

EARLY YEARS SINGLE FUNDING FORMULA

To: Cabinet

Date: 15 December 2009

From: Service Director: Strategy and Commissioning, Children and Young People's Services (CYPS)

Electoral division(s): All

Forward Plan ref: 2009/004

Key decision: Yes

Purpose: To:

- i) Advise Cabinet of the requirement placed on all local authorities by the Department for Children, Schools and Families (DCSF) to develop a funding formula for early years provision for three and four year olds by April 2010;
- ii) Advise Cabinet of the consultation undertaken as part of the process to develop a single funding formula for early years provision in Cambridgeshire; and
- iii) Seek Cabinet's approval to adopt and implement the proposed single funding formula and the associated hourly provider rates with effect from 1 April 2010.

Recommendation: Cabinet is asked to:

- i) Note the requirement placed on all local authorities by the Department for Children, Schools and Families (DCSF) to develop a funding formula for early years provision for three and four year olds by April 2010;
- ii) Note and comment on the consultation undertaken as part of the process of to develop a single funding formula for Cambridgeshire; and
- iii) Approve the adoption and implementation of the single funding formula and the associated hourly provider rates with effect from 1 April 2010.

<i>Officer contact:</i>		<i>Member contact</i>	
Name:	Graham Arnold	Name:	Councillor David Harty
Post:	Sure Start Strategy Manager	Portfolio:	Learning
Email:	graham.arnold@cambridgeshire.gov.uk	Email:	david.harty@cambridgeshire.gov.uk
	ov.uk		
Tel:	01223 699774	Tel:	01480 477202

1. BACKGROUND

- 1.1 The Department for Children, Schools and Families (DCSF) requires all local authorities to develop a funding formula for early years provision for three and four year olds by April 2010. The DCSF produced detailed guidance in July 2009 to support local authorities in this area (<http://www.dcsf.gov.uk/everychildmatters/resources-and-practice/IG00611/>).
- 1.2 Early years provision in Cambridgeshire is predominantly delivered by the Private, Voluntary and Independent sectors (78%). Local authority maintained provision is offered in 6 nursery schools (8%) and 23 nursery classes in primary schools (14%).
- 1.3 Currently, maintained providers (nursery schools and primary schools with nursery classes) are paid through their annual budget with 80% of funding derived from the places offered, and 20% of funding based on the actual take-up of places based on the January pupil count. Private, voluntary and independent providers are paid on a single County rate of £3.38 per hour, each term and entirely on the basis of actual take-up of places.
- 1.4 Officers from Children and Young People's Services have worked with a Reference Group of early years providers to develop an understanding of providers' costs and establishing a model of agreed activity to form the basis of the funding of provision. The model was then used in conjunction with data on rates of pay and other costs for the different types of provision to identify appropriate funding levels for:
 - Maintained Nursery Schools
 - Maintained Nursery classes
 - Pre-schools
 - Full Day Care providers
 - Childminders.
- 1.5 The Reference Group contributed to the development of formula proposals for consultation with providers.
- 1.6 The DCSF produced its draft Code of Practice on Provision of the Free Early Education Entitlement for 3 & 4 Year Olds in October 2009. This document includes reference to some of the principles that local authorities should apply in funding the free entitlement through a formula, in particular
 - An increase in the minimum length of session for early education to 2.5 hours, and a maximum of 10 hours in one day (unchanged)
 - 15 hours per week free entitlement to be taken over a minimum of 3 days, at a maximum of 2 providers
 - A "core offer" of flexibility to be available widely as a minimum, comprising four models of provision over 3-5 days
 - That local authorities "strongly consider" the inclusion of specific incentives for flexibility and quality.

2 CONSULTATION PROCESS AND FEEDBACK

2.1 Consultation took place with all early years providers over the period July-October 2009. The consultation comprised:

- A discussion paper on the principles which should underpin the formula (early July).
- An exemplification of the funding levels under the formula for different providers (early September).
- Four briefing sessions for providers (late September).

