

## **EXECUTIVE SUMMARY**

This report updates the Forum on the progress made by the Early Years Working Group and outlines a proposed new funding formula to be introduced from 1.4.2010. The proposals are subject to consultation.

### **1.0 Background**

From April 2010 it is a DCSF requirement that an Early Years Single Funding Formula (EYSFF) based on attended hours will be applied across all Early Years settings. The Schools Forum set up an Early Years Working Group to evaluate options for the funding formula.

The progress of the group was reported to the last meeting and covered an assessment of the current provider costs and proposals for formula elements, deprivation (a required element), quality and a Headteacher supplement for nursery schools. Outstanding issues were identified with regard to DCSF guidance/legislation, a flexibility supplement, the Minimum Funding Guarantee and transition.

### **2.0 DCSF Guidance**

Practice Guidance was issued by the DCSF in July 2009 setting out the government's expectations for EYSFF and changes in regulations. There are a number of actions authorities must and should take account of:

- Implementation – must be by April 2010
- Partnership - interested stakeholders must be involved and all settings engaged. The LA should support providers, especially where the formula has significant implications.
- Understanding of costs – the LA should understand provider costs, and use a typical cost model to justify the core level of funding.
- The Formula should include a base rate or have multiple rates (but no arbitrary maintained/PVI split that locks in unjustifiable funding differences.)
- Deprivation must be included as an element
- The interaction of the EYSFF with the Schools Formula should be considered
- Funding will move from the Centrally Retained budget to the ISB
- Pupil Counts must be at least termly and provider budgets must be adjusted in year.
- The impact of the formula must be assessed in consultation with providers.
- The Minimum Funding Guarantee should not allow high funding to continue irrespective of participation.
- There must be a plan to move from transition to formula within 3 years.
- The Schools Forum should agree affordability, transition and the use of the MFG.

## 2.1 Flexibility Supplement

Parents will be entitled to 15 hours of free early learning each week; a flexible offer will enable parents to take up provision outside 5 three-hour blocks.

DCSF “strongly encourage all LA’s to use EYSFF as part of a package of measures to support, promote and incentivise flexible patterns of delivery by:

- Recognising and supporting the costs associated with delivering different patterns of provision e.g. delivering over the lunch period or opening longer hours and
- Incentivising settings to move away from sessional provision and deliver entitlement in patterns that are more responsive to parental demand”.

*DCSF practice guidance July 2009*

The flexibility incentive is funded by a ring-fenced DCSF grant for the extension of the free offer. About £500,000 is available for distribution through this element of the formula.

The group has supported a proposal to offer 2 flexibility rates:

1. Within the existing school teaching day (with a weighting of 0.5) 18p per hour
2. Outside the school day (with a weighting of 1) 36p per hour

The advantages of this proposal are that the formula is simple, it encourages providers to offer parents access to more hours in a day and is cost reflective i.e. longer periods of flexibility receive a higher uplift.

The disadvantages are it may not be possible for some providers to claim the higher supplement, the school day would need to be verified and if more providers claim the higher rate this could become unaffordable (the rate is based on 80% take up).

This supplement would give a 25 place setting additional funding as follows:

- For flexibility within the school day £4,275 pa. This is the equivalent of additional 9.5 TA level 3 hours per week (providing additional staff hours to manage requests for alternative provision)
- For flexibility outside the school day £8,550 pa the equivalent of an additional 19 TA Level 3 hours per week.

## 2.2 Minimum Funding Guarantee (MFG)

DCSF guidance has confirmed that the MFG used currently in schools formula funding will apply to maintained Early Years settings. At present this is only guaranteed for 12 months at 2.1%. The group recommend that the MFG should apply equally across all providers since all are subject to inflationary cost pressures. The draft Early Years budget for 2010-11 reflects this assumption.

In a number of cases where the MFG distorts the funding to a provider an exception will be proposed for the Forum to consider.

## 2.3 Transition - Formula Floor and Ceiling

This measure builds in a transition mechanism into the formula. This is needed for specific settings who will experience significant changes in funding levels following a move away from place funding.

The group's proposal reflects the following DCSF guidelines:

"It should be remembered that transitional protection is only a temporary measure and that there must be a clear plan over no more than 3 years to move a setting gradually to its new funding levels under EYSFF."

DCSF guidance July 2009

The 3 nursery schools (Ganneys Meadow, Leasowe and Brentwood) received funding totalling £1.1m in 2009-10. However the equivalent new formula would deliver funding of £0.6m, with an MFG of £0.7m. This change is the result of a move away from place to pupil funding. In future the formula will pay nursery schools (and other providers) for the actual number of pupil hours provided each term.

The EYSFF is the main funding for all nursery schools. The reduction in funding is significant and should be phased to allow changes to be planned and implemented in a way that minimises disruption to children and parents.

