

BRIGHTON AND HOVE CHILDREN AND YOUNG PEOPLE'S TRUST
EARLY YEARS SINGLE FUNDING FORMULA

Summary

Local authorities can choose to use a single local formula for funding the early year's free entitlement in the maintained, private, voluntary and independent (PVI) sectors from April 2010. All local authorities will be required to do this from April 2011. Local authorities must follow guidance published by the Government.

The main features of the Early Years Single Funding Formula are:

- i) Three basic hourly rates:
 - a. private, voluntary and local authority group childcare providers
 - b. childminders.
 - c. maintained and independent school nursery classes and nursery schools (this includes a quality supplement).
- (ii) A deprivation supplement for children who live in worst 20% Super Output Areas. The funding for deprivation will be 5% of the total budget.
- (iii) Quality supplements based on four levels of quality based on achievement of quality assurance programmes and staff qualifications. Private and voluntary settings with an Early Years Professional will be paid at the same rate as maintained providers.
- (iv) Not to include a supplement for flexibility (to be reviewed for 20010/11).
- (v) Additional funding for children with significant special needs in maintained schools – this is already in place for PVI providers.
- (vi) Additional sustainability funding for maintained nursery schools and small group providers with 24 places or less.
- (vii) Transitional protection – to reduce any losses for PVI providers and nursery schools by 50% after inflation. Maintained schools with nursery classes will be protected by the Minimum Funding Guarantee.
- (viii) To base funding on the participation of children in each setting each term. Providers will be given an indicative budget at the start of each year. This will then be adjusted to reflect participation on common head count dates for maintained and PVI providers. Budgets will also be adjusted to take account of children who join or leave after the headcount day.

To adjust maintained budgets at the end of the financial year and PVI budgets on a termly basis with cash advances paid monthly.

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1. Background and principles

Since April 2004 all 3 and 4 year olds have been entitled to part-time free early learning and childcare. The entitlement is being extended from 12.5 to 15 hours from September 2010. The new offer aims to improve child outcomes by increasing access to good quality early years providers and by helping parents to balance work and family life – both of which are crucial to reducing the effects of child poverty.

The Government announced in June 2007 that local authorities must design and implement a single local funding formula for funding the free entitlement to early years provision for 3 and 4 year olds across all sectors. The formula is not about a single rate of payment. The aim is to introduce a consistent method of funding based on a set of core principles to improve the fairness and transparency in the way that funding is allocated to providers.

Local authorities must follow Government guidance. You can read a copy of the guidance at www.dcsf.gov.uk/everychildmatters/earlyyears.

The Early Years Single Formula must:

- Facilitate greater flexibility of providers to give parents greater choice in how they use the free entitlement.
- Preserve a mixed market and be developed in consultation with all early years settings.
- Incentivise improvements in quality 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 based on participation and not places. Participation must be counted on at least a termly basis and budgets adjusted accordingly.
- Be based on a detailed understanding of costs in both the maintained and PVI sectors;
- Take account of the sustainability of all settings, giving sufficient stability for all to plan for the future and improve quality.

The proposals in this paper take account of these principles and are based on work which has included detailed analysis of the costs of providing free early learning by different providers.

2. Code of Practice on the Provision of Free Nursery Place

The Code of Practice on the Provision of Free Nursery Places for Three and Four Year Olds sets out how the free early years entitlement must be delivered and all PVI providers have to sign an agreement based on the Code. The Government is revising the Code and a new draft has been issued for a formal consultation. The final version will be implemented in September 2010. The Code may suggest that all funded providers including schools should sign up to the same local agreement.

3. Early Years Single Formula in Brighton and Hove

3.1 The Structure of the Formula

The guidance suggests that the structure of the formula is likely to be:

(Basic hourly rate	+ Hourly supplements)	X Number of hours of participation	+ Other supplements
May vary according to the providers cost structure	Additional amounts per hour for extra need or to recognise policy objectives such as improving quality	The method of counting must be the same for all providers and take place at least termly	In limited circumstances (eg sufficiency) it may be appropriate to provide lump sum amounts

3.2 Basic hourly rates (89.4% of the total funding)

The cost analysis of the different providers has shown that there is a difference between the costs of the following main types of providers:

- Maintained nursery classes which have to work to a ratio of a qualified teacher (on teachers' terms and conditions) and level 3 practitioner for 26 children. The costs of a head teacher are spread across different year groups. Some Independent schools have a similar structure.
- Maintained nursery schools work to a similar structure but also have to support the full costs of a head teacher. The guidance states that there is a presumption against closing maintained nursery schools.
- Private, voluntary and local authority childcare providers. There is a wide range of costs in the sector. The costs vary more according to the size of the group and qualification levels rather than whether a group is private or voluntary. Groups with staff with higher qualifications have higher costs as do small sessional providers. Most costs for providing free early learning for three and four year olds are below the existing rate of £3.72 an hour. It is recognised that some providers in the city charge parents considerably more than this.

