

**EARLY YEARS FUNDING FORMULA REVIEW**

*To:* **Cabinet**

*Date:* **5 April 2011**

*From:* **Executive Director, Children and Young People**

*Electoral division(s):* **All**

*Forward Plan ref:* **2011/004** *Key decision:* **Yes**

*Purpose:* **To consider proposed changes to funding rates for early years education provision in Cambridgeshire**

*Recommendation:* **Cabinet is asked**

**a) to approve the new funding rates for early years education provision**  
**b) note the implications of adopting the national Code of Practice on the delivery of the free early years entitlement**

**from the start of the Summer Term 2011**

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## 1. BACKGROUND

- 1.1 The Department for Education (DfE) requires all local authorities to develop a funding formula for early years provision (EYSFF) by April 2011.
- 1.2 Cambridgeshire is part of an extended pathfinder programme of 71 local authorities operating a formula from April 2010, following the Council's request to join the programme (endorsed by Cabinet on 23 February 2010).
- 1.3 The DfE's predecessor, the Department for Children, Schools and Families (DCSF), produced detailed guidance in July 2009 to support local authorities in this area (<http://www.dcsf.gov.uk/everychildmatters/resources-and-practice/IG00611/>). A report on the Single Funding Formula was issued by the House of Commons Children, Schools and Families Committee in March 2010. This was followed by a revised Code of Practice for Early Years provision in April 2010.
- 1.4 The Code of Practice, which includes strict enforcement of the requirement for funded hours to be offered free of charge, without extras or top-up fees, is statutory guidance. The Code states that "Local authorities **must** have regard to this guidance when fulfilling their duty under s7 of the Childcare Act 2006, and **should not depart** from the guidance unless they have good reason to do so".
- 1.5 The Code of Practice sets out the legal framework for the delivery of free early years places, and includes guidance on Flexibility, Quality, Funding and Working in Partnership. It describes those things which local authorities must do, such as ensuring sufficient places are available, and what they should do, including ensuring that places are available free at the point of delivery, and supporting providers to ensure billing arrangements are clear to parents.
- 1.6 The Coalition Government has confirmed its intention to proceed with the Single Funding Formula, and the Code of Practice, through public announcements.
- 1.7 The Government's formal response to the House of Commons Children, Schools and Families Committee report on the EYSFF was published on 25 October 2010, and set out its commitment to the principles of the funding formula - "consistency and transparency in allocating funding".
- 1.8 The response underlined the role of the funding formula in promoting quality, incentivising flexibility, addressing market failure and maximising the impact of the free entitlement on those families at greatest risk of inequality. It also stated that "fundamentally ... the EYSFF is for local agreement between local authorities and childcare providers", and encouraging the development of written agreements between authorities and their providers. Following the publication of this response, Cambridgeshire began the process of implementing the Code through discussion with providers on its Early Years Reference Group.

## 2. THE CURRENT FORMULA

- 2.1 Officers from Children and Young People's Services have worked with a Reference Group of early years providers in developing an understanding of providers' costs, and establishing a model of agreed activity to form the basis of funding provision.
- 2.2 The formula has been in operation since April 2010. The EYSFF budget for 2001-11 is £13.4m (including additional Dedicated Schools Grant to support transitional costs). The main elements of the formula and current rates are set out in **Appendix 1**.
- 2.3 In September 2010, the DfE produced a briefing note summarising the approaches taken by the local authorities in the extended pathfinder programme for the Single Funding Formula. This has informed areas of focus for the review, which were agreed following consideration by the Children and Young People's Policy Development Group in November 2010.
- 2.4 The areas of focus were
- **Base rates:** to review the cost analysis for higher rate providers, to address concerns about the relatively high level of funding compared to other local authorities, possible double-funding of full day care provision through the flexibility supplement.
  - **Deprivation:** review the level of funding allocated through deprivation in conjunction with changes to other rates (especially base rates and flexibility) to ensure that the formula promotes good quality provision in areas of high need.
  - **Quality:** review scope for incorporating a quality factor within changes to the funding formula for 2011, to promote and secure better outcomes for children, especially in areas of high need.
  - **Flexibility:** review the number and nature of flexibility bands on offer, to ensure a streamlined and coherent offer which continues to incentivise flexibility within a sustainable framework.
  - **Protection:** review levels of protection for pre-schools and maintained nursery providers, to ensure effective use of resources.
  - **Affordability:** in light of funding constraints, to ensure that revisions to the EYSFF enhance affordability, taking account of demographic and other shifts.
- 2.5 In summary, the review found:
- **Base rates:** were in line with the original cost analysis, assuming occupancy rates between 50% and 80%.
  - **Deprivation:** the early years formula allocates a smaller proportion of funding on the basis of deprivation than schools' and other formulas.
  - **Quality:** it was not possible to develop an appropriate element to recognise quality during the review period. Work is continuing on how to establish appropriate measures of quality, in order to ensure any supplement is properly targeted.
  - **Flexibility:** current flexibility bands are complex and not well understood by many providers. The level of the premium encouraged some providers to adopt or declare levels of flexibility they could not easily manage.
  - **Protection:** some scaling down of the protection for maintained nursery

