



WORCESTERSHIRE COUNTY COUNCIL (WCC)
DIRECTORATE OF CHILDREN'S SERVICES

FAIR FUNDING CONSULTATION PAPER SPRING TERM 2009

PROPOSALS FOR A NEW SINGLE FUNDING FORMULA (SFF) IN WCC FOR
EARLY YEARS (EY) FROM APRIL 2010 FOR FUNDING THE FREE
ENTITLEMENT FOR 3 AND 4 YEAR OLDS

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PART A

INTRODUCTION

A1. MULTI YEAR BUDGETS

1. The advent of multi-year budgets requires Local Authorities (LA's) to consult on all issues to take effect for any year within the multi-budget period prior to the start of the period. Therefore, the Autumn Term 2007 consultation included all potential issues within the next 3-year period multi budget period 2008/09 to 2010/11.

2. The Government's proposals for the period 2008-11 were communicated in the announcement on 25th June 2007 by the Schools Minister, Jim Knight. All the documentation can be found on: -

<http://www.teachernet.gov.uk/management/schoolfunding/schoolfunding2008to11>

A2. REQUIRED CHANGES DURING 2008-11

1. The DCSF have required all LA's to set up an Early Years Reference Group (EYRG) with representation from all sectors to consider these issues during the multi budget period 2008-11.

2. The LA and the EYRG appreciate both the complexity and number of issues to be considered but feel that consultees need information on all the background, key aspects and potential implications. To support the process a **Glossary of Terms is provided as an Appendix** to the consultation paper to support the understanding of the technical aspects and key terminology.

3. The documentation referred to above included significant proposals for changes in provision and funding for Early Years (EY) to take effect at different times during 2008-11. A summary of the decisions included in the Department for Children Schools and Families (DCSF) circular, at that time, were as follows: -

(a) LA's being required to develop and to introduce a new local Single Funding Formula (SFF) for EY provision for all providers in the Maintained, Private Voluntary and Independent (PVI) sectors by 2010/11 at the latest.

(b) From 2009/10 all LA's will be required to introduce consistent pupil count arrangements between the maintained and PVI sectors. This will take place through changes to the January School Annual Census and other termly pupil counts.

(c) LA's being required to carry out an analysis of PVI costs in their area for local discussion.

(d) There to be no separate identification of EY funding in the Dedicated Schools Grant (DSG) at that time.

(e) Changes to EY count (EYC) arrangements required in the 3-year period would not be reflected in the DSG Guaranteed Unit of Funding (GUF) in the period i.e. the existing method of counting will be used for DSG purposes for all three years 2008-11.

4. At that time Worcestershire County Council (WCC) made the following comments and highlighted some initial implications: -

(a) There were major concerns that the changes are at different times within the next 3-year multi budget period thereby affecting budget stability in the maintained sector.

(b) These significant changes will require a lot of consideration and implementation, with significant service delivery and funding issues for both the maintained and PVI sectors.

(c) The additional resource requirements on LA's and all providers to implement these changes and the need to set up an Early Years Reference Group (EYRG), with appropriate representation, to consider these issues during the multi year budget period 2008-11.

5. These issues are developed further in Part B together with the detailed consultation proposals in Part C. **A short questionnaire for completion and return by 17th July 2009 is attached at Part D.**

PART B

DETAILS OF THE REQUIRED NATIONAL CHANGES TO THE FUNDING ARRANGEMENTS FOR EARLY YEARS (EY) FROM APRIL 2010

B1. BACKGROUND

1. The DCSF has instigated wide-ranging reform in respect of EY. In particular, this has included the introduction of the free EY entitlement for all 3 and 4 year olds. This can be taken in the maintained or the PVI sector. The original entitlement of 12½ hours per week early learning and care for 38 weeks per year will be increased to 15 hours of flexible provision from September 2010. WCC is a pilot area and has already introduced the 15-hour entitlement with additional funding via a discrete Standards Fund Grant (SFG).

2. The main objective of this reform is to maximise take up of high quality, free EY provision through a diverse market that provides choice and flexibility for parents.

3. The DCSF feel there are inconsistencies in the current system in the funding of the free entitlement between the maintained and PVI sectors. The DCSF contends that this makes the system less effective and provides barriers to increasing quality, flexibility and take up of the entitlement in the future.

4. Therefore, the DCSF have required all LA's to review their funding models for the free entitlement as follows in order: -

(a) To develop a new local needs led Single Funding Formula (SFF) for funding the free EY entitlement for 3 and 4 year olds by April 2010 at the latest. This is to ensure consistency and fairness in the method of funding for all providers and that such pupils are only funded for their free provision.

(b) To require that the free entitlement to be funded via the SFF uses the same principles to fund all providers and is based on participation and provision taken up.

(c) To change EY children count arrangements to ensure consistency across the maintained and PVI sectors.

5. This does not mean all providers will be paid the same or that all children will attract the same level of funding. The formula will be able to differentiate between providers to facilitate issues such as staffing ratios, deprivation, etc, but the same factors will be taken into consideration when deciding on the level of funding.

6. The single formula for EY will not include children of below statutory school age in reception classes.

7. In introducing these requirements, the DCSF contend that there is too much reliance on place led funding in the maintained sector and too little stability in PVI's as they are funded on actual termly take up. So in requiring the changes, they stress that any arrangements must achieve the right balance between getting value for money, investing in the sustainability of provision, enabling longer term planning, improvement in provision and the provision of flexibility for parents.

B2. CURRENT FUNDING FOR THE FREE EARLY YEARS (EY) ENTITLEMENT

The free entitlement for 3 and 4 years olds is currently funded from 2 sources: -

1. Dedicated Schools Grant (DSG)

(a) The national allocation of the DSG by the DCSF to LA's provides for the basic entitlement of 12½ hours for 3 and 4 year olds for 38 weeks. However in this process it is not identified as a separate element by the DCSF and is not ring fenced. In the DSG allocated to WCC all children attract the same amount of funding through the DSG regardless of their age or setting. This means that the amount of DSG that is based on the number of children receiving EY provision can be calculated but is part of the overall DSG received for all children.

