

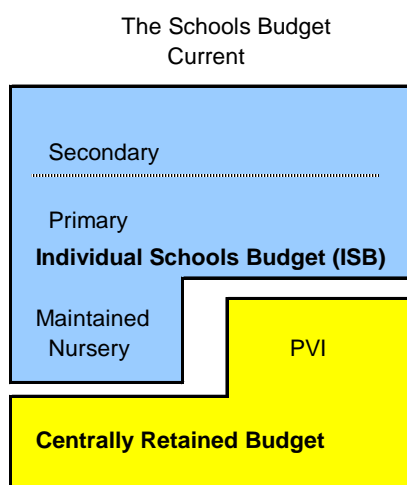
Dedicated Schools Grant (DSG) Formula Review Group

Funding Early Years

1. This paper discusses the Department’s intention to review the costs of funding for the early years and how the costs are allocated within DSG.

Current situation – pre-changes for 2010 summary of funding streams

2. **DSG** – The Dedicated Schools Grant includes funding to local authorities to deliver the free entitlement for 3 and 4 year olds for 12½ hours per week for 38 weeks per year. When this was part of the School Formula Spending Share (SFSS) (pre ‘spend plus’) the under 5’s sub block was calculated based upon:
 - o the number of full time equivalent 4 year olds, plus 0.5 times 3 years old part time equivalents, multiplied by the basic entitlement value;
 - o plus AEN extra unit cost (number of U5 AEN pupils above threshold);
 - o multiplied by the ACA weighting
3. The DSG together with LSC funding for post-16 education and any amount an LA chooses to add is called the Schools Budget and is required by regulation to be split into the centrally retained Schools Budget and the Individual Schools Budget (ISB). The ISB is delegated to schools and includes funding for nursery education in maintained nursery schools and nursery classes. The centrally retained budget is to be used for specific purposes including for LAs to fund Private, Voluntary and Independent providers (PVI) of the free entitlement for 3 and 4 year olds.



4. **Standards Fund** – ring-fenced funding to support the extension of the free entitlement from 12.5 to 15 hours, to be 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 expected that this additional funding will be incorporated into DSG from 2011.
5. **Sure Start, Early Years & Childcare Grant** – ring-fenced funding for children’s centres, for improving the sufficiency of childcare, and for improving quality, access and inclusion in early years and childcare provision. Included within the ring-fence is funding for a range of pilots including, for example, a free entitlement for 2 year olds.
6. **Demand side funding** – significant government investment through tax credit (£1.3 billion per year for low income families through the childcare element of tax credits) and employer supported childcare vouchers (£600m per year).

Proposed changes for 2010

7. Currently many authorities fund the maintained nursery and PVI sectors differently: the former is often by means of a place-led formula, and the latter generally a flat rate of funding per pupil, per session, which is adjusted to termly actual take-up. The flat-rate used by many authorities is an inflated version of the nursery education grant value that ceased in 2003.
8. From April 2010 all authorities will be required to fund all free entitlement provision (which will have risen to 15 hours for all pupils whose parents choose to access it) through a single early years’ formula that uses the same principles to fund providers and is based upon participation. This does not mean that all providers will be paid the same value, or even that all children will attract the same amount of funding. Where characteristics of providers or children are different, for example, staffing ratios in different types of providers have different requirements or where some LAs may wish to provide additional early years support to more deprived pupils.
9. To support these new arrangements a change to primary legislation is proposed to enable all funding for the free entitlement, whether supplied by maintained or PVI providers, to be managed within the school funding regulations and the ISB. These regulations will be amended to enable funding based upon participation for all sectors (ie funding in the maintained sector will be adjusted to match take up).

Issues for discussion

1. Implications of the single formula for the future funding system

10. The single early years’ funding formula will, for most LAs, have been in operation for one year only by 2011, when any new national formula for distributing money to local authorities would commence. The changes made in 2010 will, in most cases,

be significant for all providers and we would expect LAs, in particular, to be adjusting their formulae to take account of experience from the first year of operation. Therefore, change to under-5s funding resulting from the DSG review will need careful handling. That does not, however, mean that change should not be considered.

