



DRAFT

Annex 1

CONSULTATION DOCUMENT

EARLY YEARS SINGLE FUNDING FORMULA (EYSFF)

September 2009

INDEX

Background

Timescales

Development work

Current counting and funding process

Proposed Funding Arrangements – Counting, payment and adjustments

Proposed Funding Arrangements – Basic funding rate and supplements

Appendices:

Response Document *(not included in draft)*

Contacts *(not included in draft)*

Glossary of Terms *(not included in draft)*

Membership of the group *(not included in draft)*

BACKGROUND

Why Review?

The Department for Children Schools and Families (DCSF) have required all Local Authorities to review their funding for the free entitlement to early years provision for 3 and 4 year olds across all sectors.

Inconsistencies currently exist in the funding of the free entitlement between the Maintained Sector (Nursery Schools and nursery classes in Primary schools) and the Private, Voluntary and Independent sector. The aim of this reform is to improve fairness and transparency in the way funding is allocated to providers who deliver the Free Entitlement and thereby support its extension to 15 hours, to be delivered more flexibly from April 2010.

The key requirements are:

- To develop an Early Years Single Funding Formula (EYSFF) to ensure consistency and fairness in the method of funding for all providers. This does not necessarily mean that all providers will be funded at the same level but that the same factors will be taken into consideration when deciding on the level of funding.
- Change early years' pupil count arrangements to ensure consistency across maintained and PVI settings. This will mean that providers will be funded according to the amount of provision children take up and not full time equivalent places.

How We Are Undertaking The Review?

Work in developing the new single funding formula has been undertaken by the Early Years Reference Group (EYRG). The group is independently chaired and comprises representatives from across the Private, Voluntary, Independent and Maintained sectors in York, alongside Local Authority officers from both the Early Years and Finance service teams. The work has been undertaken in line with government guidance.

The Schools Forum is the 'guardian' of the local Schools Budget and its distribution among schools and other bodies. The Early Years Reference Group have been working alongside the Schools Forum to ensure that all sectors and stakeholders have been involved in the development of a fair and equitable single funding formula.

TIMESCALES

The DCSF have stated that the new funding formula must be implemented by April 2010 therefore the following timescales have been drawn up:

- Sep / Nov 2009** The consultation period will take place over a 10 week period from:
14th September 2009 to 16th November 2009.
- Nov / Dec 2009** Consultation responses analysed and a recommendation report prepared for the Schools Forum. Consultation responses shared with all stakeholders.
- December 2009** Report detailing proposed new EYSFF and processes taken to the Schools Forum
- January 2010** Report detailing proposed new EYSFF and processes taken to Executive Member for Children & Young People's Services for approval.
- March 2011** Indicative funding allocations for 2010/11 issued to all providers.
- April 2010** New EYSFF and processes implemented.
- Autumn 2010** Interim review of new arrangements.
- Summer 2011** Full review following first full year of operation.

CONSULTATION EVENT DATES

- | | | |
|------------------------|------------------------|--|
| Wed 7 October: | 10am - 12pm | Burton Stone Community Centre
Evelyn Crescent
York |
| Tue 13 October: | 1pm - 3pm | Conference Room
The House
Hob Moor Community Centre
York |
| Wed 21 October: | 6.30pm - 8.30pm | Eccles Building Training Room
Burnholme Community College
Bad Bargain Lane
York |

DEVELOPMENT WORK

Cost Analysis Surveys

As required by the government, the first stage of the development process was to undertake an analysis of providers in all sectors to determine the costs involved in delivering the free early years provision and how these costs varied depending on the characteristics of the setting, including occupancy levels.

A questionnaire was sent to all providers in the Private, Voluntary, Independent and Maintained sectors during 2007/08 to help us gain an in-depth understanding of these costs. The main items of information requested were sector type, ownership structure, costs incurred in the most recent accounting year and breakdown of hours taken up by children during the year.

Information received through the 43 questionnaires (out of 110 providers in the PVI sector) was analysed to see how costs compared with the funding provided as well as to see if there were significant variations in costs among the different sectors. The information received was based on the accounting year 2006/07 when the funding rate was £3.17 per hour. The average cost as reported by respondents in the survey was £2.48 per hour with a range of £1.27 to £3.99.