(b) LA's then deploy the overall DSG resource to fund all the required provision in maintained and PVI providers. For EY this is made up of two elements from within the Schools Budget, both of which are part of the Central Expenditure Limit (CEL) calculation, with a share of: -

- The Individual School Budget (ISB) delegated to maintained schools for EY as part of their delegated School Budget Share (SBS); and
- The centrally retained element of the DSG allocated to PVI's.

(c) To illustrate the level the following details the amounts provided in the last full financial year 2008/09. For Worcestershire this is detailed in **Table 1**: -

Table 1 Funding By Sector	£'m	DSG Source
Maintained (AWPU and Nursery Protection only)	2.9	Delegated ISB
PVI	8.3	Central DSG
Total	11.2	

2. Standards Fund Grant (SFG)

This is a separate grant to support the extension of the free entitlement from 12½ to 15 hours to be delivered more flexibly. All LA's are required to offer this from September 2010. In 2008/09 the grant for Worcestershire was £4.4m, with approximately £2.6m for the extension of the free entitlement and £1.8m to support more flexible delivery. There is no information on the future of this grant but it is anticipated it could be incorporated into the DSG from 2011.

B3. EXISTING SECTOR CHARACTERISTICS

1. Maintained Nursery Provision

(a) The funding delegated to maintained schools is through a combination of Age Weighted Pupil Unit (AWPU), nursery protection and other formula factors including Special Educational Needs (SEN). In 2008/09 the AWPU attracted £1,227 funding per part time place. This equates to about £2.58 per hour to deliver the current free entitlement of 12½ hours per week for 38 weeks a year.

(b) The LA determines the number of planned places to be made available in each maintained provider. This generates the majority of the nursery funding that is required for the staffing and non-staffing costs.

(c) The actual numbers as at the January Annual Census preceding the financial year are used to determine the AWPU funding. If these numbers are less than the planned places nursery protection is allocated to ensure the provision is funded at the agreed capacity. Schools are informed of their allocation before the start of the financial year and it is not subject to change within the year in order to adhere to the DCSF requirement for budget stability.

(d) The current funding system, therefore, provides a high degree of certainty about funding, budget stability and enables longer term planning. It does, however, result in funding unfilled places, funding all children as if they were taking up the full entitlement regardless of the actual position and offers no incentive for the school to increase take up or offer more flexible provision.

2. PVI Settings

(a) Funding allocations to PVI settings are based on the value of the former Nursery Education Funding (NEF) Grant set by the DCSF in 2003 and subsequently increased for inflation. The sum of £3.36 per hour was allocated in 2008/09 for each child receiving the free entitlement of 12½ hours per week for 38 weeks a year and is reduced proportionately when taking up only part of the entitlement.

(b) The actual payment to PVI providers is based upon a termly count. Each April, September and January estimates are made of how many hours eligible children will be attending for that funding period and payment is made. This is adjusted for actual numbers for which payment should be made.

(c) The funding system is, therefore, very responsive to changes in actual take up but provides no stability of funding and no opportunity to plan over a financial year or beyond. It also has a heavy administrative burden on settings and the LA.

B4. REQUIRED ARRANGEMENTS FOR IMPLEMENTATION OF THE NEW SINGLE EY FORMULA

1. To consider and formulate the required changes the DCSF has required LA's to set up an Early Years Reference Group (EYRG). This has to be a representative group of all EY providers supported by officers of the LA. Is it effectively a sub group of the statutory Worcestershire Schools Forum (WSF). The EYRG are charged with agreeing a proposal for a new local SFF for EY for consultation with all providers and Fair Funding consultees. Relevant agendas and papers can be accessed on the WSF web site: -

<http://www.worcestershire.gov.uk/home/wcc-edu-wsf>

under the heading WSF Sub Groups Early Years Reference Group (EYRG).

2. As part of the implementation of the new local SFF for EY, the DCSF have issued some interim guidance covering the key issues. This was based on learning from 6 pilot LA's who are implementing the new local SFF for EY early from April 2009. This is available on: -

3. The key issues that the DCSF contend need consideration include: -

(a) General Issues

- There is a need to link with the extension from 2010 of the free entitlement for 15 hours of flexible provision for all 3 and 4 year olds. The funding for this is currently part of the Standards Fund but could become part of the DSG from 2011.
- There maybe a need to change the existing funding regulations for maintained schools to facilitate the new formula e.g. for termly funding and counts.
- Any development needs to be transparent and thorough.

(b) Core Formula Development Principles

The formula should: -

- Support effective and efficient distribution of resources at a local level.
- Facilitate greater flexibility of provision so there is greater parental choice in using the free entitlement.
- Preserve diversity and choice in the market.
- Incentivise improvements in quality and provision.
- Should not introduce windfall gains for providers.

(c) Core Formula Operation Principles

- The same factors should be taken into account when deciding the level of funding for each sector and based on common costs.
- Decisions must be transparent with any sector differences justifiable.
- Funding levels should be cost reflective.
- There should be no perverse incentives.
- Any formula change must not endanger sufficiency of provision.
- Funded should be based on participation and not places.
- Transition must be planned and managed carefully.

(d) Working in Partnership

- LA's must manage the expectations of their providers and ensure all sectors are engaged as early as possible.
- The lead on the project is vital. There needs to be engagement with EY finance, senior managers and elected members.
- LA's are encouraged to have an appropriate representative working group of providers to lead the development.

(e) Understanding Providers' Costs

- LA's must be able to explain the level of core funding for delivering the free entitlement for 3 and 4 year olds, any differences between providers, any funding above the core level and any funding not based on participation.
- Completion of a cost survey for all providers.
- The cost survey should be used to inform the overall costs of provision including hourly rates, the range of costs across provider groups, differences in costs between

providers, the level of basic funding and any supplementary costs e.g. sufficiency, deprivation, SEN, etc.

- LA's also need to consider the development of a typical cost model, which needs to consider aspirational and potentially apportioned costs together with and all the activities it takes to provide the free entitlement and the justification for this for different types of provider.
- The model will need to include for different size and types of establishment average staffing, premises, service, resources, management fee and potential dividend (profit) costs.
- The outcome will be the calculation of hourly rates for different types of provider.

