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| Report title: | Draft Early Years Single Funding Formula: Progress Report | |
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Executive Summary

This report provides the Schools Forum with:

- An update on the progress in reviewing Southwark's Early Years Single Funding Formula (EYSFF);
- A summary of the issues that the LA are seeking views on when consulting with providers;
- A copy of the draft consultation document.

Schools Forum Actions

The Schools Forum is asked to:

- Comment on the issues that the LA are seeking views on as part of the consultation process;
- Comment on the proposed consultation questions;
- Note the proposed transitional protection arrangements;
- Note the potential funding implications;
- Note the next steps.

1.0 Background

- 1.1 Reports to the Schools Forum in December 2013 and July 2014 described the background to the current review of the Early Years Single Funding Formula (EYSFF) which is used to fund providers in Southwark for three and four year olds. A working group was set up to support the Local Authority (LA) to review the formula, with the intention to ensure:
- a transparent and consistent approach to the funding of early years provision for Southwark providers;
 - base rates reflect the different cost drivers (staffing ratios, teacher and staffing costs etc) for different types of early years provision;
 - Enable Southwark early years providers, who are best placed, to manage the implications of a potential move towards an early years national funding formula;
 - That the EYSFF is affordable;
 - A consistent approach is also applied to two year old funding, which in the future will operate in the same way as the funding of the three and 4 year old provision through the EYSFF.
- 1.2 The current Southwark formula is based on three different base rates according to the type of setting, namely maintained nursery schools, maintained primary schools and private, voluntary and independent (PVI) settings. There are currently significant variations between the base rates for each provider type.
- 1.3 In addition, since the current formula was implemented, maintained schools that converted to academies have challenged their funded rates. This is because in the Southwark funding formula

academies do not have a distinct rate, and therefore, as set out in the original DfE guidance are considered to be PVI settings and so are funded on this basis.

- 1.4 A detailed report on the current arrangements was presented to the December 2013 Schools Forum meeting. This report showed how Southwark's EYFSS compared to its statistical neighbours and highlighted the lack of commonality of approaches across LAs.
- 1.5 The Local Authority recommended that a more detailed review was undertaken by a working group made up of representatives from each category of early year provider. This recommendation was supported by the School's Forum.
- 1.6 An update was provided to the July 2014 School Forum meeting describing the progress the working group had made to date.
- 1.7 This report updates the Schools Forum on the intention to consult with settings seeking their views on the issues identified or discussed by the working group (Appendix 1).

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2.0 Proposed consultation

2.1 A brief overview of the issues that the LA are seeking views from early years providers in the consultation is outlined in Table A.

Table A – summary of proposed areas for consultation with providers

| Area for consultation | Summary | Potential impact of changes | Context | Consultation document ref |
|---|--|---|---|---------------------------|
| Transparent and consistent funding formula – do you support aspiration of same base rates for all providers in the future | <p>The Group considered options for applying a consistent base rate across all providers:</p> <ul style="list-style-type: none"> • Current differences in rates were difficult to justify and reasons were not seen to be transparent; • Implementation of an aspirational formula would give all pupils in Southwark the same opportunity for a quality early years education | <ul style="list-style-type: none"> • Impact of moving to a potential aspirational model would result in significant funding turbulence causing potential destabilisation; • The Group were in support of any potential additional funding being allocated to least funded providers, rather than a reduction in other provider rates to fund any increases. | <ul style="list-style-type: none"> • Significant diversity in the types of early years provision; • No clear steer on direction of travel from initial benchmark of other LA rates; • Intention to implement national early years funding formula; • National review of current arrangements. | Section 7 |
| Potential differential base rate - academies | <p>The Group considered reasons for differences in cost drivers:</p> <ul style="list-style-type: none"> • Academies have the same operating models as maintained schools; • Academies assessed against the same Ofsted criteria. | <ul style="list-style-type: none"> • Increase in academy base rate | <ul style="list-style-type: none"> • When the current formula was introduced there were no academy providers of early years. | Section 8 |
| Consistent deprivation methodology – based on IDACI (Children in the same bands of deprivation attract the same funding | <ul style="list-style-type: none"> • Current inconsistencies in the formula methodology • Additional needs were a common concern across all providers • Moving towards a single formula in keeping with national trend | <ul style="list-style-type: none"> • Deprivation funding is redistributed • Resulting in a reduction in nursery and EY in primary school funding; increase in PVI and academy funding | <ul style="list-style-type: none"> • Deprivation factor is line with the national schools deprivation methodology; likely to be aligned with future national funding formula for early years | Section 9 |