provision is proposed where occupancy levels are low. It is not proposed to reduce the protection for pre-schools in light of the very tight margins in the sector and reliance on fund raising and other voluntary effort.

- **Affordability:** high rates for full day care providers cannot be sustained, these should be more in line with the upper quartile level (highest 25% of local authorities in the national Pathfinder).

2.6 Proposals for change were considered by the Policy Development Group and Cambridgeshire Schools' Forum in January, prior to consultation with all providers which took place between 25 January and 15 March.

2.7 The proposed rates and flexibility bandings for 2011-12 are set out in **Appendix 2**. The main proposals for change are outlined in the table below.

	<b>Current rate/s</b>	<b>Proposed rate/s</b>
<b>Full Day Care / Childminder base rates</b>	£4.23 / hour	£3.85 / hour
<b>Deprivation funding</b>	None* £0.00 Low* £0.15 / hr High* £0.29 / hr	<b>None* £0.00</b> <b>Low * £0.19 / hr</b> <b>Medium * £0.39 / hr</b> <b>High * £0.58 / hr</b>
<b>Flexibility funding</b>	Various (£0 - £0.51 / hr)	<b>None* £0.00</b> <b>Low * £0.10 / hr</b> <b>Medium * £0.19 / hr</b> <b>High * £0.29 / hr</b>

\* Rates shown are for full day care (maximum payable)

2.8 144 providers (39%) responded to the consultation. Around half of these made further comments or expressed concerns. The most common areas of concern raised in written feedback included;

- funding levels (12 comments)
- compliance with the Code of Practice (6 comments)
- flexibility (5 comments)
- timing of the changes (5 comments) and
- assessment of deprivation categories (3 comments).

Responses were evenly split between sessional pre-school and full day care providers (42% of each group), with childminders less well represented (17%).

2.9 The review of responses has identified that most providers are able to accommodate the changes from April 2011. Other providers are receiving support from the Local Authority on how to respond to the proposals. Whilst funding levels are reducing for some providers, those most affected are still on average 20% better off than before the formula was introduced. Where possible, we are responding flexibly to allow providers to make changes over the next term.

2.10 Two providers (King's School Ely, Pelican Perse) have announced their intention to withdraw from the scheme due to their inability to offer a free stand-alone place in line with the Code of Practice. This will reduce funded places in Cambridge and Ely, and requires parents to decide whether to move

their children or pay additional childcare costs. Other providers are adjusting their pricing arrangements to remain within the scheme.

- 2.11 A number of parental representations were also received, largely relating to the withdrawal of King's School Ely from the scheme.
- 2.12 One local authority school with a nursery class (Kings Hedges Primary) has submitted an application to convert its nursery class into a Nursery School, federated with the Primary School. Further work is being undertaken by officers on the benefits and other implications of this proposal.

### **3. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING**

#### **3.1 Supporting and protecting vulnerable people when they need it most**

Early years education is a universal service which supports disadvantaged families and helps to ensure children are ready for formal education. The proposed changes to the formula support disadvantaged communities by broadening and enhancing the deprivation element of the funding.

#### **3.2 Helping people live healthy and independent lives in their communities**

The formula supports a range of local provision under community and private ownership as well as local authority maintained nursery schools and classes.