(f) Designing the Formula

- Other than in exceptional circumstances the formula must distribute funding for the free entitlement on the basis of participation.
- Consideration needs to be given to existing knowledge, issues faced by providers, existing hourly rates and supporting sustainability and flexibility.
- The formula should not simply reinforce the existing cost base and must determine a basic hourly rate for all providers and decide any enhancements that may be required.
- Technical aspects such as affordability, perverse incentives, cliff edges, and transitional arrangements need to be considered.

4. Work on the Cost Survey has taken place and has been managed through the EYRG. The key outcomes are as follows: -

(a) The initial PVI survey in the Autumn 2007 resulted in a very low level of responses (<25%). So the EYRG decided in February 2008 to reissue the survey to those providers yet to reply for completion by the end of March 2008 as well issuing a similar survey to the maintained sector for completion by the same date.

(b) The number of responses received is detailed in **Table 2**: -

Table 2 Cost Survey Returns by Provider	Total Number of Providers	Number of Returns Received	%	Number With Some Financial Analysis Included *	%
Maintained	56	20	36	16	29
Private	177	72	41	48	27
Voluntary	108	50	46	47	44
Independent	14	10	71	7	50
Childminders	13	6	46	3	23
TOTAL	368	158	43	121	33

* These include partial as well as full completion. The number completed fully is less than the number indicated.

(c) These returns have been analysed and in terms of the costs provided the following issues are evident: -

- Despite the inclusion of guidance notes, there was significant different interpretation by individual providers on the completion of the analysis.
- Some costs were only part completed and some have not been apportioned between the free entitlement and paid provision.
- There were a number of staffing models within and between sectors.

- Conversion of the submissions to a cost per hour showed significant variations within and between sectors.
- In common with a number of other LA's, the benefit and effectiveness of completing the costing exercise, particular over such a large market, can be significantly questioned.
- For the costs analysis to be of use there would need to be significant further work and liaison with individual providers.

(d) As a consequence, the current cost analysis does not readily provide a firm basis for considering the issues for a new local SFF for EY. This is very similar to the findings made by a number of other LA's. On this basis, the EYRG did not support and recommend the significant use of the cost survey within the formula development.

B5. CURRENT NATIONAL INFLUENCES

1. There are significant implications to the current national funding arrangements by the introduction of the new local SFF for EY, which are detailed in the following sections. The overarching issues are: -

(a) Many LA's fund the maintained and PVI sectors differently (usually place led compared to per children actual take up respectively). From April 2010 the free 15 hour entitlement will have to be funded via a new local SFF for EY, using the same principles to fund all providers and based on participation.

(b) This does not mean all providers will be paid the same or that all children will attract the same level of funding. The formula will be able to differentiate between providers to facilitate issues such as staffing ratios, deprivation, etc. Variation is required in funding rates across types of setting and geographical areas. All providers need payment in proportion to their costs.

(c) Currently the DCSF funds all LA's at a minimum take-up of 90% for 3 year olds. Data has suggested this is acting as a disincentive, so the DCSF are minded to change the thresholds so that LA's are only funded to a small percentage above actual take-up.

(d) PVI's are keen to show a customer focus to the needs of children and parents e.g. over 80% of PVI's offer flexibility in allowing children to take the free entitlement over 3 rather than 5 days. The DCSF contend this is not so evident in the maintained sector.

(e) The changes will require amendments to primary legislation and to the existing school budget funding regulations, particularly relating to count arrangements.

2. Implications of the new local SFF for EY for the Future Funding System

(a) The DCSF will be in early 2010, consulting on new DSG arrangements to be introduced from April 2011, a year after the requirement to introduce the new local SFF for EY from April 2010. Given the 2010 changes will be significant the DSG changes, currently unknown, will need further consideration.

(b) The following areas are viewed to be significant: -

- Admissions to schools – including potential moves by some LA's to more than one admissions point, differences in the funding levels for nursery and reception

children, etc. The DCSF expect no changes to local policies on the introduction of the new local SFF for EY.

- Nursery School Sustainability – the additional costs for these providers should be recognised in the new local SFF for EY and should not be used as a tool to close such provision.
- PVI Sustainability – the marketing of the maintained sector could adversely impact on the parental choice within the PVI sector. Many PVI's report the hourly rate they receive from the LA for delivering the free entitlement is less than the costs they incur in providing EY care and education.

(c) There are concerns in all sectors e.g. maintained that they will lose funding and PVI that they will lose children.

3. Potential for the Creation of an EY Budget

(a) In addition to the above grant funding LA's are also allocated further ring fenced grant to support Sure Start, Early Years and Childcare. The DCSF are considering whether to remove the ring fence, which will be part of the discussions during the next national Comprehensive Spending Review (CSR).

(b) The DCSF are also considering whether there needs to be a ring fence around all EY funding. They have highlighted 3 options: -

- A new ring-fenced EY budget bringing together all the EY funding streams.
- The ring-fenced Sure Start, Early Years and Childcare Grant are absorbed into the DSG and identified but not ring-fenced.
- Rolling all the Sure Start, Early Years and Childcare Grant into the overall DSG without any ring-fence or separate identification.

4. Impact on the Funding of 4-Year Olds

In many LA's children are admitted to school before they are 5 and as such are funded for full time in reception classes and as such via the school funding formula. So children not yet admitted to reception classes should be funded through the new local SFF for EY even if they share a teacher or class space.

5. The Childcare Strategy

An announcement has been made for a new aspiration for universal provision for 2 year olds. This strategy to be published in the Autumn will look more widely as to how the childcare provision can be strengthened through more effective funding support and the free entitlement.

6. DCSF National Workshops

(a) These have been provided by the DCSF for LA's to enable updates on the national policy to be provided. The sessions included updates on the flexible extension to the free entitlement and the new local SFF for EY. There has been national inputs from pilot LA's who are implementing the new local SFF for EY from April 2009.

(b) The need for a single formula was argued on the basis of: -

- Variations in the current market.