- Childminders who have to work on a 1-3 ratio

The proposal is to use three different base rates based on the analysis of the costs of provision.

Provider	Rate – based on 2009/10 rates	Proposed rate for 2010/11 (not yet agreed)
Schools with classes led by a qualified teacher on teacher’s pay and conditions or equivalent - both maintained and independent. The rate is based on the average hourly cost of a maintained nursery class.	£3.60	£3.73
Group childcare providers – private, voluntary, independent and run by the local authority and are eligible for the Graduate Leader Fund. This rate is based on the average hourly rates in group PVI settings of different sizes.	£3.45	£3.57
Childminders – not eligible for the Graduate Leader Fund. The rate is based on 100% occupancy.	£3.72	£3.85

The additional costs of smaller childcare providers and those with Early Years Professionals and qualified teachers will be recognised through a quality supplement. Childcare providers can also access the Graduate Leader Fund.

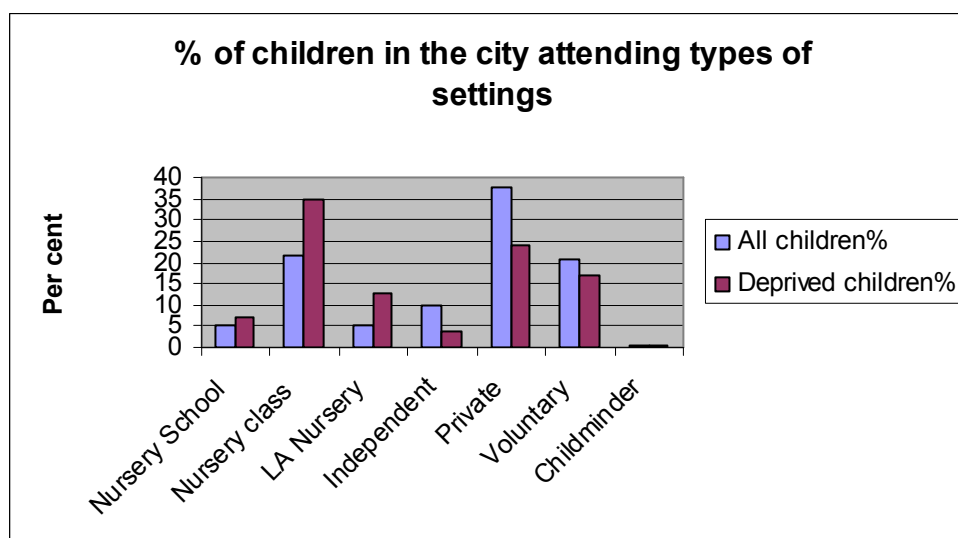
3.3 Deprivation Supplement (5% of the total funding)

We have to include a supplement for deprivation. Five per cent of the total budget will be used to fund deprivation. This is consistent with funding for deprivation in the school funding formula. The proposal is to provide additional funding for any child who lives in a lower super output area identified by the Index of Deprivation Affecting Children as one of the worst 20% in England. We have chosen the worst 20% areas because this is comparable with the proportion of pupils included in the Free School Meal take up indicator used to fund deprivation in schools. We know that children from these areas are likely to have worse early years outcomes than their peers:

The following table shows the percentage of children achieving a good score in the Foundation Stage Profile at the end of their reception year at school.

	Children achieving a good score at the end of their reception year	
	2008	2009
Children Living in 20% Most Deprived Areas	33%	42%
All children	47%	56%

The following table shows the distribution of children who live in worst 20% Super Output Areas across different types of settings. Local authority nurseries (which include three Children’s Centre nurseries, the Jeanne Saunders Centre and Bright Start) have the highest proportion of deprived children followed by maintained nursery classes and schools.



The value of the supplement per hour based on 2009/10 for a child living in a worst 20% area is 75p (this is likely to increase to 79p in 2010/11).

3.4 Quality Supplement (2% of the total budget not including the higher base rate for schools)

The guidance asks us to consider a supplement to incentivise quality as all the available evidence shows that quality is the key driver for improving children’s outcomes and narrowing attainment gaps.

We are not proposing to use Ofsted ratings as a measure of quality because inspections only take place every three to four years in most settings.

We are proposing different quality supplements for childcare providers and schools because of their different staffing structures, cost bases and sources of funding.

