

REPORT TO THE EARLY YEARS REFERENCE GROUP (EYRG)
FURTHER DCSF GUIDANCE ON IMPLEMENTING THE EARLY YEARS (EY)
SINGLE FUNDING FORMULA (SFF)

1. PURPOSE

1.1 To advise the EYRG on the recent guidance issued by the DCSF on Implementing the Early Years (EY) Single Funding Formula (SFF).

2. BACKGROUND

2.1 The DCSF document published in July 2009 is attached for information at Appendix A.

2.2 It sets out the Government's expectations for the EYSFF and provides guidance on how the formula should be designed and implemented. It updates the interim guidance published in July 2008 and sets out the core principles for the design and implementation.

2.3 There is a concern on timing of the guidance in that LA's should be well advanced in their proposals. Indeed this in the case in Worcestershire with the local consultation well under way on the issues.

3. KEY ISSUES

3.1 Core Principles

(a) The guidance sets out 16 core principles underpinning the EYSFF which must be considered in the formula development. These are detailed in full in Annex A.

(b) It is recognised that these are extremely wide ranging and have endeavoured to be included within the proposals in WCC. Some will evolve over time as the EYSFF is embedded over the next few years.

3.2 Requirements on LA's

(a) The guidance sets out a number of issues that LA's must, should and must not do in the key areas. The key aspects are summarised in Annex B.

(b) It is noted that although the words 'must' and 'should' are used a LA cannot be forced to do anything that is not set out in the School Funding Regulations (see Agenda Item 5). Indeed much of the detail of the EYSFF is left to LA responsibility to introduce then to review and refine their formula on a regular basis.

3.3 Issues for Settings

(a) For the maintained sector the main issue seems to be the change from place to participation led funding.

(b) For the PVI sector the main issues seem to be the complexity of the funding framework, the move to varied hourly rates and that the EYSFF does not automatically mean more money.

3.4 Issues for Schools Forums

(a) The key issues are: -

- The affordability of the preferred formula including whether the funding allocated is sufficient for all EY provision.
- Whether transitional funding is required and in what form and for how long.
- How the minimum funding guarantee should be used to offer such protection.
- The impact on school admission policies.

4. RECOMMENDATION

The EYRG notes and comments on the issues contained in the DCSF Further Guidance.

Andy McHale
Service Development Manager Resources

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CORE PRINCIPLES

In terms of EYSFF development these are as follows: -

- Support effective and efficient distribution of resources at the local level.
- Facilitate greater flexibility of provision so that parents have greater choice in how they use the free entitlement.
- Preserve diversity and choice in the market
- Incentivise improvements in the quality of provision and recognise the ongoing costs associated with quality.
- Support the narrowing of achievement gaps and recognise the additional costs associated with children from deprived backgrounds.
- Be clear and transparent.

In terms of the Operation of the Formula these are as follows:

- The same factors should be taken into account when deciding the level of funding for each sector.
- Decisions must be transparent and any differences between the sectors should be justifiable and demonstrable.
- The level of funding should be broadly cost-reflective and all the main cost elements should have been considered explicitly.
- There should be no perverse incentives and any change in the formula must not endanger sufficiency of provision.
- The formula must be based on common cost information from both the PVI and maintained sectors and all costs and public sources of incomes should be considered.
- Settings should be funded on the basis of participation, not places or similar factors. Participation must be counted on a termly basis, at the least, and this will be required in regulation.
- An additional factor to support sufficiency and sustainability will be allowed but this must not be used widely and must have clear criteria.
- The formula must take into account the sustainability of all settings, giving sufficient stability to all sectors to plan for the future and improve quality.
- Transition from the current funding mechanism to the future funding mechanism must be planned and managed carefully, and based on a clear impact assessment.
- The application of the formula in different settings should be based on common operating principles wherever possible. All aspects of the proposed EYSFF must be the result of partnership working with all those involved and final decisions on structure and operation of the formula should be made only after widespread consultation.

REQUIREMENTS ON LA's

1. Working in Partnership

LAs must: -

- Manage the expectations of their providers and ensure that all providers from PVI and maintained sectors are engaged.
- Build strong internal partnerships from the outset.
- Make changes 'with' providers not 'to' providers.

LAs should: -

- Engage with all settings to keep them aware of the nature of the changes.
- Set up a smaller working group, which is representative.
- Establish a local team from the LA.
- Ensure senior LA managers, Schools Forum members and elected members are kept informed and up to date.

LAs must not: -

- Allow the individual needs of one type of setting to dominate discussions.
- Leave any sector out of the process of building a formula.

2. Understanding Provider Costs

LAs must: -

- Gain an understanding of typical costs faced by different types of providers.
- Be able to explain and justify any differences in the funding allocated to different categories of provider under the new formula.

LAs should: -

- Have completed a cost survey involving all sectors and validated the findings.
- Develop a Typical Cost Model (TCM).
- Update their understanding of provider costs on a regular basis.

LAs must not: -

- Develop a formula which is not based on a rigorous analysis of provider costs.

3. Design and Implementation

LAs will be required in regulation to: -

- Distribute funding for the free entitlement on participation, not places.
- Count pupils to support this, across all providers, on a termly basis as a minimum.
- Incorporate a deprivation supplement, or 'factor', into the EYSFF.

LAs must: -

- Determine one or more basic hourly rates for providers.

- Ensure measures used to determine supplements are robust, transparent and easily understandable.
- Ensure quality is sufficiently supported.
- Adjust budgets within the financial year to reflect participation and cash flow needs.
- Payments must be at least half termly.
- Give all providers an indicative budget at the start of the year which reflects anticipated participation.

LAs should: -

- Decide which supplements are needed to meet local policy objectives.
- Ensure all supplements have maximum effect – including how to minimise any harm caused by cliff edges, and being aware of implications for data collection.
- Strongly consider building in a quality supplement and a flexibility supplement.
- Treat the affordability assessment as an iterative process.
- Ensure that funding through the schools formula does not double-fund allocations through the EYSFF (or vice versa).
- Pay special regard to the funding of Nursery Schools and Child Minders.
- Take account of the legitimate need for PVI providers to generate some profit.
- Consider the size of the EYSFF budget and the revised 5-16 budget in the context of the whole Schools Budget.

LAs must not: -

- Lock unjustifiable sector differences into the funding system permanently.
- Use lump sums frequently, without clear justification or as a device to continue existing levels of funding to particular sectors permanently.
- Make additional sustainability payments frequently or where size or location does not make sustainability a genuine concern.

4. Impact, Transition and Review

LAs must: -

- Undertake an impact assessment of the effect of the new formula for every setting.
- Ensure settings fully understand the basis on which they will be funded including the basic rate and any supplements that will apply.

LAs should: -

- Look for possible unintended consequences of the new formula for every setting.
- Consider the interaction between the formula and other policy changes.
- Identify where exceptional circumstances mean there is a clear argument for additional funding to support sufficiency and sustainability.
- Allow time to test out any changes to administrative and data collection issues.

- Not see the introduction of the EYSFF as the end of the process, but review it periodically as a matter of good practice.
- Ensure their EYSFF is widely available.

LAs must not: -

- Use the Minimum Funding Guarantee to allow funding for maintained settings to continue at current levels irrespective of actual participation.
- Implement transitional arrangements which require more than 3 years for settings to reach the level of funding determined by the EYSFF.