

EARLY YEARS SINGLE FUNDING FORMULA

To: Cabinet

Date: 23 February 2010

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

Electoral division(s): All

Forward Plan ref: 2010/015 *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;**
- ii) Advise Cabinet of the change in the Government's statutory implementation date for the funding formula;**
- iii) Advise Cabinet of the consultation undertaken as part of the process to develop a single funding formula for early years provision in Cambridgeshire; and**
- iv) 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, subject to acceptance of Cambridgeshire's application to Government to join the Extended Pathfinder programme.**

Recommendation: Cabinet is asked to:

- i) Note the requirement placed on all local authorities by the DCSF to develop a funding formula for early years provision for three and four year olds, and the change in implementation date;**
- ii) Note and comment on the consultation undertaken as part of the process of developing 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 subject to acceptance of Cambridgeshire's application to Government to join the Extended Pathfinder programme.**

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1. BACKGROUND

- 1.1 In June 2007, the Department for Children, Schools and Families (DCSF) placed a new duty on all local authorities to develop a funding formula for early years provision for three and four year olds by April 2010. Cambridgeshire Forum (Schools Forum) was consulted on the proposals for a funding formula for Cambridgeshire providers on October 23 2009.
- 1.2 A Government survey of local authority readiness in November 2009 identified that only around one-third of local authorities were confident in implementing a formula from April 2010.
- 1.3 On 10 December 2009, Dawn Primarolo, Minister for Families and Children, announced a one-year delay in the implementation date for the single funding formula for early years.
- 1.4 The ministerial announcement includes the following statement:
I have asked my officials to invite all local authorities that are confident they are ready to implement their new formulae in April 2010 and who wish to do so to continue as planned. These local authorities will be able to apply to join a pathfinder programme, which currently involves 9 local authorities but which we will now expand.
- 1.5 At the time of the ministerial announcement, Cambridgeshire's proposals had been circulated to Cabinet for approval on 15th December 2009. The proposals were withdrawn to allow time for consideration of the announcement.
- 1.6 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%).
- 1.7 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 to establish a model of agreed activity to form the basis of the funding of provision.

2 CONSULTATION PROCESS AND FEEDBACK

- 2.1 Consultation on the formula 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, exemplifications of the funding levels under the formula for different providers, and four briefing sessions for providers in late September.
- 2.2 The consultation sought views on:
 - **General provider cost issues** (which elements to include, the level of cost incurred by different types of providers, and the principle of differentiated rates for different provider types).

- **Incorporation of specific factors** (a premises factor for pre-schools, specific incentives for staff qualifications or other measures of quality, and whether the formula should offer a specific quality incentive).
- **Flexibility** (the costs of offering flexible delivery, and which flexibility options to offer).
- **Deprivation** (the use of the Income Deprivation Affecting Children Index (IDACI) to allocate funding to providers, and other measures of deprivation).
- **Transition** (how the transition to a funding formula should be managed).

2.3 Providers were sent a response form and were invited to reply 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, along with the approach adopted and the reason for this approach, are detailed in the table 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 proposed approach is 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; proposal 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 voluntary 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 for pre-school 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 proposals were accepted by Cambridgeshire Forum on 23 October 2009 and presented to Children and Young People's Policy Development Group on 9 November 2009, in order to meet the original implementation deadline of April 2010. Plans were reviewed following the ministerial announcement on 10 December, and officers took the decision to

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

seek approval to join the extended pathfinder.

EXTENDED PATHFINDER PARTICIPATION

- 3.5 Officers received details of the Extended Pathfinder programme on 21 December 2009. The application process sets out expectations in terms of
- consultation with providers
 - support from Schools Forum and its Early Years Provider representative
 - consideration of the impact on all sectors, including modelling of the effect of formula implementation
 - consideration of unfilled places in the maintained sector, and specifically any impact on the sustainability of maintained provision
 - arrangements for protection and financial contingencies
 - consideration of the requirement to set aside certain regulations regarding school budget calculation in order to accommodate funding formula requirements (such as in-year adjustments to reflect actual take-up).
- 3.6 Cambridgeshire's application confirms that consideration has been given to the impact on all sectors. An analysis has taken place of unfilled places in the maintained sector, and this has been modelled financially. The formula has no significant impact on providers due to the effects of protection factors.
- 3.7 A special meeting of the Early Years Reference Group took place on 11 January 2010. The Group endorsed officers' proposals to apply to join the Extended Pathfinder programme from April 2010 because:
- the work on developing the formula, securing provider support and preparing providers for implementation gives confidence in the basis of the formula proposals
 - it meets the need for appropriate funding mechanisms to support the implementation of the extended (15 hours) and flexible free entitlement from September 2010, and to eliminate top-up fees emphasised in the draft Code of Practice for early years education
 - there is insufficient time to develop a clearly thought through alternative approach, due to the late change of position from Government.
- 3.8 It was felt that delaying the implementation of the formula could have the following impact:
- confusion amongst providers about funding arrangements
 - mismatch of funding approaches between basic rates and the extended free entitlement from September
 - difficulties for full day care providers in operating within funding constraints, leading to some providers leaving the scheme and reducing places available.
- 3.9 The application to join the Extended Pathfinder programme was approved by Schools Forum on 29 January 2010. The DCSF decision on participation in

the Extended Pathfinder is expected by 15 February 2010.

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 (6 schools), the Primary Schools Quantum (for those 23 primary schools with nursery classes) and early years funding to be combined into a single funding pot of around £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

Statutory timescales

The statutory requirement to introduce the formula has now been changed to April 2011. Implementation in April 2010 would allow a year for the new formula to bed down with more certainty over funding. An early review of the

arrangements would enable any residual concerns to be addressed once there is greater clarity over future funding levels.

- 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) | |