- Place led funding provides little take up incentive and funding needs to be based upon participation not places.
- PVI funding tends to be on a flat rate.
- Provision needs to be more responsive to parental demand.
- Will provide greater transparency.

(c) However the DCSF contend they: -

- Are not trying to close providers, in particular nursery schools.
- Do not want complete parental control of the market.
- Do not want a wholesale move of funding from the maintained to the PVI sector.

(d) In terms of the pilot LA's key issues have included: -

- Need to plan and challenge the status quo.
- Ensure that the strategic approach to EY is the driver with the formula being a part of the policy.
- Have a good understanding of costs and do not rely on the cost analysis.
- Consultation and communication in larger LA's is an issue.
- Explain that the same formula principles apply to all settings but funding levels may vary between providers.
- Formula affordability and managing the impact on providers.

(e) There are barriers in the current legislation relating to the current school funding regulations and PVI regulations including: -

- The current system in the maintained sector for one pupil count only.
- Potential impact on budget stability for the maintained sector.
- PVI termly counts on actual numbers.
- Primary legislation is required and is being planned to enable PVI funding to be included within the ISB.
- The need for one regulatory framework to underpin the new local SFF for EY for all providers.
- Current proposals include significantly limiting place led funding, requirements to set indicative budgets for all settings, allowing budgets to be adjusted in year to reflect participation in all settings.

B6. CONCLUSIONS

1. LA's have been very self-supporting in this key policy area. This is particularly relevant in our South West LA network. Worcestershire is extremely grateful for the advice received from North Somerset LA, who developed their new SFF to operate from September 2009.

2. In line with the pilot LA's their approach is to build up the majority of the model not readily based upon the cost survey. A model for the hourly rate was developed and is based upon core staffing costs derived on estimates of time to deliver the free entitlement including provision, curriculum and non curriculum time. This has been done for the different type of provider taking account of the size of the provision. This is then enhanced by deprivation factors.

3. The proposals for consultation for a new local SFF for EY in WCC are detailed in Part C.

PART C

PROPOSALS FOR A NEW SINGLE FUNDING FORMULA (SFF) IN WCC FOR EARLY YEARS (EY) FROM APRIL 2010 FOR FUNDING THE FREE ENTITLEMENT FOR 3 AND 4 YEAR OLDS

C1. INTRODUCTION

1. As detailed in Parts A and B there is a national requirement for LA's to introduce a new local SFF for EY for funding the free entitlement by April 2010. This will have to be funded via a single EY formula using the same principles to fund all providers and based on participation.

2. This does not mean all providers will be paid the same or that all children will attract the same level of funding. The formula will be able to differentiate between providers to facilitate issues such as staffing ratios, deprivation, etc. It is imperative that **the policy for the provision must drive the new funding formula** together with the need to avoid excessive complexity.

3. In practice, many LA's currently fund the maintained and PVI sectors differently (usually place led compared to per children actual take up respectively).

C2. POTENTIAL FORMULA STRUCTURE

1. On the basis of the DCSF guidance and the learning from the pilot LA's the new local SFF for EY is based upon: -

Basic Hourly + Hourly Supplements x Number of Hours + Other Supplements
Rate (BHR) (HS) Participation (HP) (OS)

2. The definitions of these are in **Table 3** as follows: -

Table 3 Potential Formula Components

BHR

This will be a rate per child per hour sufficient for a provider to deliver the free entitlement without exceptional needs.

It may vary depending on the type of provider e.g. maintained, private, etc or be a common rate with supplements for different types of setting.

HS

These could be additional amounts per hour for extra 'need' or to recognise policy objectives.

Could include issues such as deprivation, quality, flexibility, high cost areas, SEN, sustainability, premises, etc.

They need to determine whether these are affordable or sufficiently high enough to justify their inclusion.

HP

Must be the same method for all providers i.e. no. of children x no. of hours.

The DCSF is exploring changes to the funding regulations to enable this to be introduced for the maintained sector.

OS

Must be appropriate to support policy e.g. sufficiency.

C3. DCSF DESIGNATED TECHNICAL ASPECTS FOR CONSIDERATION IN THE SFF

1. In terms of affordability: -

(a) All LA's will have to consider the issue of affordability together with the need for transitional protection for any settings adversely affected. The design of a formula that is not affordable is not good practice and it may be better to start with the quantum being the existing EY budget.

(b) The formula is likely to be an iterative process both 'top down' i.e. what funding is available and what can be achieved within it and 'bottom up' i.e. a formula to meet the objectives and compare with the funding quantum.

2. In terms of perverse incentives and cliff edges: -

(a) LA's should avoid paying actual costs e.g. salaries, energy bills, property costs, etc and funding through lump sums or place proxy indicators.

(b) The formula should avoid having formula supplements that encourage particular recruitment arrangements.

(c) If these are unavoidable they must ensure that the difference in funding between providers is reasonable and justified.

3. There may need to be consideration of transitional arrangements i.e.: -

(a) Whether the transition hinders required policy changes and how changes in levels of funding are driven by a change in the way participation is measure (an issue particularly for the maintained sector), changes in the current basic hourly rate and the increase in the basic entitlement from 12½ to 15 hours.

(b) To avoid the potential for either a sudden or substantial loss or gain of funding for individual settings.

(c) There may also be a requirement to consider the method for transition together with the difficulties in establishing a baseline position for individual providers, particularly in the PVI sector given the nature of the existing funding arrangements.

(d) Consideration of the potential cost and affordability of any transition. The financing will need to be considered within the overall DSG settlement.

4. Consideration of formula impact issues are also important: -

(a) Ideally this should detail those settings that can cope with the changes, those that will be adversely affected, those that will benefit significantly together with the effect on capacity and parental choice.

(b) For the maintained sector the principal impacts are likely to be: -

- A complete new formula model for 3 and 4 year olds including a move from place to participation led funding.
- Schools potentially seeking to change admissions arrangements to include termly recruitment.

- Budget and formula instability for schools and the effect on the non-EY budget for schools.
- Increased parental choice and the move to 15 hours of free entitlement.
- Issues for the current School Funding Regulations including Minimum Funding Guarantee (MFG) and the single count.
- The cost base for nursery schools compared to other providers.