11. When introducing the single formula for early years we need to have regard to the following concerns highlighted by our formula development partners:
 - a) admissions to schools policies in local authorities
 - It may lead both maintained nursery and reception classes to change from one admission point per year to more, regardless of LA policy, if it would result in extra funding; (particularly where the school is the admissions authority not the LA). Where there are particular differences in funding between reception and the nursery the temptation may be to move pupils into reception to gain more funding and to free up spaces for younger children. We have stated that local policies should not change as a result of the introduction of the single formula,
 - b) the longer term sustainability of maintained nursery schools
 - Nursery schools are bound by particular regulatory requirements which would generally make them more expensive than other providers. LAs have commented that this is not being recognised by other providers as part of discussions about the new formula. We are clear that there are legitimate differences that make nursery schools more expensive (more infrastructure, different staffing requirements, etc.). Such costs should be recognised in the single formula and should not be used as an excuse to close nursery schools. While the formula should not be there to prop-up an unpopular nursery school, a nearly full nursery school should receive enough funding to continue.
 - c) the sustainability of PVI providers resulting from shifts in parental preferences
 - The introduction of participation-led funding should encourage maintained settings to market themselves more to ensure they are full. This, together with the changes potentially being made by maintained providers under bullet 1 could potentially reduce the number of parents choosing PVI providers if there are more places in maintained provision. This could potentially lead to a shortage of places longer term where PVIs have closed due to aggressive marketing in the maintained sector.
12. Both the maintained and PVI sectors have concerns about the new system – the maintained sector that it will lose funding and the PVI sector that it will lose children. These concerns need to be addressed.

13. Therefore the formula review may wish to consider changes that might stabilise these positions and remove potential perverse incentives.

Does the group think that we should tackle these issues proactively through the funding system or policy changes?

2. Creation of an Early Years Budget

14. At present, there are two main sources of funding for early years:
- Funding for the provision of the free entitlement to early education for three and four year olds, through the Dedicated Schools Grant
 - The ring-fenced Sure Start, Early Years and Childcare Grant.
15. The SureStart Grant is currently ring-fenced. The question will arise as part of the Formula Review of whether this ring-fence should be removed from early years provision. Removing the ringfence would be in line with the Government's preference set out in the Local Government White Paper for funding local authorities, i.e. to increase flexibility to respond to local priorities by mainstreaming and removing the ringfence from grants where it is possible to do so. The case for the Sure Start ring fence will need to be considered as part of the next Comprehensive Spending Review, balancing this with the case for ringfencing new and developing areas of policy, and other performance management structures in place for childcare and early years.

What does the group think about removing the Sure Start ring-fence? What are the likely issues?

16. If the HMT Sure Start ring-fence is removed, we may wish to consider if we still need to put some form of ring-fence around early years funding. We could consider bringing together the Sure Start grant with the early years funding in the DSG, which would give greater coherence to the current funding system for early years. There seem to us three high level options for the review to consider:
- a) A new ring-fenced Early Years budget which would bring together the two funding streams to encompass all funding for early years, including children's centres and the free entitlement. Funding in the current Sure Start Grant for over-5s would be absorbed into the general DSG;
 - b) The ringfenced Sure Start, Early Years and Childcare Grant is absorbed by the DSG. The total amount of early years funding, including that grant and the free entitlement money, could still be identified within the DSG but would not be ring-fenced.
 - c) Rolling all of the Sure Start Grant into the overall DSG, without any ring-fence or separate identification of early years funding.

Which of these proposals does the group favour? What issues are there with these approaches?

3. Funding 3 year olds

17. Currently the DCSF funds all local authorities at a minimum take-up of 90% for three year olds. This is intended to act as an incentive for those LAs with low numbers to increase take-up of the free entitlement, without financial penalty. However, data for the last three years suggests that this is acting as a disincentive, as take-up is only increasing in those LAs where participation is greater than 90%. In other LAs, take-up is remaining static or even falling. With this in mind, we are minded to change the thresholds so that LAs are only funded to a small percentage above actual take-up.

Does the group agree with this approach? Should we set a maximum? Or should we consider completely removing the threshold?

4. Funding 4 year olds

18. The free entitlement is offered to 3 and 4 year olds for up to 2 years prior to reaching compulsory school age, although we acknowledge in the Code of Practice that in many LAs, children are admitted to school before they are 5 and are therefore funded for full-time provision in reception classes.
19. Unlike nursery classes, children in reception have been admitted to the primary school and so, for the purposes of implementing the single early years formula, local authorities have been advised that pupils admitted to reception classes should be funded through the school funding formula. Pupils not yet admitted to reception classes should be funded through the single EY formula even where these pupils share a teacher or class space. This distinction between pupils in reception and pupils not in reception in the maintained sector may not be considered equitable as all these pupils follow the Early Years Foundation Stage curriculum.