2.2 The consultation sought views on the following areas:

- The elements of provider cost to include in a formula.
- The level of cost incurred by different types of providers.
- The principle of differentiated rates for different provider types.
- The incorporation of a premises factor for pre-schools to account for variations in cost (and how the Authority should evidence this).
- The inclusion of specific incentives for staff qualifications or other measures of quality, and whether the formula should offer a specific quality incentive.
- The principle that offering flexibility in delivery genuinely incurs additional costs for providers, and what flexibility options should be identified.
- The use of the Income Deprivation Affecting Children Index (IDACI) scores to allocate funding to certain providers in respect of deprivation, and whether there might be other measures of deprivation more appropriate to early years provision.
- How the transition to a funding formula should be managed.

2.3 Providers were sent a response form and were invited to respond by post or e-mail by 8 October 2009. In all, ninety written responses were received (representing around 25% of providers) and eighty people attended the briefing sessions.

2.4 Key findings from the consultation included:

- A general recognition that different types of providers incur different levels of costs, with variations of opinion over the reasons for this.
- Agreement that offering flexibility incurs additional staffing and administration costs for providers, whilst recognising that it also presents challenges for funding and quality.

2.5 Key issues and concerns raised in the consultation with providers were:

- A desire for the formula to reflect quality, despite the practical difficulties of achieving this.
- Concern that anomalies in pre-school premises costs were not being addressed through any specific funding factor.

- Concern from pre-school providers that their sector was being penalised for its low historic cost base, reflected in a lower hourly rate.
- Questions over treating of childminders on a par with full day care providers, given their potential to operate with lower overheads from a home base.

At its meeting on 23 October 2009, Cambridgeshire Forum received feedback on the consultation and raised the question of whether the enhanced hourly rates, especially for full day care providers, reflected an element of profit.

- 2.6 The issues and concerns raised have been given detailed consideration. The rationale for the approach adopted is set out below:

Issue	Rationale
No inclusion of specific incentives for staff qualifications or other measures of quality	There is no agreed single specific measure of quality or a clear incentive structure; The decision was taken to maximise the base funding rate for all providers in order to support sustainability
No specific premises factor for pre-schools to account for variations in cost	Insufficient confidence in provider data; decision to maximise base rate for all providers in order to support sustainability
Pre-school (voluntary) sector is being penalised for its low historic cost base	No provider is being penalised; providers with higher costs will receive higher rates. Further work will be undertaken to determine the extent of the sector's reliance on fund-raising for core costs.
Treating childminders on a par with full day care providers	Childminders can only accommodate limited numbers of funded children, and this can impact on their capacity to take other children, affecting their potential income.
Enhanced hourly rates for full day care providers reflect an element of profit	Full day care provider costs are not met by existing county rate; some cross-subsidise funded places, others charge top-up fees via extended sessions. The proposed rate is intended to cover costs and eliminate top-up fees, so that parents can access funded provision free of charge.

3 THE FUNDING FORMULA

- 3.1 The starting point for the proposed formula is an hourly rate per child for each type of provider. The formula then provides a funding enhancement for deprivation at two levels, based on the home neighbourhoods of children attending provision, to reflect social need. A further element reflects additional costs incurred by providers in offering flexible hours to meet the needs of families.

Early Years Single Funding Formula Hourly Rate Summary¹					
<i>All amounts are per hour per child</i>	Maintained Nursery Class	Maintained Nursery School	Pre-School	Full Day Care	Child-minder
Initial Base Rate	£3.85	£4.53	£3.27	£4.23	£4.23
Protection	-	-	£0.21	-	-
Total Base Rate	£3.85	£4.53	£3.48	£4.23	£4.23
Deprivation enhancement (none / low / high)					
Low	£0.11	£0.15	£0.10	£0.14	£0.14
High	£0.23	£0.29	£0.21	£0.27	£0.27
Flexibility supplement²					
Range	£0 - £0.46	£0 - £0.54	£0-£0.39	£0 - £0.51	£0 - £0.51