In the maintained sector the average hourly cost derived from the survey and calculated on a comparable basis was £4.43 (range £2.18 to £7.09). This compared to an average funding rate of £3.46 (range £2.17 to £5.57) for the same period.

The EYRG spent some time reviewing, analysing and questioning the results of the cost surveys but found it very difficult to come to any specific conclusions from the data. There was a huge range of costs identified, with no consistent patterns emerging of similar cost levels across provider types, geographical areas, size of provider or take-up levels. In light of this the EYRG agreed to develop (in line with DCSF guidance) a series of theoretical cost models that would be constructed on a consistent basis across all types of provision.

Theoretical Cost Modelling Exercise

A sub-group of the EYRG, consisting of representatives from all sectors, was created to develop the models. The sub-group was supported by officers from council.

The theoretical cost modelling used an approach that combined the following:

- cost information that is already available including salaries, premises costs, etc
- information on things that were expected to change, for example changes to holiday entitlements
- aspirational costs, including graduate leaders for group settings, costs for work that is currently performed by volunteers, etc
- an amount of surplus or profit

In the end the work on the theoretical cost modelling was inconclusive. It was not possible to gain unanimous agreement on the cost drivers and elements for each provider type, particularly in respect of aspirational costs. There was significant variation between settings in the same sector as well as between different sectors in terms of what would be

appropriate as theoretical costs. As a result, the EYRG felt unable to recommend using the outcome of the theoretical cost modelling as a robust basis for developing the new formula.

Further work will be undertaken on developing the cost models and the results of this work may be used when reviewing the single formula in the future. An agreed set of cost models will also be extremely helpful in future discussions with the DCSF about the on-going level of funding required in York to fully support the free entitlement. The initial results of the theoretical cost modelling is set out below for information:

Setting Type	Occupancy	£ per child per hour
70-place Private Day Nursery	90%	3.37
70-place Private Day Nursery	70%	3.65
30-place Private Day Nursery	97%	3.50
30-place Private Day Nursery	70%	4.30
26-place Pre-school Playgroup	70%	2.83
16-place Pre-school Playgroup	60%	5.49
Childminder	83%	1.96
39-place school nursery	83%	5.21

Summary

Following the cost analysis and theoretical cost modelling work described above, the EYRG spent some time considering three possible approaches for establishing a basic hourly funding rate in the new formula:

- a) A single base rate covering all sectors
- b) Two separate base rates for the PVI and maintained sectors
- c) A number (up to 6) of differential base rates depending on the type of provision

No single consensus of opinion emerged with respect to the options. PVI representatives generally expressed a preference for a single rate, whereas the representatives from the maintained sector were concerned about the turbulent effect such a proposal would have on their funding. Ultimately a compromise proposal was agreed by the group as its recommendation and that was for a single base rate covering all sectors, with the condition that this be introduced on a phased basis over a number of years.

There was unanimous support for this proposal within the EYRG as it set out a clear principle for a single rate but recognised the immediate difficulties some maintained settings would experience if it were to be introduced fully in 2010/11.

CURRENT FUNDING AND COUNTING ARRANGEMENTS

Private, Voluntary & Independent Sector Settings

Counting

Providers are currently funded on a termly basis, on the number of hours attended for each child. Payments are made twice a term with 85% of the estimated figure being paid at the beginning of a term and the balance paid after half term, based on actual hours at the headcount with adjustments made for admissions and leavers to the nearest half a term.

Funding

In 2009/10, the funding is based on an hourly rate of £3.39. This has been enhanced on a temporary basis by a supplement of £0.26 per hour (giving a total of £3.65 per hour) as part of the Pathfinder project to assist providers in moving towards delivering a flexible free entitlement that meets parents' needs. It should be noted that this additional supplement is outside the scope of the new formula and, whilst it is expected to continue in 2010/11, the funding allocations have yet to be decided. The supplement is expected to cease at 31 March 2011.

All PVI settings receive the same rate per hour per pupil for the hours that they attend up to a maximum of 15 hours per week for up to 38 weeks across the year. (Some settings only deliver the free entitlement across 33 weeks of the year and hence funding is reduced pro-rata).