Quality supplements for group childcare providers and childminders:

Level	Description	Value per hour 2009/10 and 2010/11
Level 1	Three Quilt modules at a credit level including Relationships and Interactions and/or a member of staff working at least 15 hours a week with a level 5 or 6 qualification working towards EYP status.	Basic rate plus £0.05
Level 2	Six Quilt modules at a credit level including Relationships and Interactions. Accreditation with another nationally recognised quality assurance programme would also count.	Basic rate plus £0.10
Level 3	A full time QTS or EYP working at least 15 hours a week in the setting at a ratio of 1-26 children at any one time (based on the total number of children in the setting – children can be in different rooms).	Basic rate plus £0.16p

A credit award for the Relationships and Interactions module of QuILT indicates a high level of adult engagement in children's learning where practitioners develop sustained shared thinking with the children. This has been identified by the national EPPE research as a key indicator of high quality provision.

These rates take account of the availability of Graduate Leader Funding for non-maintained providers who are open for at least three hours a day, 38 weeks a year.

The supplement will be reviewed in future years to take account of other funding streams including the Graduate Leader Fund.

The supplement will be based on information from the January preceding the financial year (ie. For 2010/11 data used will be as at January 2010).

Providers on the early years register must complete the Children's Workforce Development Council (CWDC) Early Years Workforce Qualifications Audit Tool to receive funding. Providers must also amend/update staff records when changes occur such as when an employee joins the settings, leaves the setting or gains an additional qualification. The CWDC audit tool is an on line database, which early years registered settings should use to record and store information about their setting and their staff. It is a way of recording the qualifications that staff hold or are working towards and their additional training and development achievements.

Quality Supplements for Schools

	Description	Value per hour 2009/10	Proposed value 2010/11
To qualify for the higher basic rate (equivalent to the Level 3 quality supplement).	One teacher working to teacher's pay and conditions (or equivalent) and one qualified level three to a maximum of 26 children at any one time. All maintained nursery classes and schools would qualify for this factor. It is expected that some independent schools will also qualify.	Higher basic rate of £3.60 an hour	Higher basic rate of £3.73 an hour
Level 4	Where an upper pay scale (UPS) teacher (or a teacher with an annual salary in excess of UPS1) is employed directly in the capacity of class / group teacher.	£0.13 (paid in addition to level 3).	£0.13

3.5 Flexibility Supplement

The guidance encourages local authorities to include a supplement to encourage more flexibility. We are proposing not to introduce a supplement in 2010/11. We will consider whether to introduce one for 2011/12 when we know how much additional funding is available in the Dedicated Schools Grant.

For 2009/10 and 2010/11 there is separate, additional funding for the increase to 15 hours and to increase flexibility. This is being used for the settings piloting the increase to 15 hours from September 2009 and will be available to all settings from September 2010. Funding from September 2009 was based on the same hourly rate as 12.5 hours plus a lump sum. We want to evaluate how this works before agreeing to the system for September 2010.

3.6 Special Needs (1.3% of the total budget share – this increases to 3% if the additional funding for PVI settings is included)

At present children with significant additional needs in the PVI sector are funded to receive extra support from a centrally held budget of £130,000. This funding is held centrally and has not been included in the Early Years Single Funding Formula. Children are assessed by the Pre-School SEN Service (Presens). The centrally held budget works well because some PVI providers have a very small number of children.

This funding is not available to schools who have been expected to fund additional costs themselves. However the formula factors relating to special needs do not take account of children in nursery classes. A very small number of children receive additional funding through a statement but it is

unusual for a statement to have been agreed by the time a child is ready to start nursery. In some cases this has meant that children with special needs have either not be able to attend nursery classes or have had difficulties accessing the EYFS.

The intention is to ensure that all children are supported to access the EYFS whichever setting they attend.

We are therefore proposing to allocate a supplement to fund additional support for children with special needs to maintained nursery classes and schools. We are proposing to allocate this funding to schools rather than hold it centrally because guidance from the DCSF is that as much funding as possible should be directly allocated to schools. The supplement would be based initially on the estimated annual hours of provision for that setting. The allocation would then be adjusted in year based on a termly count of children who have been assessed by the Pre School SEN Service or the Sensory Needs Service as needing additional support. These assessments will be consistent across maintained and PVI setting and will ensure that the child can access the EYFS. The children will at Early Years Action Plus and will have had a Common Assessment Framework (CAF) completed.

The funding will not usually mean one to one support for the child and the aim will be to support the child to become more self-sufficient by the time they leave nursery. Schools will be expected to provide 50% match funding to ensure consistency with the way older children are funded in schools. Most nursery classes are receiving a significant amount of funding for deprivation which can be used for the match funding.

