

REPORT TO THE EARLY YEARS REFERENCE GROUP (EYRG)
DCSF FUNDING EARLY YEARS

1. PURPOSE

1.1 To advise the EYRG on the current DCSF thinking for the future funding of Early Years.

2. BACKGROUND

2.1 As part of the national review of the Dedicated Schools Grant (DSG) for 2011 the DCSF through the national Formula Review Group (FRG) is to review the costs of funding for early years and how these are allocated within the DSG.

2.2 A meeting of the FRG in September 2008 considered an initial paper on the issues. Also, the DCSF are currently in the process of briefing LA's on their current thinking via a series of national workshops.

3. FRG PAPER SEPTEMBER 2008

3.1 The FRG paper is in the attached Appendix. The key issues are detailed in the following sections.

3.2 Current Funding Streams for Early Years

(a) DSG

This is made up of the Individual School Budget (ISB) delegated to maintained schools and the centrally retained element of the Dedicated Schools Grant (DSG) for non-delegated services. Funding for maintained nursery provision is in the ISB and funding for PVI's to deliver the free entitlement for 3 and 4 year olds for 12½ hours per week for 38 weeks is in the centrally retained element of the DSG. For Worcestershire this amounts to £11.2m in 2008/09 as follows: -

Sector	£	DSG Source
Maintained (AWPU and Nursery Protection)	2,896,340	Delegated ISB
PVI	8,303,170	Central DSG
Total	11,199,510	

(b) Standards Fund

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 is £4.4m. It is anticipated this grant will be incorporated into the DSG from 2011.

(c) Sure Start, Early Years and Childcare Grant

This is a ring fenced grant for children's centres, improving sufficiency of childcare, graduate leader fund, every child a talker, social and emotional aspects and improving quality, access and inclusion. In 2008/09 the grant for Worcestershire is £10.9m.

3.3 Proposed Changes for 2010

(a) Many LA's fund the maintained and PVI sectors differently (usually place led compared to per pupil actual take up respectively). From April 2010 the free 15 hour entitlement will have to be funded via a single early years formula 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.

(c) This change will require amendments to primary legislation and to the existing school budget funding regulations.

3.4 Implications of the Single Formula for the Future Funding System

(a) The new DSG will come into operation in 2011 a year after the requirement to introduce the new single formula for 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 move 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 single formula.
- Nursery School Sustainability – the additional costs for these providers should be recognised in the single formula and should not be used as a tool to close popular nursery schools.
- PVI Sustainability – the marketing of the maintained sector could adversely impact on the parental choice within the PVI sector.

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

3.5 Creation of an Early Years Budget

(a) Section 3.2 above detailed the funding streams for early years. The DCSF are questioning whether to remove the ring fence for the Sure Start, Early Years and Childcare Grant. This will be considered during the next Comprehensive Spending Review (CSR).

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

- A new ring-fenced early years budget bringing together all the above funding streams.
- The ring-fenced Sure Start, Early Years and Childcare Grant is 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.

3.6 Funding 3 Year Olds

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.

3.7 Funding 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 pupils not yet admitted to reception classes should be funded through the single early years formula even if they share a teacher or class space.

3.8 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.

4. PAPER FROM THE NATIONAL DAY NURSERIES ASSOCIATION (NDNA)

4.1 This is also attached for information. The key issues include: -

(a) 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 early years care and education.

(b) A single formula offers the way to apportion and distribute resources more fairly and transparently into frontline settings.

(c) 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. This is not so evident in the maintained sector.

(d) Variation is required in funding rates across types of setting and geographical areas.

(e) The LA will need to lead on effective formulae and ensure it is applied to a consistently high standard.

(f) Providers need payment in proportion to their costs.

5. DCSF NATIONAL WORKSHOPS

5.1 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 single funding formula.

5.2 There were also national inputs from pilot LA's who are implementing the single formula from April 2009.

5.3 In terms of the single formula the key issues include: -

(a) 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.

(b) 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.

(c) 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 early years 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.

(d) 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 formula for all providers.
- Current proposals include: -
 - significantly limiting place led funding.

- requirements to set indicative budgets for all settings.
- allowing budgets to be adjusted to reflect participation in all settings.

6. RECOMMENDATION

The EYRG considers the above issues as required.

Andy McHale
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