(c) For the PVI sector the principal impacts are likely to be: -

- The replacement of the current flat hourly rate with a differentiated rate.
- Knock on effects from any changes to schools admissions arrangements.
- Increased parental choice and the move to 15 hours of free entitlement.

(d) The use of modelling to show the effect is encouraged.

C4. FORMULA REVIEW PROPOSALS

1. The EYRG have considered all these background issues contained within the previous sections in proposing a new funding formula for consultation.

2. Formula Principles

The group agreed to support the following principles: -

- (a) The policy and provision requirements **must** drive the new formula.
- (b) There could be differentiation in the hourly rate between the different settings and sectors.
- (c) To maximise as much of the funding as is practicable within the BHR by including the work streams in the model e.g. training, sickness cover, administration, low level/high incidence SEN, etc. and to leave potential supplements to a minimum.
- (d) Consistency between different providers needs to be a major consideration. However, each sector needs to be considered individually to derive an entitlement required to deliver the full 15-hour free entitlement.

Q1. Do you support the principles for the introduction of the new local SFF for EY from April 2010 as agreed by the EYRG?

3. Staffing Ratios

These have been included for all providers based upon the statutory requirements reflecting the appropriate staffing ratios. These ratios are detailed in **Table 4** below.

Table 4 Staffing Ratios	Educationally Appropriate Ratio Used in Review	Legislative Maximum Ratio
Maintained Nursery School and Nursery Class	1:13	1:13
Independent School Nursery Class *	1:8	1:8
Independent School Reception Class	1:13	1:13
Private and Voluntary *	1:8	1:8
Childminder	1:3	1:3

* For these settings the EYRG felt consideration may need to be given to reflect the requirement for a further supernumerary member of staff for those with 20 or more children.

Q2. Do you support the staffing ratios as detailed to be used as the basis of the new local SFF for EY?

Q3. Is there a need to have a further enhancement for PVI settings of more than 20 children?

4. Proposed Entitlement Models

(a) The EYRG considered the detail of these for each category of provider – maintained nursery class, maintained nursery school, private, independent, voluntary and childminder. The final models are available on the WSF web site previously detailed. The models reflect the proposed weekly staffing models required for each setting to deliver the free entitlement of 15 hours for 3 and 4 year olds. The models include: -

- The staffing requirements for the delivery of the free entitlement of 15 hours including supporting low level/high incidence special and additional educational need, children assessment requirements and parental liaison.
- Additional staffing requirements over and above the delivery of the free entitlement of 15 hours for areas such as setting up, planning, team meetings, staff appraisals, administration and training.
- An allowance has also been made to fund all settings for some sickness cover per year for all staff.
- Additional supernumerary staffing flexibility for all settings, e.g. a 26 place maintained nursery provision on a staffing ratio of 1:13 requires 2 staff the model provides for approximately 2.5 staff.

(b) Relevant pay levels have been applied to these staffing models. The levels of pay have been determined to reflect the levels recommended as good practice and the appropriate terms and conditions and legislative requirements.

(c) The requirement to include an adjustment for non-staffing costs was considered using the returns submitted by maintained and PVI providers. As stated in line with the pilot LA's it was clear these varied significantly between settings and did not readily lend themselves to be used in the new formula model. On this basis a standard hourly rate has been used for this in the model based upon the costs in the maintained sector.

(d) The EYRG also considered lump sum verses per children funding for fixed costs and cost that vary depending on children numbers. However, lump sum funding provides a set minimum amount of funding to all settings regardless of how small and this was considered as inappropriate. The group therefore recommended that all funding be based on participation.

(e) **Table 5** below shows the outcome of this work for each of the setting types detailed above detailing the resulting hourly rate of free entitlement of 15 hours. **Please note these rates are draft and illustrative only being based upon the existing entitlement models, an assessment of current average costs and estimated budget availability.**

(f) **These will be subject to review and potential change** based upon: -

- The affordability within the funding streams available.
- The amounts to be allocated for formula factor supplements outside the BHR e.g. deprivation.
- Future national changes to the funding streams for the DSG, SFG, etc together with national policy on a ring fence or not for EY funding.
- The Government reviewing the current arrangements for the maintained sector to consider changes to the funding of EY provision for 3 and 4 year olds in excess of the 15 hour free entitlement.

Table 5 Draft Hourly Rates As at June 2009 (Subject to Change)	Staffing	Non Staffing	Total
Maintained Nursery Provision	2.45	0.50	2.95
Maintained Nursery School	4.27	0.67	4.94
Independent School Nursery Class Up to 20	2.43	0.67	3.10
Independent School Nursery Class 20+	2.95	0.67	3.62
Independent School Reception Class	2.45	0.67	3.12
Voluntary Up to 20	2.54	0.67	3.21
Voluntary 20+	2.86	0.67	3.53
Childminder	4.29	0.20	4.49
Private Up to 20	2.50	0.67	3.17
Private 20+	3.02	0.67	3.69

5. Potential Formula Allocations and Funding Quantum

(a) This element of the formula has to work on the basis of participation, so for example **on these draft rates** a full provision for the whole year could potentially be allocated: -

26FTE place Maintained Nursery Provision with 52PTE = $52 \times 15 \times 38 \times £2.95 = £87,438$
 24FTE place Voluntary Provider with 48PTE = $48 \times 15 \times 38 \times £3.53 = £96,581$

(b) As the major requirement of the formula is to work on actual participation any provision that is not full for the whole 38 weeks would be allocated less amounts. The DCSF is currently consulting upon the regulations for the proposed count arrangements, as for the maintained sector this is a significant change to current practice. Paragraph 6 below explores this issue further as the likelihood is that EY funding could be subject to actual counts on a termly basis.