For the first year we are proposing to allocate a total of £90,000 to maintained school nursery classes and schools. This is based on an estimate of funding an average of 7.5 hours of additional support for 26 children.

3.7 Sustainability

There are some settings who face particular sustainability issues.

Nursery Schools (1.6% of the budget)

Maintained nursery schools have a higher cost base because they have to employ a head teacher. The cost of the head teacher is a disproportionate cost because of the small sizes of the nursery schools compared to other maintained schools. The proposal is to pay both nursery schools a lump sum to cover the additional costs of the head teacher.

Small providers (0.5% of the budget)

The cost analysis showed that small sessional providers with less than 24 places can have greater costs because they do not have the economies of scale of larger providers. The proposal is to pay these providers a lump sum

to help ensure their sustainability. The proposal is to fund at following rates based on a snap-shot in January.

PVI Providers	Registered number of places		
	3 to 8	9 to 16	17 to 24
Lump sum supplement	£1,000	£2,000	£1,000

3.8 Transitional Protection (0.3%)

PVI Providers

For 2010/11 it is proposed to include some additional funding to reduce any losses (after the application of 2010/11 inflation) by 50% for PVI providers.

Maintained Nursery Schools

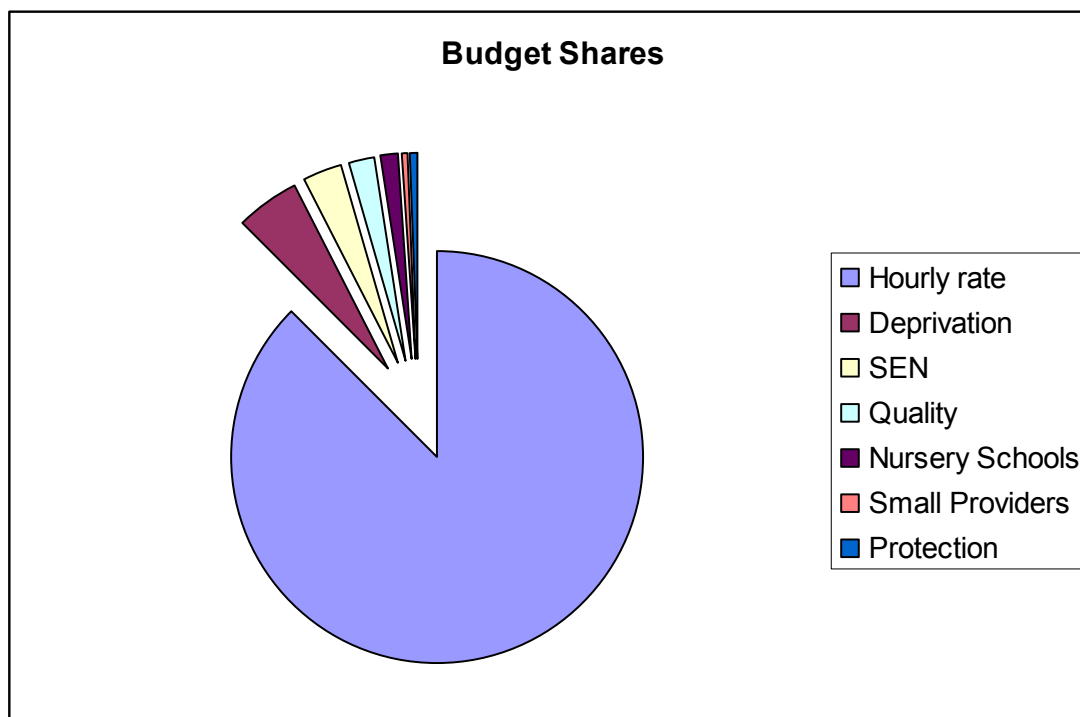
The proposal is to include additional funding to reduce any losses by 50% and to exclude maintained nursery schools from the MFG. This is because nursery school budgets are wholly based on nursery pupils and the MFG would completely negate the impact of the introduction of the single formula. It will be necessary to seek Schools Forum approval to exclude maintained nursery schools from the MFG.

Maintained Nursery Classes

For maintained schools with nursery classes it is not proposed to operate this protection as the Minimum Funding Guarantee arrangement will be in place.

3.9 Summary of the budget shares for 2010/11

This chart shows the distribution of funding between the hourly basic rates and the supplements. The majority of the funding – just under 90% is allocated to the basic hourly rate.



Funding allocations will be reviewed for 2011/2012 and will take account of additional funding in the Dedicated Schools Grant for the increase to 15 hours.

