

Discussion paper on future funding framework for the early years free entitlement and childcare, in the context of the DSG review

Issue

1. View from Formula Review Group about how local authorities should be funded for the free entitlement to early years provision from 2011-12.

Current position

2. Currently, local authorities are funded through the **Dedicated Schools Grant** for the majority of education provision for children aged 3-16. Their pupil numbers are multiplied by their Guaranteed Unit of Funding each year to create a quantum from which all provision is funded. We do not identify an amount for early years provision. It is for local authorities to decide how much to allocate to pay for this and to fulfil their statutory duties.
3. A formula is used to distribute funding for schools locally, and from 2010 a separate single funding formula will also be used for all early years provision. This will require local authorities to identify a pot locally for early years provision to which they can apply their formula.
4. In saying how much the Government is spending on the free entitlement, the Department has tended to use figures based on uplifting the old Nursery Education Grant by the DSG increase each year. We also report how much is spent on under 5s, defined as children in reception class and younger.
5. The **Standards Fund** also provides ring fenced funding to support the extension of the free entitlement from 12.5 to 15 hours, delivered more flexibly. All LAs are required to rollout this extended offer to parents from September 2010. There is £590m available through the Standards Fund over the next 3 years and it is anticipated that this additional funding will be mainstreamed with the DSG funding from 2011.

Problem Analysis

Transparency

6. The current system does not allow us to say accurately how much we are putting into the free entitlement, both nationally and locally. We cannot for instance say that the amount for 3 and 4 year olds is the amount of DSG a local authority receives for having those children on the census – i.e. pupils x GUF or half GUF (90% of population OR census x half GUF, whichever is greater, in the case of three year olds). But that is also the case for other phases. GUF is a methodology for calculating the total quantum available to an LA, including for high cost pupils and other pupil needs, not an indication of how much we are

giving the LA for a specific pupil of a specific age.

7. Early years providers have indicated strongly that they would like to see more clearly both the amount that local authorities are putting into the free entitlement and the amount that each local authority gets from the Government. At the moment, no such figure exists and we can only give notional amounts. However, the former will be more clearly defined when the single funding formula is introduced and the latter could be made more explicit as part of the DSG formula review. For example, if we adopt an Activity Led Funding approach, we will need to use separate figures for under 5s, primary and secondary pupils rather than one overall figure.
8. Stakeholders have also indicated that they believe that local authorities are not passing on the full amount they should be. But no such figure actually exists because the amount each LA gets is calculated using GUF methodology and we do not identify for LAs how much they should be spending on the free entitlement. It is exactly the same position for schools as a whole.

Levels of funding

9. At the moment, because no amount for the free entitlement is set out, there is no leverage over the amount that LAs should spend on it, except for their statutory duties. All schools are subject to the minimum funding guarantee, which to some extent reduces LAs' scope to move money around, although there is significant headroom in the current settlement. It can also be challenging attempting to adjust levels of spending due to historical patterns and complaints from those who benefit less.
10. A key issue is the PVI sector who deliver free entitlement provision but who have reported concerns that current funding levels do not meet their costs. Funding for the PVI sector is also not calculated on a consistent basis. The Single Funding Formula should address this to an extent, both by introducing transparency and consistency and by ending regular funding of empty places in the maintained sector. However, the extent to which these changes will 'level the playing field' will depend on the local funding decisions. Both the schools formula and the single early years formula will be agreed with the schools forum on which the PVI sector is represented. But there is a concern amongst some stakeholders that, despite efforts to date, that sector lacks influence on the forums. Some have also claimed that there is a risk of the process leading to a post-rationalisation of existing funding arrangements. The economic situation is creating some turbulence in the market and could potentially create new pressures on the sustainability of early years provision.
11. Stakeholders have told us that the amount of funding that settings receive per pupil per hour can vary significantly from LA to LA. This is particularly relevant for chains of providers who have settings in more than one LA.
12. To some extent this may be improved by the introduction of the single funding formula, but the scope for change is limited in the short term due to the expected tightness of the overall settlement. Rates paid to providers in different authorities will continue to vary. The same is of course true of the funding of schools (and

Academies, which often belong to chains operating in more than one area) in different authorities.

LA performance and market management capability

13. Local authorities now have a duty to secure sufficient childcare for parents and associated market management responsibilities. But the challenging interface with schools funding discussed above, and the SSEYCG (Sure Start, Early years and Childcare Grant) ring-fence arguably limits the flexibility for LAs to move money around according to local needs.

An Early Years Budget?

14. There is a strong case for tackling these problems and it has been suggested that we might be able to do so by creating a single Early Years Budget. But this is by no means a simple solution and there are a number of choices to be made in search of viable options. Maintaining the status quo remains an acceptable solution.

Boundary

15. An Early Years Budget could be intended to fund either
 - a. the free entitlement for 3 and 4 year olds, (and 2 year olds in the future);
or
 - b. provision for children to the end of reception class.

The implications of any change for the SSEYCG also need to be considered.

Degree of ring-fence

16. An Early Years Budget could have varying degrees of flexibility in terms of what it could be spent on. It could be:
 - a. simply an amount that is identified as intended for early years provision;
 - b. An amount including all early years funding which is ringfenced at LA level such that it must be passed on in relevant proportions to institutions with early years provision, but without a ringfence at institution level – similar to 6th form funding;
 - c. ringfenced so that it must be passed on to institutions expressly for the relevant provision, with institutions required to spend it on that and to account for it;
 - d. different degrees of ringfence for different parts would be possible, as now for the money in DSG and in the SSEYCG.

Calculating the Pot

17. This is one of the most challenging aspects. There are various potential ways of

calculating an Early Years Budget's initial quantum, some of which are not viable options and they are of course also dependent on the options at paragraphs 15 and 16 in particular.

18. Potential options are theoretically $GUF \times \text{pupils}$, uplifting NEG, or a measure of the amount spent using the Departmental Annual Report calculation on under 5s, section 52, or the single funding formula pots in 2010-11.
19. In addition, should the current Sure Start Grant money be included, that will also need to be added to the pot.

Considerations

20. We do not want to introduce an institutional ringfence as this would take away headteachers' ability to look at a budget as a whole and plan accordingly. It would be worth exploring whether there would be implications for schools' planning and organisation if the funding is separated into different pots for Reception and below, and Year 1 and above, but not ring-fenced.
21. There is no clear end to the free entitlement – at some point children cease getting their free entitlement and enter school, but there is no clear point at which this happens which could be reflected in the funding system.
22. The funding may need to include apportionment of the centrally retained budget which is used to fund e.g. SEN assessment.
23. A separate Early Years Budget with a ringfence would require very heavy damping of any national formula if it was not to lead to big decreases in funding in some LAs, coupled with big increases in others. In effect it would have to start from a spend plus position and move slowly away from that.
24. It is not a given that it is absolutely necessary to define the amount of money we put into the free entitlement. We do not for instance say how much we put into primary education, because it is funded in a pot together with secondary education, special education and early years, and local authorities, with their schools forums, make choices over how they use the total amount. There is an argument that it is not necessary to be able to define the amount for early years provision separately, particularly as it has an ill-defined end point.

Next Steps

25. We would be grateful for views from the group on the high level issues and potential choices that need to be made in due course.

School Funding Policy Unit

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