3.0 Consultation questions

3.1 The proposed consultation questions are outlined below:

- Question 1 - do you support the aspiration of early years children attracting the same base funding to whatever category of provider they attend?
- Question 2 - do you support the idea that should additional funds become available, these should be targeted to the move towards the aspirational formula?
- Question 3 – do you support the introduction of a new differential base rate for academy providers?
- Question 4 - if a new rate was introduced for academies, do you support it being the same level as the maintained primary school base rate?
- Question 5 - do you support the idea that similarly deprived children should attract the same additional funding, whatever provider they attend?
- Question 6 - do you support transitional arrangements to ensure that funding turbulence is manageable?
- Question 7 - do you support using protection of 1.5% per pupil funding as the maximum loss in 2015-16?
- Question 8 - do you have any general comments on the funding arrangements for two year olds?

4.0 Proposed transitional protection arrangements

4.1 Any change in the funding formula will result in potential funding changes for individual providers. In order to reduce the impact of these changes the LA will put in place protection arrangements.

4.2 The LA are proposing to apply protection to any changes agreed, based on the national minimum funding guarantee approach and rate of -1.5% per pupil. A ceiling would be applied to fund the costs of this protection.

4.3 The details of how this will operate in practice are still being considered. This is due to the difference in approach to funding across the different providers. A consistent approach will be applied wherever possible, based on the overall principle that the maximum funding loss should represent no more than 1.5% of funding per pupil.

4.4 Final protection arrangements will be decided after considering the views from responses to the consultation.

5.0 Potential funding implications

5.1 The LA will consider the views from responses to the consultation before considering any changes to the current funding formula.

5.2 The review was carried out on underlying assumption that there is no additional funding available i.e. any changes would need to be cost neutral.

5.3 The working group were concerned about the impact of funding turbulence for providers associated with changes to the base rate and were in favour of any additional resources identified being allocated to those providers currently funded on the lower rates.

- 5.4 As with schools, the current funding levels for early years funding are at the high end of early years funding nationally so any move to a national funding formula remains a significant risk to Southwark.
- 5.5 It should also be noted that the LA are expecting significant funding pressures on future DSG funding, as outlined in items elsewhere on the agenda and this means that the Schools Forum will need to balance these priorities. The affordability of allocating any additional funding towards early years will be reviewed and considered as part of reviewing the consultation responses and the 2015-16 DSG budget setting process.
- 5.6 As an illustration, the estimated potential impact could be:

| Option | Consultation | Potential impact should this happen |
|------------------------|---|---|
| Base rates - academies | Consultation seeks views on the introduction of a differential base rate for academies | <ul style="list-style-type: none"> • Offset by reduction of base rate of other settings by £0.05 per hour; • Additional estimated annual cost of £111k. |
| Deprivation funding | Consultation seeks views on the application of a consistent approach to deprivation funding | <ul style="list-style-type: none"> • Any changes would need to be cost neutral |
| Protection | Consultation seeks views on transitional funding arrangements | <ul style="list-style-type: none"> • Any changes would need to be cost neutral |

6.0 Next steps

- 4.1 Schools will be consulted on the proposals in November 2014 and a final report will be presented to the December 2014 Schools Forum meeting.