Should the LA funding system look at an age-based approach to funding pupils under compulsory school age regardless of whether they have been admitted into reception or not? If we proceed with an under-5 ring-fence, should this include children in reception classes?

5. The Childcare Strategy

20. The focus of early years funding to date has been on ensuring a universal free early education entitlement for 3 and 4 year olds and on securing sufficient provision for disadvantaged families in particular, including that delivered through children's centres. The Prime Minister announced last week a new aspiration for universal provision for 2 year olds.

21. The childcare strategy document planned for the autumn will build on the driving principles set out in the 2004 childcare strategy: supporting child development, supporting employment and recognising family preferences. Funding has clearly to play a role in all these areas and a good funding model will help us meet these objectives in a way that narrow gaps between disadvantaged children and their peers. The current development on the single funding formula is the first step in this direction and the childcare strategy to be published in autumn will look more widely as to how we can strengthen the childcare provision through more effective funding support and strengthening the free entitlement.

***How can we use funding to improve the way LAs commission early years provision?
How can we improve the link between funding and outcomes?***

Childcare Division and School Funding Unit

DCSF

September 2008



Dedicated Schools Grant (DSG) Formula Review Group

National Day Nurseries Association (NDNA) Submission to the DSG Formula Review Group

Introduction

Reforms being considered by the DSG Formula Review Group are fundamental for the future of the early years free entitlement. NDNA therefore welcomes the opportunity to brief the review group on this special part of its work programme, which presents some challenges and issues distinct from other aspects of under-19 education funding. Here we summarise the views of the day nursery sector — mainly private, voluntary and independent (PVI) settings — and how proposed reforms should make the free entitlement function more smoothly and sustainably.

In recent years the scheme has hampered relations between childcare providers, local authorities and central government. The vast majority of PVI day nurseries support the principal of a universal free entitlement for three- and four-year-olds. But many report that the hourly rate they receive from the local authority for delivering a child's free entitlement is less than the cost they incur in providing early years care and education, creating an unfunded black-hole in settings' finances. Central government says it is convinced the overall funding pot within the DSG is sufficient.

It appears to us that the planned reforms aim to make existing funding go further by aligning local authority payments per child more accurately with a provider's delivery cost. Accounting for 80% of the UK's 15,000-plus day nurseries, PVI providers are a key delivery partner on the extended, flexible free entitlement and the Childcare Act. Yet the sustainability of many settings is being stretched as they adapt to a range of governmental interventions. Improvements to the workings of the early years element of the DSG could help significantly towards alleviating that pressure.

As such, NDNA believes the various reforms, including a single funding formula, offer a way to apportion and distribute money fairly and transparently into frontline settings. This will result in long-term benefit of children, families and local communities. It may also preclude more far-reaching reform or end calls for extra government investment in the early years free entitlement. This paper continues to look at particular issues and current challenges. We would be happy to discuss this submission with you further or answer any questions you may have on it.

About NDNA

NDNA is the national charity representing children's day nurseries across the UK. Through our National Early Years Enterprise Centre we give day nurseries information, training and

support so they can provide the best care and education to young children.

NDNA is also the voice of the day nursery sector, an integral part of the lives of nearly one million children and their families. NDNA works with local and national government to develop an environment in which quality early years care and education flourishes.

For more information please visit our website at: www.ndna.org.uk.

The extended, flexible free entitlement

PVI day nurseries providing full daycare have been identified as a core delivery partner for the extended, flexible free entitlement — a key government initiative in this area. DCSFs latest annual survey of childcare providers found 80% of full daycare settings prepared to allow children to take free entitlement sessions over three rather than five days.

Other types of providers were far less confident about providing the flexible free entitlement. Only 37% of sessional daycare, 25% of nursery schools and 18% of primary schools with nursery or reception classes felt they could adjust to flexibility (DCSF Childcare Providers Survey 2007, p.64). PVI day nurseries are keen to show a customer focus to meet the needs of local children and their parents.

Despite that enthusiasm in principle, providers also emphasise the need to reform the way the free entitlement is allocated and distributed so that the extension to 15 hours a week does not squeeze the early years sector's sustainability even further. DCSF guidance appears to set out a reasonable framework to help local authorities and childcare providers with progressive implementation of the extended, flexible free entitlement. Ensuring the funding pot overall and rates agreed for providers locally are sufficient is equally important to the scheme's success.