#### **3.3 Developing the local economy for the benefit of all**

Early years education provides employment in local communities, and 15 hours per week of funded care and learning for young children, enabling parents to return to work or training for work. The changes will enable the Council to sustain its investment in this area, and meet the needs of a growing population, within available resources. The formula continues to offer a financial incentive to those providers who make their provision flexible to support parental demand.

#### **3.4 Ways of Working**

The funding formula continues to support a diverse market for free early years places, in support of the Council's statutory duties under the Childcare Act 2006, whilst removing barriers to parental access (particularly financial barriers). In conjunction with Government plans to offer free childcare to disadvantaged two-year-olds, the delivery of free early years education represents investment in prevention.

The proposed changes to the formula represent an important and necessary evolution of funding arrangements to support the priorities of the local authority.

## **4. SIGNIFICANT IMPLICATIONS**

### **4.1 Resources and Performance**

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

#### **Finance**

- Pressure on all local authority budgets and increasing take-up of places due to demographic change, have required reductions to base rates. Despite the proposed reductions, nearly all providers will be better off in real terms than prior to the introduction of the formula, as a result of changes in 2010-11. [These include increases in base rates for providers with higher costs, and the introduction of supplements for flexibility and deprivation.]

#### **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. The proposals offer a more sustainable level of funding, and will be underpinned by a revised agreement with strong links to quality improvement.

### **4.2 Statutory, Legal and Risk implications**

The following bullet point sets out details of significant implications identified by officers:

- Operating under the Code of Practice challenges a range of existing providers with higher costs, who presently top-up the local authority funding by packaging their early years provision. Independent and Private Nursery Schools will be at greatest risk, and will have to choose between offering stand-alone free places, or withdrawing from the scheme<sup>1</sup>.

#### **Risk**

- Reductions in funding create risk for providers in terms of sustainability, and other providers may choose to withdraw from the scheme, resulting in a further reduction in available places. Parents may need to choose between paying for their child's early learning, or moving to another provider.
- Withdrawal of providers from the scheme increases the risk that the Council is unable to meet its duty under the Childcare Act to secure sufficient early years places to meet the needs of all families.

### **4.3 Equality and Diversity implications**

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

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<sup>1</sup> The Government response to the Children, Schools and Families Committee Report on the EYSFF states: "Whilst all providers are currently eligible to deliver free nursery education it is optional and in making decisions providers need to consider if their business models are viable."

- the implementation of the Code of Practice will ensure that there are no financial barriers to parents accessing the free entitlement for their children.

#### 4.4 Engagement and Consultation implications

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

##### Voluntary Sector

- Many early years providers are run by voluntary committees. The implementation of the EYSFF and extended entitlement has exposed limitations in the capacity of some providers in the sector. Simplification of the formula (such as the flexibility premium) will make it easier to provide a better service to voluntary providers.

##### Consultation

- A consultation on the proposed changes took place for all providers between 25 January and 15 March 2011.
- Government expectation is that local authorities will have the capacity to engage with providers in reviewing cost analysis data and involving them in any changes. However, constraints on officer time and provider staff / voluntary committee capacity have limited the amount of collaboration possible. Future arrangements will need to secure capacity to undertake this work and monitor the operation of the single funding formula.

Source Documents	Location
Code of Practice Formula Consultation documents	<a href="http://www.cambridgeshire.gov.uk/education/parents/childcare/earlyyearsfunding.htm">http://www.cambridgeshire.gov.uk/education/parents/childcare/earlyyearsfunding.htm</a>
Government response to Children, Schools and Families Committee report	<a href="http://www.publications.parliament.uk/pa/cm201011/cmselect/cmeduc/524/52404.htm">http://www.publications.parliament.uk/pa/cm201011/cmselect/cmeduc/524/52404.htm</a>
DfE Briefing note on Single Funding Formula Consultation responses	2 <sup>nd</sup> Floor, B Wing, Castle Court, Cambridge

## **Appendix 1 – Formula Summary 2010-11**

The formula in operation from April 2010 includes:

- A rate per hour per child for each type of provider listed in
- Payment of funding based on actual attendance of children, not on a specific number of places
- A lump sum for Headteachers in maintained nursery schools
- An enhancement for deprivation at two levels, based on the home neighbourhoods of children attending provision, to reflect social need
- Enhancements for flexibility based on the range of parental choice offered within the provider's opening hours

Supplements for quality of provision, and for variations in premises costs in pre-school provision, were considered, but not implemented in this iteration.