The mechanism proposed to provide transition is a "Floor and Ceiling". This will limit formula cash reductions in Nursery schools to 15% in 2010-11 (compared to 2009-10) and a further 10% in 2011-12. The formula will be fully implemented from 2012-13. The floor is paid for by a ceiling. This limits the cash increases for providers who benefit from the new formula elements. The cost of the floor is shown below:

No	09/10 Funding	New Formula	MFG	85% of 09/10 Funding	Cost of floor
	£	£	£	£	£
1	235,411	154,671	158,745	200,099	41,354
2	359,014	178,748	206,022	305,162	99,140
3	512,325	234,928	333,012	435,476	102,465
<b>Total</b>	<b>1,106,750</b>	<b>568,547</b>	<b>697,779</b>	<b>940,738</b>	<b>242,958</b>

The Floor is expensive (3% of available funding), but necessary. In the initial years it will limit the benefits from introducing new formula elements.

A Nursery Support Plan is being drawn up to help the schools move from transitional funding to the new formula. This includes the use of Surestart grant to bring funding in line with other Children's Centres and changing teaching ratios from 1:10 to 1:13. More work is also needed to increase occupancy levels and reduce surplus places; this will be a key factor for longer-term sustainability.

## 2.4 Other Changes

### Deprivation

The proposal for deprivation has been amended and simplified. Instead of each provider having its own unique rate based on its IMD score, the deprivation factor (still based on IMD) has been banded – High, Medium and Low with 46, 62 and 58 providers respectively falling into each band. The hourly rates are 23p, 14p and 5p. Additional deprivation funding through the EYSFF amounts to £200,000. The group recommends that this should be funded from growth (DSG reserve/Headroom) rather than a redistribution of existing resources. As previously reported without growth amounts for deprivation will be offset by the need to protect existing budgets.

### Quality

A quality supplement at 10% of the current hourly rate of £3.17 was previously suggested, payable to all providers employing staff with QTS or EYPS. However the higher rate is too expensive and requires 5% of the available funding. This in turn

leads to a larger number of providers triggering the MFG. As a general principle the formula should cover provider costs as much as possible without having to rely on MFG.

Instead a Quality Supplement of 5% of the current hourly rate of £3.17 recommended and is modelled below. 93 (56%) of providers are currently eligible to receive this supplement.

A 25 place setting would receive the following:

Total hours	Quality per hour	Total Quality Funding
23750	0.16	£3,800

## 2.5 Hourly Rates

The proposed hourly rates are shown below for a setting with medium deprivation, The first rate assumes no additional funding; the second assumes an additional £200,000 referred to previously.

	1. no extra funding	1. 25 place setting	2. additional funding	2. 25 place setting
Basic rate	£ 2.99	£	£ 3.13	£
Deprivation	0.14		0.14	
Quality	<u>0.16</u>		<u>0.16</u>	
	<b>3.29</b>	<b>78,119</b>	<b>3.43</b>	<b>81,258</b>
Flexibility in School Hours	0.18	4,275	0.18	4,275
Flexibility outside school hours	<u>0.18</u>	<u>4,275</u>	<u>0.18</u>	<u>4,275</u>
<b>Total</b>	<b>3.65</b>	<b>86,669</b>	<b>3.79</b>	<b>89,808</b>

This compares with a current hourly rate per pupil of £3.17 (£75,288)

## 3.0 Impact of the Formula

The figures used in the formula to date are indicative, based on current data, this will change with the January 2010 census.

The preparatory modelling work suggests that with no additional funding in the formula, 76 providers out of 166 trigger the MFG. Of these 3 are nurseries, 9 are nursery classes and 64 are PVI's. The largest amount over the MFG is £328, this is limited by the operation of the formula ceiling which restricts increases above MFG to ¼%. The highest loss is £98,683 (a nursery school). Having nearly half of the providers funded at the MFG indicates that formula does not have sufficient resources to meet the needs identified.

The additional funding of £200,000 outlined in 2.4 above reduces the number of providers funded at the MFG down to 7, 3 are nurseries and 4 are nursery classes. The largest amount over the MFG is £5,398 (the ceiling limit is 4.5% over MFG), whilst the largest loss is £76,849. This would seem to be a preferable outcome.

A detailed comparison is shown in Appendix 1.

#### **4.0 Consultation with providers and schools**

A formal consultation will now start with all Early Years providers and primary schools. The proposals will be described and illustrated, together with a series of questions. These are shown in Appendix 2.

The consultation period will run from 1<sup>st</sup> October until 30<sup>th</sup> November, following which there will be a further report and a final set of proposals for the Forum to approve prior to submission to Cabinet in February 2010.

#### **5.0 RECOMMENDATIONS**

That the Forum agrees to the structure of the EYSFF described.

That consideration is given to funding for the deprivation element of the Formula (£200,000) from the DSG reserve.

That a further report is received outlining the responses from the consultation paper.

**Howard Cooper**  
**Director of Children's Services**