Getting funding to frontline settings

Planned reforms to the free entitlement element of the DSG should also ensure funding is distributed more fairly — and in relation to costs — across the early years sector. Local authority providers' costs analyses and the single funding formula, for example, will help councils apportion the free entitlement more accurately to meet the range of costs locally, dependent on a setting's location, overheads, staffing, business rates and other factors. This is important as childcare market analysts Laing & Buisson have shown how childcare costs vary across geographical areas.

Laing & Buisson's latest data also highlight in equal measure the PVI sectors' underlying support for the free entitlement and concern that per child funding rates more accurately relate to the provider's per capita costs. Two-thirds of day nurseries responding to Laing & Buisson's survey said their setting was not recovering cost from the local authority on free entitlement sessions. Earlier this summer a NDNA members' survey found a similar level of settings making a loss on free entitlement sessions. But Laing & Buisson found that if underfunding was resolved then the same proportion of providers would be keen to extend the scheme to two-year-olds too.

Ensuring that funding gets through to the frontline in proportion to the costs a provider incurs delivering the free entitlement is vital for the childcare sector's long-term sustainability. This requires variation in funding rates across types of settings and between geographical areas. To facilitate that process NDNA has developed a costing tool as part of its work with DCSF and local authorities, which offers a basis for factors to incorporate in a single funding formula. It should also contribute to a more consultative and open approach to determine free entitlement funding rates locally.

The reform package

Early years represents a particular, specialist part of the DSG and we feel that a variable funding model emerging from a single funding formula, per head pupil counting methods and local providers' cost assessment offers a strong prospect of resolving challenges around the free entitlement. Early years representation on Schools Forums and early years sub-groups in local authorities, which involve local providers from all sectors, are also important to building trust and transparency in the system. However, the single funding formula is the critical factor and DCSF will need to lead on effective formulae and ensure it is applied to a consistently high standard in localities across England and Wales.

We also realise that proposals require consideration and procedures need preparation, but advancing the reforms as soon as possible will relieve some of the urgent sustainability problems felt by a number of PVI providers. Could special arrangements for early years be agreed and implemented before 2011-12? Moreover, if it transpires that these are not successful, further reforms — such as a separately identified early years budget — may need to be considered despite the trend towards local flexibility.

Sustainable childcare provision

Why is all this important? Essentially to secure early years care and education provision locally — stability for children and parents, councils and providers. Given fees represent the overwhelming majority of providers' income — combined with increasing hours of free entitlement — it is critical that providers receive payment in proportion to their costs. This will safeguard childcare's mixed economy of provision, a crucial factor in maintaining genuine choice for parents and promoting quality early years for children.

It will also secure a firm foundation for local authorities and childcare providers to pursue central government's overall policy goals: namely, enabling every child to succeed and narrowing the gap in attainment between advantaged and less advantaged children. Indeed, sustainability is particularly important in the most disadvantaged communities where uptake of formal childcare can be lowest. 57% of childcare provision in deprived areas is offered by PVI settings, and many have capacity to spare. More sustainable rates of free entitlement funding could consolidate these settings and secure flexible access for more children from lower income families, an outcome that would work towards the Children's Plan and continues to advance Every Child Matters.

DCSF's latest childcare providers survey identified the urgency behind these reforms as providers could be further squeezed by the free entitlement's extension to 15 hours a week

and the new flexible offer. The survey found only 30% of PVI full daycare providers recorded a profit or surplus in 2007, down from 43% in 2003. Meanwhile 18% were running at a loss — more than in 2006. But full daycare in Sure Start Children's Centres reported an even worse picture — only 7% doing better than breaking even (DCSF Childcare Providers Survey 2007, p.166). These are important concerns because profit and surplus one year can enable investment in quality, staff and settings the next or prevent above inflation fees rises and aid affordability. Getting more appropriate resources from the free entitlement into frontline delivery is a key factor.

In summary:

This paper sets out reasons why the approach to allocating and distributing the early years free entitlement element of the DSG requires review and reform in order to deliver key policy goals. NDNA believes the reforms proposed, such as a variable funding between sectors, reflecting their differing delivery costs and a single funding formula, have the potential to alleviate sustainability problems encountered by childcare providers — maintained and PVI — that have resulted from under-payment. That should harness PVI support for the free entitlement and secure a range of sustainable, flexible and quality childcare provision in communities across the country for children and families of all backgrounds. However, further reforms, including separately identifying early years funding, should not be ruled out until evidence shows the success of forthcoming changes.

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