The formula includes an enhancement to the hourly rate for pre-school providers, to protect them at a rate equivalent to the planned County rate for 2010-11. This is because the analysis of providers' costs shows the cost per hour to these providers to be, on average, lower than the County funding rate.

### **Formula rates (April 2010)**

<b>EYSFF Hourly rate Summary</b>	<b>Nursery Class</b>	<b>Nursery School</b>	<b>Pre-School</b>	<b>Full Day Care</b>	<b>Childminder</b>
Initial Base Rate per Child per Hour	£3.85	£4.53	£3.27	£4.23	£4.23
Protection per Child per Hour	£0.00	£0.00	£0.21	£0.00	£0.00
Total Base Rate per Child per Hour	£3.85	£4.53	£3.48	£4.23	£4.23
<b>Deprivation (per Child per Hour)</b>					
None	£0.00	£0.00	£0.00	£0.00	£0.00
Low	£0.11	£0.15	£0.10	£0.14	£0.14
High	£0.23	£0.29	£0.21	£0.27	£0.27
<b>Flexibility (per Child per Hour)</b>					
None	£0.00	£0.00	£0.00	£0.00	£0.00
Session flexible	£0.12	£0.14	£0.10	£0.13	£0.13
Core Hours	£0.23	£0.27	£0.20	£0.25	£0.25
Flexible limited opening	£0.35	£0.41	£0.29	£0.38	£0.38
Flexible school hours	£0.35	£0.41	£0.29	£0.38	£0.38
Fully flexible	£0.46	£0.54	£0.39	£0.51	£0.51



## **Appendix 2 - Proposed Rates and Flexibility Bandings 2011-12**

**Proposed rates (per child per hour)**

	<b>Maintained Nursery Classes</b>	<b>Maintained Nursery Schools</b>	<b>Full Day Care</b>	<b>Child- minders</b>	<b>Pre-School / Extended Pre-School</b>
<b>Base rate</b>	<b>£3.79</b>	<b>£4.46</b>	<b>£3.85</b>	<b>£3.85</b>	<b>£3.48</b>
<b>Deprivation</b>					
High	£0.57	£0.67	£0.58	£0.58	£0.52
Medium	£0.38	£0.45	£0.39	£0.39	£0.35
Low	£0.19	£0.22	£0.19	£0.19	£0.17
None	£0.00	£0.00	£0.00	£0.00	£0.00
<b>Flexibility</b>					
High	£0.28	£0.33	£0.29	£0.29	£0.26
Medium	£0.19	£0.22	£0.19	£0.19	£0.17
Low	£0.09	£0.11	£0.10	£0.10	£0.09
None	£0.00	£0.00	£0.00	£0.00	£0.00

### **Flexibility Bandings – summary**

<b>New Banding</b>	<b>Explanation / Criteria</b>
<b>None</b>	<ul style="list-style-type: none"> <li>• Provider is open less than 15 hours in a week</li> <li>• Provider is open either mornings or afternoons (not both in one day)</li> <li>• The provider is open 3 days per week or fewer</li> <li>• Parents are allocated sessions by the provider</li> </ul>
<b>Low</b>	<p><b>Provider is open during school hours, with specific sessions and / or a limited number of pick-up / drop off times</b></p> <ul style="list-style-type: none"> <li>• Parents are able to choose any combination of am/pm or all day session to a maximum of 6 hours per day available over 5 days</li> <li>• Setting chooses core periods or pick-up / drop off times within opening times</li> <li>• Parents can choose hours to suit around these core periods</li> </ul>
<b>Medium</b>	<p><b>Setting is open during school hours 5 days a week. Within the opening times, parents can drop off and pick up <u>at any time</u> during the day.</b></p>
<b>High</b>	<p><b>Setting is open 10 hours per day, 5 days per week, 48 or more weeks per year. Children can arrive and be collected at any time during the day.</b></p>