(c) As this is designed to be the main formula driver an initial comparison has been made with the 2008/09 funding sources available to support the national entitlement against the actual number of hours in 2008. This is detailed in **Table 6**: -

Table 6 Funding Sources	Current Hours	Budget Allocated	Existing Budget Provision	Variance
		£'m	£'m	£'m
Maintained Nursery Schools And Classes	1090942	3.3	2.9 (Note A)	0.4
PVI	3181529	11.5	12.7 (Note B)	-1.2
TOTAL	4272471	14.8	15.6	-0.8

Notes

A. This is the per children provision in mainstream funding the 12½ hours of free entitlement.

B. This is the existing historic PVI budget of £8.3m funding the 12½ hours of free entitlement plus the total Standards Fund Grant (SFG) of £4.4m to support the introduction of the 15 hours (£2.6m) and flexibility (£1.8m).

(d) Initially this looks as though there is a significant budget variation. However as mentioned this is an **estimated illustrative position only**. There are some fundamental issues for consideration: -

- The impact of the 15-hour entitlement in the maintained sector as this comparison details the budget for the current entitlement i.e. 12½ hours against this.
- The impact of funding on participation in the maintained sector as the current budget is effectively for funding capacity places in that sector.
- The hours used in this modelling are for 2008 with the 2008/09 budget.
- It assumes the current SFG will continue at the current level. It also assumes the element of flexibility of £1.8m will be available. The DCSF have indicated the SFG is only guaranteed until March 2011 and its future treatment is yet to be decided.
- Whether the existing budget will be cash limited and be ring fenced to fund EY provision.
- It makes no assumption on the current DCSF consultation on the EY funding streams from 2011/12 into whether there will be a ring fence or not.
- There needs to be an assessment of the cost of potential formula supplements e.g. deprivation, high cost SEN, etc.

Q4. Do you support the proposed entitlement models as detailed to be used within the new local SFF for EY?

Q5. What are your views, subject to future DCSF changes, on the potential to ring fence the EY budget within the DSG?

6. Participation Numbers

(a) As detailed previously the count arrangements to fund the EY provision are different between the sectors: -

- Maintained actual annual count against an AWPU plus capacity protection factor.
- PVI's actual termly count against an hourly rate.

(b) The existing school funding regulations for the maintained sector only allows for an annual count. However, to facilitate the introduction of the new EY formula, the DCSF: -

- Have introduced changes to the January 2009 Schools Annual Census to require maintained settings to return EY data on the number of hours of provision taken up.
- Will be consulting on changes to the existing regulations to put the count arrangements for the maintained sector on the same basis as for PVI's i.e. on a termly actual basis. The implications being that this will affect their national policy of budget stability for schools.

(c) In order to endeavour to address the budget stability and count issues it may be necessary to consider giving providers annual budget allocations on an estimated basis,

which would be adjusted in year on the basis of actual numbers. Although not ideal it is an inevitable consequence of a national policy to fund all EY providers on the basis of participation.

(d) LA's in conjunction with their Schools Forum may be able to determine what hourly take up data should be used for funding purposes. The EY and Annual School Census in January will be used by the DCSF to calculate the DSG, however it may be worth considering the use of the data for funding purposes. **Table 7** provides an option for consideration based on the data that would be required to fund the 2010/11 financial year as an example. However, the DCSF will be consulting during the year on proposed changes to count arrangements for the nursery provision in the maintained sector. **Therefore this area will probably be subject to further change and as such is an illustrative example only.**

Table 7 Potential Pupil Data FY 2010/11	Action	Data Used – Composite Children Based On		
		Summer 13 Weeks	Autumn 14 Weeks	Spring 11 Weeks
March 2010 (All settings)	Issue Initial Annual Funding Notification	Headcount Summer 2009 Actual hours taken up ÷ 38 x 13	Headcount Autumn 2009 Actual hours taken up ÷ 38 x 14	Headcount Spring 2010 Actual hours taken up ÷ 38 x 11
July 2010 (PVI settings only)	Issue Summer Updated Annual Funding Notification	Headcount Summer 2010 Actual hours taken up ÷ 38 x 13	Headcount Autumn 2009 Actual hours taken up ÷ 38 x 14	Headcount Spring 2010 Actual hours taken up ÷ 38 x 11
November 2010 (All settings)	Issue Autumn Updated Annual Funding Notification	Headcount Summer 2010 Actual hours taken up ÷ 38 x 13	Headcount Autumn 2010 Actual hours taken up ÷ 38 x 14	Headcount Spring 2010 Actual hours taken up ÷ 38 x 11
April 2011 (All settings)	Issue Final Annual Funding Notification	Headcount Summer 2010 Actual hours taken up ÷ 38 x 13	Headcount Autumn 2010 Actual hours taken up ÷ 38 x 14	Headcount Spring 2011 Actual hours taken up ÷ 38 x 11

Summer Count = Termly April
 Autumn Count = Termly September
 Spring Count = Annual Census January

(e) It would be envisaged that: -

- For the maintained sector this would provide some information for budget setting and stability together with tying in with the existing arrangements for in year budget adjustments at mid year (November each year) and year end (April each year).
- For the PVI sector this would provide an annual estimate based upon current number and a basis for termly cash payments.

(f) A further impact of the change in the data used is the practice that currently exists only in the maintained sector of phased entry into nursery classes. It is expected, therefore, that delayed entry should not extend beyond the first two weeks of the term.

Q6. Do you support the proposals for the use of participation numbers as detailed in the indicative and final budget allocations for the new local SFF for EY?

7. Potential Formula Additions

Deprivation

(a) There is an argument to support the introduction of a formula supplement to support the additional costs of deprivation. The DCSF have now indicated this will be a mandatory requirement. In the mainstream funding formula general deprivation is measured by using proxy indicators at a children level such as Free School Meal (FSM) Entitlement, English as an Additional Language (EAL) and at an overall level the ACORN score for a school. Some LA's use MOSIAC, which is similar to ACORN.

(b) However, given the principle to include in the per child funding the majority it is probably more appropriate to target significant areas of deprivation only as a supplement. The current formula for mainstream schools includes a factor for pockets of deprivation. This is based on the ACORN score of individual children, which tracks where they live and where they attend school. High level need is targeted for children with an ACORN score of type 44 (Hard Pressed) or above. If these numbers are more than 25% of the school roll a per children allocation is made. This calculation includes children in maintained nursery provision. This formula has the advantage of being able to measure the school deprivation level based upon where the child lives.

