprivation Supplement £	Total Annual Funding £
MNS	6.43	1,781,239	365,210	2,146,449
Primary	5.95	7,793,667	762,400	8,556,067
PVI	5.95	6,528,638	563,041	7,091,679
Grand Total		16,103,544	1,690,651	17,794,195

Central Retention and Future Restrictions

18. For 2017-18, the EYNFF must pass through 93% of the early years DSG block to providers. As set out in Table 1 the initial 2017-18 allocation was £19.615m (now confirmed on 20th December by DfE) meaning the pass through should be £18.242m. From 2018-19, 95% of the early years block must be passed on to providers. This means that the maximum centrally retained funding would be as follows representing a significant reduction:

2017/18	£1,373,076
2018/19	£931,730

19. The Local Authority is dependent upon the Early Years Block of the Dedicated Schools Grant to resource its statutory work in relation to early years

education and childcare. These duties, as set out in the Childcare Act 2006 and subsequent guidance, include:

- a. Improving the well-being of young children (0 to 5) and reducing inequalities between them
 - b. Securing sufficient childcare, so far as is reasonably practicable, for working parents, or parents who are studying or training for employment, for children aged 0-14 (or up to 18 for disabled children)
 - c. Securing free early education for all three and four year olds and specified two-year-olds
 - d. Undertaking the early years census - collecting information about individual children receiving early years provision and supplying it to the Secretary of State
 - e. Funding early education places in all sectors using a locally-determined, transparent formula
 - f. Securing information, advice and training to childcare providers;
 - g. Providing information, advice and assistance to parents and prospective parents on the provision of childcare in their area
 - h. Checking the eligibility of children to Early Years Pupil Premium any child a parent or provider has identified and Fund all eligible early years providers in local authority area at the national rate.
20. Southwark proposes to retain the permitted 7% (2017-18) and 5% (2018-19) to enable it to continue to fulfil its early-years duties.
21. The reduction in centrally retained function has significant implications for other areas of Council expenditure, in particular in relation to the day nurseries currently directly managed by the Council. These received a lump sum payment from DSG of £1.4m for 2016-17. The number of nurseries has now been reduced from 4 to 3 following the transfer of management of South Bermondsey Nursery to a voluntary sector provider early in 2016-17. While this ameliorates the budget pressure, it will be very difficult for the remaining three day nurseries to be viable without the DSG subsidy. Officers are exploring options to keep nurseries open following this reduction in funding.
22. In light of the above the council is reviewing all aspects of the current centrally retained functions in compliance with the new limit and the regulations and a report will be brought back to the next Schools Forum for decision on retentions. It should be also noted that the retention will need to further reduce in 2018-19 when the central retention will be reduced to 5%.

Deprivation Funding Restriction

23. Table 6 shows the cost of the proposed deprivation funding based on the rates shown in Table 4 as £1.691m leaving further headroom of £133,000 before the 10% cap of £1.824m is reached.

Universal Base Rate

24. Transition to a universal base rate would be achieved from 2018-19 when the MNS rate would fall to £5.95 per hour. The full year cost of this reduction in funding of £133,000 could be met through use of the supplementary MNS funding allocation of £1.257m and/or use of the DSG reserve. This would allow more time for MNS providers to manage the impact of a reduction in their base rate funding arising from the introduction of the universal base rate.

25. The cost of additional support to MNS is estimated at £1.106m as shown in Table 5. This leaves £151,000 available from the supplementary funding of £1.257m that could be used to cover the loss of funding arising from transition to the universal base rate in 2018-19 as set out above.

SEN Local Inclusion Fund

26. Local authorities must set up a local inclusion fund (LIF) for EY SEN children. Unlike the Disabilities Access Fund described in paragraphs 30 to 33 below there is no additional DSG funding for the LIF. DfE state that Funding has to come from either one or both of the early years block and high needs block of the DSG. Local authorities must consult with early years providers to set the value of their local SENLIF taking into account:

- The number of children with SEN in the local area
- Their level of need, and
- The overall capacity of the local childcare market to support these children.

27. Local authorities are expected to target the fund at EY children with lower level or emerging SEN. Children with more complex needs and those in receipt of an EHCP continue to be eligible to receive funding via the high needs block of the DSG.

28. Officers will present proposals for funding, implementing and managing the LIF to the next Working Group.

Disabilities Access Fund

29. New funding of £12.5m nationally has been provided under the DAF and three and four year olds will be eligible for funding if they receive:

- Disability living allowance (DLA); and
- Free early education.

30. An annual sum of £615 will be paid by the council to providers towards additional costs of provision for a child with disabilities. Funding will be provided through a supplementary element of DSG and Southwark will receive initial funding of £73,800 for 2017-18 representing 120 eligible children.
31. Providers will be responsible for identifying children eligible for DAF through a new parent declaration template that the DfE will publish alongside a model provider/parent agreement in early 2017. The template will include a box for parents to tick if their child is in receipt of DLA.
32. Local authorities will be required to check that the eligibility requirements for DAF have been met and make the grant payments to eligible providers. The S251 pro-forma will record the DAF expenditure.

Two Year Old Funding

33. The DfE stated that 2 year old funding is already allocated on a fair basis so it was not covered by the final proposals. The government has however committed to uplift the average two-year old hourly funding rate to local authorities for 2017-18. Southwark has been notified that funding will increase to £6.50 with a DSG allocation of £4.2m. Current funding paid to providers is £6.00 per hour.
34. Southwark proposes to increase the two year old funding rate paid to providers to £6.25 an hour.

Summary

35. The mandatory requirements for the EYNFF will be complied with as follows:
- 93% pass through of EYDSG block to providers
 - The proposals including the sum for the SENLIF could meet the 93% pass through as mentioned in paragraph 13
 - Maximum central retention of 7% for 2017-18
 - This equates to a budget of £1.373m. A report on how this funding will be used will be brought back to the March meeting of Schools Forum.
 - Deprivation funding not to exceed 10% of cost of 93% pass through
 - Current proposals confirm this will be achieved as set out in paragraph 23
 - Universal base rate no later than April 2019
 - Subject to DSG remaining at the indicated levels by the DfE this should be achieved by April 2019
 - Introduction of SEN local inclusion fund

- Using the funding of £448,000 mentioned in paragraph 13, officers will continue to develop this funding structure, applications process and eligibility requirements leading to its inclusion in the local offer from April 2017. An update will be provided to the next SF meeting
- Management of and eligibility checking for the new Disability Access Fund
 - The DfE's parent declaration template for providers to check parent eligibility will be published 'early in 2017' according to the final EYNFF proposals. A full assessment of the impact of these additional local authority duties on staffing resources will be made as soon as practicable with an update to schools forum.