4. Indicative budgets, counting and adjusting for participation-led funding

4.1 Indicative Budgets

Funding must be based on participation and not places. The counting must take place at least on a termly basis. Local authorities must provide all providers with an indicative budget at the beginning of the financial year which broadly reflects anticipated participation. When these indicative budgets are produced in March the actual pupil numbers and number of hours taken up will not be known. Instead, the indicative budget will be based on an estimate of participation.

The proposal is to base the indicative budget on the actual pupil attendance at the provider in the previous year. So for 2010/11, the indicative budget of providers would initially be based on actual pupil attendance in summer 2009, autumn 2009 and spring 2010. DCSF advise that experience from the pilot authorities suggests that basing figures on the previous year's census for each of the three terms is a reliable indicator in the majority of cases.

In addition to this, for new providers or providers where there are exceptional circumstances (e.g. large planned increase in pupil numbers) a more realistic estimate could be determined based on discussions between the provider and the LA.

4.2 Counting

At present there are separate count dates for maintained schools and PVI settings for two of the three terms. It is proposed to move to the same single headcount date each term for all maintained and school and PVI providers. This would ensure that each pupil is only counted once and would ensure a consistent approach across all sectors.

It is proposed to align the headcount days with the DCSF count dates. For 2010/11 these are:

- 20th May 2010 (3rd Thursday in May)
- 7th October 2010 (1st Thursday in October)
- 20th January 2011 (3rd Thursday in January)

4.3 Adjusting Budgets

There will be a requirement that, as a minimum, participation must be counted on a termly basis across all providers and in order to support a genuinely participation-led approach the LA must adjust budgets to reflect fluctuations in participation within the financial year, across all settings. Providers will need to know as early as possible the effect that the termly adjustments will have on their budgets.

For the maintained sector any adjustment to budget is likely to represent a very small proportion of their overall budget share and to minimise administration it may be reasonable for the actual adjustment to the budget to be made as a 'wash-up' at the end of the financial year. PVI providers however have different needs as they need to pay staff monthly and need to have the cash to do so. LAs therefore must consider how they will notify providers of adjustments to budgets and how they will pay providers the adjusted budget so that the provider remains viable and does not have cashflow difficulties.

It is proposed that the maintained sector will receive advances to their school bank accounts in the usual way – a lump sum in April and then an adjustment to this in September.

For PVI providers it is intended that cash advances will be paid to each setting on a monthly basis. This is a move away from the twice termly payments currently in place and should improve their cashflow. Initially, at the start of each term, payments would be based on estimated pupil attendance. These payments would then be adjusted part way through the term, following the headcount, to reflect actual attendance. This means that the amount of each monthly payment may vary dependent on whether pupil participation is higher or lower than anticipated.

The funding each provider will receive will be based on the actual pupil attendance at the headcount dates. Providers will be able to claim additional funding for children who join after the head count dates.

5. Financial Implications and Impact Assessment

Cost of early years single funding formula

It is anticipated that introducing the single funding formula is cost neutral after taking account of protection arrangements. However, within this context there will be winners and losers across all sectors. Please note that, at this stage, all calculations are based on provisional data and that this will be subject to change prior to the calculation of actual budgets.

The overall position across all sectors is shown below in comparison to actual funding in 2009/10:

a) Based on total 2009/10 budget (before inflation and protection)

Designation	Total funding impact (£'000)	Number of settings	Average impact per setting (£'000)	Average percentage per setting
Nursery schools	-23	2	-11.5	-5.0%
Nursery classes	+34	19	+1.8	2.2%
Childminders	+2	7	+0.3	7.8%
LA Nurseries	+29	5	+5.8	8.9%
Independent	0	12	0	0%
Private	-45	58	-0.8	-1.9%
Voluntary	+3	32	+0.1	0.2%
Overall Total	0	135	0	0%

The increase for nursery classes includes the additional funding for children for SEN. Funding for the costs of additional support for children with SEN in the PVI sector is held in a separate budget and is not shown here.

b) Based on estimated total 2010/11 budget (after inflation and protection)

Designation	Total funding impact (£'000)	Number of settings	Average impact per setting (£'000)	Average percentage per setting
Nursery schools	-6	2	-3.0	-1.2%
Nursery classes	+84	19	+4.4	5.7%
Childminders	+3	7	+0.4	11.6%
LA Nurseries	+41	5	+8.2	12.8%
Independent	+21	12	+1.8	3.3%
Private	+43	58	+0.7	1.8%
Voluntary	+51	32	+1.6	3.9%
Overall Total	+237	135	+1.8	3.6%