(c) Initial indications are that it may be possible to consider the use of the individual pupil ACORN data in a deprivation formula for the SFF for EY. The detail of this is currently being considered including potential allocation methodologies. However, if this is not possible then it maybe necessary to consider a different measure of deprivation based upon a supplement that allocates an amount to those settings in the most deprived Super Output Areas (SOA's). This will link the deprivation to the setting not where the child lives.

(d) Any deprivation enhancement will need to be viewed as non consolidated resource and will be determined annually on the basis of budget availability and relevant data. The sum to be allocated to this element of the new local SFF for EY will be subject to affordability within the funding available.

Q7. On the mandatory requirement for a deprivation component within the SFF, do you prefer a measure being developed on the existing maintained school model on ACORN or linked to an overall measure, e.g. SOA's?

High Cost/Low Incidence SEN

(e) As mentioned previously the basic hourly rate has been enhanced and includes an assumption that low cost/high incidence SEN is funded from this. Given the extremely uneven incidence and measurement of high cost/low incidence SEN it would be very difficult to allocate funding for this with the basic hourly rate. The schools funding formula includes delegated provision for this in both mainstream and special schools. The current PVI funding arrangements provides for some central grant resource to

support this issue and is available on a needs led bidding process. There are further complications that current funding is allocated for the 15 hour free entitlement but sometimes due to the highly complex needs some children may attend for less than those hours. The new SFF for EY will only be able to allocate on the hours of participation. So, any proposals will need to be consistent for all providers.

(f) It is not possible to replicate the existing mainstream formula for high cost SEN in the new EY funding arrangements. This is because the main formula driver is the number of stated hours of provision, which does not readily apply to EY settings given the statementing process is not normally instigated or completed at that point. There are also further issues in that there is separate funding in the maintained sector for nursery plus places in mainstream schools and SEN matrix funding for a small number of nursery aged children in special schools. All of these areas form will need to form part of the existing free entitlement provision for 3 and 4 year olds and as such will need to be considered in the overall review of this aspect.

(g) Work is continuing in this area and in particular a detailed assessment of the support requirements for additional needs and vulnerable children encompassing SEN and inclusion is currently taking place. However the timescales may not lend themselves to be completed for the introduction of the new local SFF for EY but any proposals for the SFF will have to form part of this wide ranging review. On this basis it is proposed to continue with the current arrangements including the use of the central grant contingency to support this issue based on the existing bidding model. This will be reviewed along with all SEN areas e.g. nursery plus, SEN matrix, etc as the review begins to report.

Q8. Do you support the proposals for supporting the funding of high cost/low incidence SEN as detailed above in the initial stages of the new local SFF for EY and for the development of further proposals as a consequence of the ongoing review for additional needs and vulnerable children?

Other Potential Areas

(h) The DCSF are encouraging LA's to include other formula supplements within their new local SFF for EY. These include: -

- Quality – this could be based upon external assessment scores, being a training provider for other settings, a centre of excellence score, mentor issues, etc. Given the inherent difficulties in measuring this and the potential perception that low quality could lead to additional resource it is not proposed to include this within the new local SFF for EY.
- Flexibility – this could be based upon a settings ability to fully comply with the DCSF policy to offer the free entitlement in a way that fully satisfies both parental and children's needs. Given that the pilot for this is operating, the difficulties in some settings of meeting this and the difficulties in measuring this, in the short term it is not proposed to include within the new local SFF for EY at this stage. However, it maybe something that could be considered in the medium term subject to measures being available and budget availability.

(i) In the pilot LA's the issue of supplements is part of the ongoing formula development agenda and discussions.

8. Individual Impact Assessment and Transitional Arrangements

(a) As part of the development process there will need to be consideration of the impact on settings and whether subject to budgetary availability any transitional arrangements could be considered.

(b) The cost of transition would have to be met from the overall funding quantum for the DSG/EY. It could be achieved by limiting amounts paid to providers and/or scaling back increases or reductions in the new local SFF for EY. It could operate in a number of ways including: -

- Maximum level of funding per child hour.
- Maximum increases per child hour.
- Maximum basic funding plus supplements.
- Maximum basic increase plus supplements.
- Minimum increase in funding to each setting.
- Transition over a fixed number of years.

(c) In drawing up a scheme consideration needs to be given to: -

- The potential need to avoid either a sudden or substantial loss of funding for individual settings.
- The timescales for implementing a new formula.
- The affordability of the transition mechanism.
- Whether the transition hinders required policy changes.
- The link of funding changes to improved outcomes.
- The increase in the free entitlement from 12.5 to 15 hours.
- The difficulties in establishing a baseline position for individual providers.
- The need to avoid excessive complexity.

Q9. Do you support the proposal, subject to budget availability, to some form of transitional arrangements on a basis to be determined in the new local SFF for EY?

(Please indicate the time frame for and type of transition you would support)

GLOSSARY OF TERMS

Term	Description
ACORN	ACORN is a leading geo-demographic tool used to identify and understand the UK population (competitor to MOSAIC – see below). It provides a measure of individual post codes on a scale of 1 (least deprived) to 56 (most deprived) based upon a range of factors on place, behaviour, property, finance socio-economic and demographics. It is use widely nationally, in funding models in LA's and for attainment statistics for schools via the Fisher Family Trust (FFT).
Aspirational Costs	Costs which reflect a desired cost level rather than the actual current cost level.
Age Weighted Children Unit (AWPU)	A factor used in LA funding formulae to distribute different amounts of funding for children of different ages.
Central Expenditure Limit (CEL)	This limits the amount of expenditure that can be retained by the LA from the Schools Budget for funding of central items not delegated to schools.
Cliff Edge	Any situation where a formula creates a significant change in the level of funding between years as a result of a minimal difference in data sets and/or the characteristics of the provider.
Cost Apportionment	The apportionment of the costs relating to a single resource or activity to all the users of the resource or activity on an agreed basis.
Deprivation	Funding to support children from socially deprived backgrounds so as to promote their opportunity to achieve at equivalent levels to other children.
Dividend	A distribution of the profits of a business to its owner(s) in proportion to their share in the ownership of the business.
Dedicated Schools Grant (DSG)	The ring-fenced grant from DCSF to LA's covering funding delegated to schools, and other provision for children such as Pupil Referral Units and EY education in Private, Voluntary and Independent (PVI) settings.
Early Years Census (EYC)	The annual collection of information from each LA on children accessing the free entitlement in Private, Voluntary and Independent (PVI) settings.
Flexibility	The free entitlement is being extended to 15 hours, offered flexibly from September 2010. Guidance on the extension of the free entitlement and the definition of flexibility is available at www.everychildmatters.gov.uk/earlyyears/lapractice/entitlement/