- 3.2 The formula funds providers on the basis of the actual attendance of children, not on the number of places available. It includes a lump sum allocation for the cost of Headteachers in maintained nursery schools, recognising the legal requirement for nursery schools to have a Headteacher and the difficulty of modelling this element of cost within a formula.
- 3.3 The formula includes an enhancement to the hourly rate for pre-school providers to provide funding protection at a rate equivalent to the planned County rate for 2010-11. The analysis of providers' costs shows the cost per hour to these providers to be, on average, lower than the County funding rate. However, the reported experience of the vast majority of voluntary providers is that they do not generate a surplus, and even rely on fund raising to break even. In evaluating the impact of the formula, there will be a focus on voluntary sector cost data.
- 3.4 The formula does not include an enhancement for quality of provision, nor a specific premises element to take account of variations in premises costs in pre-school provision.

4. SIGNIFICANT IMPLICATIONS

4.1 Resources and Performance

The following bullet points set out details of significant implications identified by officers:

a. Finance

- The application of the formula will require funding from the Nursery Schools Quantum, the Primary Schools Quantum (for nursery classes) and early years funding to be combined into a single funding pot of around

¹ The free entitlement is 12.5 hours per week for 38 weeks, rising to 15 hours per week for 38 weeks for all children from September 2010. The entitlement commences from the term **after** the child's third birthday, until the child enters school.

² Flexibility supplements will be introduced for all providers from September 2010

£12.8m, with additional specific grant of around £3.4m covering changes to the free entitlement

- Excepting the grant mentioned above, there is no budgetary provision for increased costs arising from the introduction of a formula. Any funding increases for settings as a result of the formula will be balanced by decreases for other settings. There will be no net additional cost to the County Council.

b. Risk

- Changing the approach to funding distribution creates some risk for providers in terms of sustainability. This has been addressed through protecting rates for the lowest paid providers. It is also proposed that the formula is reviewed, either in September 2010 (if funding levels for post April 2011 are clearer), or in April 2011, which would give more time for the formula to bed down.
- There is a risk to the local authority should there be a significant shift in the numbers of children accessing higher funded provision. This risk is mitigated by a range of other factors influencing parental choice and by the supply of childcare in the County, which closely matches demand in most areas.
- Uncertainty over future levels of budgets may create a risk for both the local authority and providers.

c. Performance

- Early years provision is critical to the delivery of the Early Years Foundation Stage, on which the local authority is judged. Sustainable funding levels are a prerequisite for effective delivery of the Foundation Stage.

4.2 Statutory Requirements and Partnership Working

The following bullet points set out details of significant implications identified by officers:

a. Statutory timescales

- Failure to introduce a formula by April 2010 would mean the local authority does not meet its statutory requirements. An early review of the arrangements would enable any residual concerns to be addressed.

b. Parliamentary Committee Enquiry

- Following concerns expressed through an oral evidence session, the Government's Children, Schools and Families Committee is inviting written submissions on
 - The expected impact of new local funding formulae on providers of early years education and childcare services
 - Difficulties which have been encountered in drawing up new funding formulae, and how they are being overcome.
- Because of the strong evidence base underpinning the Council's work on the Single Funding Formula, and the broad consensus secured for the proposed approach through consultation, officers will make a submission to the Committee.

- 4.3 There are no significant implications for the following categories:
- Climate Change
 - Access and Inclusion
 - Engagement and Consultation
- 4.4 There is a risk that flexible provision may work in favour of those parents who have better information about the availability of places, and register their preferences early. However, this risk is inherent in the present system of sessional places as well, and can be mitigated by simple, clear and timely information to families.
- 4.5 The formula has been designed taking into account the views of all providers, whilst recognising that funding constraints do not allow for significant additional resources to support provision.
- 4.6 Further consultation will take place with maintained sector governors and with all providers implementing extended and flexible early years provision from September 2010.

Source Documents	Location
DCSF guidance: Developing a Single Funding Formula	Graham Arnold. Sure Start Strategy Manager, 01223 699774
Draft Code of Practice on Provision of the Free Early Education Entitlement for 3 & 4 year olds (DCSF)	