Notification Of Budget

PVI settings are not currently provided with an annual funding estimate and would therefore have to do their own calculations and make their own assumptions to establish what their funding will be from one term to another.

Maintained Settings

Counting

The pupil numbers are derived from termly counts based on the Schools Census. Each part time child is counted as 0.5 fte (i.e. half-time). For example, no account is taken if the child only attends 3 mornings a week. No adjustment is made for a child joining or leaving a school after the Census date.

Funding

From the count data the Local Authority agrees a maximum nursery size with each individual school that it is prepared to fund. The agreed nursery sizes are always in multiples of 13 part time places (reflecting the statutory child to adult ratio). A set amount is then allocated to each school based on the agreed nursery size (e.g. a 26 place nursery is funded at £39,234 for the 2009/10 financial year). Schools also receive other formula allocations for premises, additional educational needs and some elements of special educational needs. This leads to a range of funding per part time place purchased in 2009/10 from £1,808 to £3,245 at individual schools, with an average of £2,396.

Notification of Budget

Schools are notified before the start of the financial year of their funding and no adjustment is made during the year as a result of any changes in child numbers.

PROPOSED FUNDING ARRANGEMENTS

COUNTING, PAYMENTS AND ADJUSTMENTS

What Are We Required To Do?

Development of the local Early Years Single Funding Formula must be developed in line with the Core Principles as set out in the DCSF document 'Implementing the Early Years Single Funding Formula - Practice Guidance' (www.dcsf.gov.uk/everychildmatters/earlyyears), including:

- Early years' pupil count arrangements will be undertaken on a termly basis and will ensure consistency across maintained and PVI settings. This will mean that providers will be funded according to the amount of provision children take up and not full time equivalent places.
- The formula must ensure consistency and fairness in the method of funding for all providers and should:
 - ⇒ Be based on a detailed understanding of providers' costs in all sectors.
 - ⇒ Include a base rate – this can be one single rate or multiple rates for different types of provider according to variations in unavoidable costs.
 - ⇒ Include a deprivation factor
- Consideration should be given as to whether to include other supplements as a means of incentivising improvements in the quality and flexibility of provision and driving local policy objectives.
- Indicative funding budgets are to be provided to all settings prior to the start of each financial year.
- Budgets must be adjusted in the financial year to ensure funding reflects participation adequately.
- Payments to providers must take account of the cash flow needs of providers and recognise that PVI and maintained providers will have different needs.
- An assessment of the impact of the new EYSFF on all settings must be undertaken and included in the consultation process and where changes are significant, transitional arrangements must be put in place to support the setting.

Proposal 1 – Annual Indicative Budget for all Settings

It is proposed that all early years providers will be notified of their annual budget for the forthcoming financial year before the 1st April each year. The estimated number of hours to be used for indicative budgets will be based on the previous 3 terms actual data for each setting, with the opportunity for settings to propose amendments to the estimates to reflect specific circumstances prior to the start of the financial year.

Following discussions by the EYRG it was felt that the current payment arrangements operating in both the PVI and maintained sectors were working well and should not be fundamentally altered. The following proposals therefore suggest a continuation of the existing counting and payment arrangements.

Proposal 2 – Pupil Counting Arrangements

- a) *It is proposed that termly counting arrangements be used for all providers, using the Schools Census dates i.e. the third Thursday in January, third Thursday in May and the first Thursday in October, as is currently the case.*
- b) *We further propose to fund on a half term basis for all settings (as is currently the case with PVI settings) to reflect movement of children between settings.*

Proposal 3 – Payment Arrangements

It is proposed to maintain the existing payment methods, which are different for the PVI and maintained sector:

- a) *For PVI settings – payments to continue to be made twice a term, with 85% of the estimated figure for that term being paid during the first week of each term and the balance being paid in the second half of the term, following the headcount date and based on actual hours taken up.*
- b) *For maintained settings – payments to continue to be made on a monthly basis along with other formula funding via the Schools Remit System, with 1/12 of the indicative budget being transferred each month.*