Term	Description
Full Time Equivalent (FTE)	DSG funding is based on the number of FTE children. Where a child is not in full time education the purpose is to reflect the amount of provision they are taking up for funding purposes. So, a child attending a nursery every morning is 0.5 FTE.
Impact Assessment	An assessment of a change, for example the financial impact, or pupil number impact on the settings within a LA.
Individual Schools Budget (ISB)	The sum of the delegated budgets of all maintained schools in a LA.
Management Fee	A fee levied by an owner of a business in payment for services provided to the business, or by a head office of a business on a part of the business in payment for services provided by the head office function.
Minimum Funding Guarantee (MFG)	A guaranteed increase for a maintained school in year on year funding per pupil. For the current funding period (2008-2011) this is 2.1% per annum per pupil.
MOSAIC	A market-leading consumer segmentation product which classifies all 24 million UK households into 11 groups, 61 types and 243 segments (competitor to ACORN – see above).
Participation	The level of attendance at a setting on which funding under the free entitlement is to be based.
Perverse Incentive	A feature of the formula that provides a reward that is at variance with or even the opposite of that intended, and/or that promotes inefficiency.
Private, Voluntary and Independent (PVI)	The different categories of childcare providers other than those in the maintained sector.
Ring Fence	Grant funding from the DCSF to LA's that has to be spent on the prescribed purpose and cannot be allocated to other areas.
Schools Budget	The sum of funding from the DSG plus Learning and Skills Council for post 16 education plus any other funding the LA choose to add which must be used for purposes prescribed in regulation for education. The EY funding for the free entitlement is part of the Schools Budget.
School Budget Share	The funding provided to a maintained school under the terms of the LA school funding arrangements.
Single Funding Formula (SFF)	As directed by the DCSF the new needs led model for funding the free entitlement for all 3 and 4 years olds for all maintained and PVI providers.

Term	Description
Standards Fund Grant (SFG)	Specific further grant funding from the DCSF to LA's and schools. It can be both general grant to support school improvement not subject to ring fencing or be ring fenced to be spent on the prescribed purpose designated.
Supplement	An additional payment to a setting which reflects a particular characteristic.
Sustainability	The ability of a setting to remain financially viable.
Windfall Gain	An unexpected and significant gain from a change in the funding arrangements which cannot be justified.
Transitional Arrangements	Arrangement put in place to ensure that the transition over a designated period of time from the current funding regime to the new SFF is manageable for all or the large majority of settings.

PART D

FAIR FUNDING CONSULTATION PAPER SPRING TERM 2009

PROPOSALS FOR A NEW SINGLE FUNDING FORMULA (SFF) IN WCC FOR EARLY YEARS (EY) FROM APRIL 2010 FOR FUNDING THE FREE ENTITLEMENT FOR 3 AND 4 YEAR OLDS

RESPONSE FORM

Please fill in the details below and return the response sheets, together with any alternative submission you might wish to make to: -

Andy McHale
Service Development Manager Resources
Worcestershire County Council
Children's Services
PO Box 73
Worcester
WR5 2YA

REPLIES SHOULD BE RETURNED BY 17th JULY 2009

This document is also available on the WSF web site: -

<http://www.worcestershire.gov.uk/home/wcc-edu-wsf>

under the heading
WSF Sub Groups Early Years Reference Group (EYRG)
and can be completed and sent electronically to: -

amchale@worcestershire.gov.uk

Alternatively please complete and return this Part D by the due date.

Full Name of: - School/PVI/Other Consultee:	
Name of the person completing this form:	
Position in School/PVI/Other Consultee:	
The views recorded on the attached forms are those of:	
Date completed:	

<p align="center"><u>PROPOSALS FOR A NEW SINGLE FUNDING FORMULA (SFF) IN WCC FOR EARLY YEARS (EY) FROM APRIL 2010 FOR FUNDING THE FREE ENTITLEMENT FOR 3 AND 4 YEAR OLDS</u></p>	<p align="center"><u>YES</u></p>	<p align="center"><u>NO</u></p>	<p align="center"><u>COMMENTS</u></p>
<p>Q1. Do you support the principles for the introduction of the new local SFF for EY from April 2010 as agreed by the EYRG?</p>			
<p>Q2. Do you support the staffing ratios as detailed to be used as the basis of the new local SFF for EY?</p>			
<p>Q3. Is there a need to have a further enhancement for PVI settings of more than 20 children?</p>			
<p>Q4. Do you support the proposed entitlement models as detailed to be used within the new local SFF for EY?</p>			
<p>Q5. What are your views, subject to future DCSF changes, on the potential to ring fence the EY budget within the DSG?</p>			

<p>Q6. Do you support the proposals for the use of participation numbers as detailed in the indicative and final budget allocations for the new local SFF for EY?</p>			
<p>Q7. On the mandatory requirement for a deprivation component within the SFF, do you prefer a measure being developed on the existing maintained school model on ACORN or linked to an overall measure, e.g. SOA's?</p>			
<p>Q8. Do you support the proposals for supporting the funding of high cost/low incidence SEN as detailed above in the initial stages of the new local SFF for EY and for the development of further proposals as a consequence of the ongoing review for additional needs and vulnerable children?</p>			
<p>Q9. Do you support the proposal, subject to budget availability, to some form of transitional arrangements on a basis to be determined in the new local SFF for EY? (Please indicate the time frame for and type of transition you would support)</p>			

Please detail any further comments you wish to make on any of the SFF and EY changes issues: -