Proposal 4 – Adjustment To Actual Number Of Hours

It is proposed that

- a) *For PVI settings the adjustment for the difference between the estimated number of hours used to calculate the initial funding allocation and the actual hours taken up during the financial year continues to be made 3 times a year following the headcount (Census date) for each of the 3 terms (as per the current arrangements)*
 - b) *For Maintained settings, we would welcome advice from schools as to which of the following options is preferred:*
 - i) *have the adjustment to actual hours taken up made during the year in the final monthly payment of each term (i.e. similar to the timing of the PVI adjustment)*
- OR**
- ii) *roll up the adjustments in to one annual figure and carry it forward to be included on the annual funding statement for the following financial year*

FUNDING MODEL

As previously described, the recommendation of the EYRG is for a single base rate covering all sectors to be established. Given the level of turbulence that this would cause to maintained settings it is proposed to phase this in over a period of time. Following lengthy deliberation, the EYRG agreed that it would be desirable (at least initially) for the majority of the available funding to be allocated to settings via the basic rate.

Proposal 5 – Basic Funding Rate

- a) *It is proposed to allocate 95% of the total available funding towards a basic hourly entitlement for all settings. The remaining 5% of funding would be available to fund supplements for deprivation, SEN and transition arrangements that are covered later in the consultation document.*
- b) *It is proposed that initially there would be two basic hourly rates: one for PVI settings and one for maintained settings. These two rates will be brought in to alignment over a period of time between 2 and 4 years depending on the overall level of resources available. Indicative rates are set out below based on assumptions of a 2% or 3% annual increase in the overall level of resources available.*
- c) *In addition it is proposed that a lump sum arrangement will continue to apply only to St Paul's Nursery School. This recognises the unique nature of St Paul's as the only stand-alone maintained nursery in the city and the significant level of additional fixed costs incurred that would be absorbed across the full age range in any other maintained school. The initial level of this lump sum will be set having taken account of the expected take up across all maintained nursery classes but is likely to be in the region of £130,000.*

Table 1 - Indicative Basic Funding Rates

Sector	Scenario 1 Based on a 2% annual increase in overall resources				Scenario 2 Based on a 3% annual increase in overall resources			
	Maintained		PVI		Maintained		PVI	
	100% £/hour	95% £/hour	100% £/hour	95% £/hour	100% £/hour	95% £/hour	100% £/hour	95% £/hour
Proportion of Full Rate								
2009/10 Current Average	3.54	3.36	3.39	3.22	3.54	3.36	3.39	3.22
2010/11 Projected Rate		3.41		3.32		3.41		3.33
2011/12 Projected Rate		3.46		3.40		3.46		3.42
2012/13 Projected Rate		3.52		3.49		3.52		3.52
2013/14 Projected Rate		3.57		3.57		3.62		3.62

It is important to note that the rates detailed in Table 1 cover the core funding provided for delivering the free entitlement. The enhanced funding that all settings are receiving in 2009/10 to help them move to delivering increased flexibility through the Pathfinder project (supported by a separate DCSF grant) is excluded.

Supplements

As previously described, the EYRG felt that only a small sum should be top sliced from the overall resources available to support additions to the basic hourly rate.

Proposal 6 – Supplements

It is proposed to use a maximum of 5% (about £254k) of the total available funding allocation to support the additional elements of the funding formula (i.e. deprivation, SEN and Transitional Arrangements)

Deprivation

All LAs are required to allocate a proportion of the funding available for the new formula to support the relative levels of deprivation experienced within each setting. The EYRG felt that this would be best achieved by including a supplement to the hourly rate based on some form of deprivation index.

After considering several options, the EYRG are recommending using the Income Deprivation Affecting Children Index (IDACI). IDACI is a subset of the Index of Multiple Deprivation (IMD) and shows the percentage of children in each Super Output Area (a small grouping of postcodes) that live in families that are income deprived (i.e. in receipt of Income Support, Income Based Jobseekers Allowance, Working Families Tax Credit or Disabled Persons Tax Credit below a given threshold).

Proposal 7 – Deprivation

- a) *It is proposed that approximately half of the 5% of funding not allocated to the basic hourly rate is distributed based on the IDACI ratings.*
- b) *It is proposed that the deprivation supplement will be linked to the child, based on their postcode and calculated on a termly basis on the actual figures for the number of children attracting the supplement in each setting.*
- c) *It is proposed that each hour of provision for a child whose postcode lies within one of the 30% most deprived areas of the country, as defined by the Income Deprivation Affecting Children Index, be allocated a supplement of £0.40 in 2010/11*

Special Educational Needs

Beyond specific funding for statemented children, there is currently no separate budget available to support other exceptional special needs demands that may fall on individual early years settings. The EYRG would like to retain some funding to support non-statemented needs that would be allocated on overall individual provider needs as opposed to being allocated on a child-by-child basis.

Proposal 7 – Special Educational Needs

- a) *It is proposed that a budget of £50,000 be retained from the 5% 'top slice' for supplements to the basic funding rate, to be made available to support Special Educational Needs within all settings.*
- b) *It is proposed that the SEN sub group of the EYRG develop the detailed criteria to be used for accessing this support fund, provided that its allocation be determined on the overall SEN needs of the setting rather than the specific needs of individual children.*

Transitional Arrangements

After considering the impact of the proposed new funding formula on settings across all sectors, it is expected that moving to a formula based on a basic hourly rate plus supplements will generally cause more funding turbulence for maintained settings than for PVI settings. This is primarily because of the move for the maintained sector from funding places offered, to funding actual hours taken up. In light of this the Schools Forum has already set aside separate funding within the Individual Schools Budget (ISB) to manage this transition for maintained settings. This means that only the additional costs of transitional arrangements for PVI settings will need to be funded from within the 5% top slice of the overall budget allocation.

Proposal 8 – Transitional Arrangements

It is proposed that for each year of the transitional period (i.e. 2010/11 onwards) the minimum funding any setting will receive will be the appropriate funding rate under the old funding system for their sector for 2009/10 applied to the current year's pupil numbers or hours.

(This means that no setting should see a year on year cash reduction in funding on a per pupil or per hour basis)

It is estimated that the additional costs of this proposal (over and above the funding already set aside in the ISB for maintained settings) would be a maximum of £50,000 in 2010/11. This would be the third and final use of the 5% top slice.

Quality

The EYRG are not proposing to include an element in the new funding formula that directly supports and incentivises the quality of early years provision. There is an expectation that the basic funding rate will include a commitment to providing a level of quality. A city wide commitment to continuous quality improvement will be achieved through existing mechanisms and funding streams (i.e. Steps to Quality, provider contracts and the Graduate leader Fund [GLF] funding). However, this will be reviewed at regular intervals in line with DCSF budget allocations and future funding streams

Proposal 9 – Quality

It is proposed not to include an element which directly incentivises quality within the new funding formula but instead support this through existing mechanisms and funding streams.

Sustainability

Within the current pathfinder grant allocation there already exists a £50k budget to help support individual settings where sustainability is at risk. The EYRG felt that as this grant would be available until at least March 2011 it should continue to be used for this purpose. There was therefore no immediate need to divert additional resources away from the basic hourly rate in 2010/11, but the position would be reviewed on an annual basis.

Proposal 10 – Sustainability

It is proposed that a contingency fund of £50,000, from the additional Pathfinder Grant funding that York currently receives, be used to support sustainability issues faced by settings.

Flexibility

As with Sustainability, York is currently in the fortunate position of being able to access Pathfinder grant funding up until March 2011 to recognise and support the work that settings are doing in moving to offering more flexible provision which meets the needs of families within their locality. The EYRG felt that flexibility was generally a short-term transitional issue and that using the pathfinder funding was a sensible approach, rather than building flexibility in to the new formula. The position will be reviewed once the level of any continuing funding for flexibility from the DCSF from April 2011 is known.

Proposal 11 – Flexibility

It is proposed that funding for flexibility remains outside of the new formula and continues to be allocated from the pathfinder grant in 2010/11

There is a clear need to continue to review the operation of the new formula in 2010/11 and beyond. This is particularly relevant to York as significant funding is currently being received through the Pathfinder Project Grant and it is uncertain as to how much of this funding will continue to be available in 2011/12 and beyond.

Proposal 12 – On Going Review

- a) *It is proposed that there will be an interim review of the new arrangements in Autumn 2010.*
- b) *It is proposed that there will be a full review in Summer 2011 following the first full year of operation.*