

CHESHIRE EAST COUNCIL

REPORT TO: Children and Families Scrutiny Committee

Date of Meeting: 3 August 2009
Report of: John Weeks , Strategic Director People
Subject/Title: Draft Single Funding Formula for Early Years Provision

1.0 Report Summary

- 1.1 This report seeks to inform members of a matter going before Cabinet on the 8th September regarding the draft single funding formula for early years provision to be implemented in Cheshire East from April 2010.

2.0 Recommendations

- 2.1 That members consider whether they have any comments or advice on the draft report to Cabinet which is attached at Appendix 1.

3.0 Reasons for Recommendations

- 3.1 This recommendation will ensure that the views of the Scrutiny Committee are taken into account by the Cabinet in advance of its meeting on the 8th September 2009.

4.0 Access to Information

Background papers and further information can be obtained from:
Judith Thompson, Principal Manager Integrated Services on 01244 973304 or
Gill Betton Extended Services Strategy Manager on 01244 972609

Appendix 1

CHESHIRE EAST COUNCIL

REPORT TO: Cabinet

Date of Meeting:	8 September 2009
Report of:	John Weeks , Strategic Director People
Subject/Title:	Draft Single Funding Formula for Early Years Provision

1.0 Report Summary

- 1.1 This report sets out proposals for the delivery of the single funding formula for funding the free early years provision for 3 and 4 year olds to be implemented in Cheshire East from 1st April 2010.

2.0 Recommendations

- 2.1 That Cabinet approve the draft single funding formula to go out to consultation with stakeholders in the autumn 2009

5.0 Reasons for Recommendations

- 3.1 This recommendation will ensure that the local authority carries out a full impact assessment and implements a single funding formula for early years providers that has considered all views, in line with Department for Children, Schools and Families (DCSF) guidance.

6.0 Wards Affected

- 4.1 Early years providers across all wards will be affected.

5.0 Local Ward Members

- 5.1 All

6.0 Policy Implications including - Climate change - Health

- 6.1 None

7.0 Financial Implications for Transition Costs (Authorised by the Borough Treasurer)

- 7.1 None

8.0 Financial Implications 2009/10 and beyond (Authorised by the Borough Treasurer)

- 8.1 The single funding formula will continue to be funded through the Dedicated Schools Grant. Based on the 2009/10 budget, Cheshire East's notional budget for 2010/11 is £9,697,000. The extension to the free entitlement from 12.5 hours to 15 hours to the most disadvantaged areas from September 2009 and to all providers from September 2010 will be funded through the ring fenced Standards Fund revenue grant. An indicative allocation of £1.8m Standards Fund is available for 2010/2011 when the 15 hours is available to all families.
- 8.2 Based on the projected costs of the draft funding model, the 2010-11 budget would not be used in full. This is so that there is flexibility within the budget to incentivise providers, ie, if all providers were to meet one of the quality factors, this budget would be almost spent in full. In addition, it is expected that a number of private, voluntary and independent (PVI) and maintained providers will require some transition support during 2010-11 and these costs will be met from within the unallocated budget.
- 8.3 A financial impact assessment of the draft formula has been carried out based on the budget variances between 2009/10 and the proposed 2010/11 for all early providers. This has identified a number of early years providers who are likely to experience a significant negative budget variance. The majority of these are maintained nursery units that are operating significantly under capacity. All of these have been visited and it is proposed that transition plans be put in place to offer financial support to those that need it over the 2010/11 financial year, in line with the local authority's childcare sufficiency duties. In the longer term, some early years providers where there is an oversupply of childcare may not be sustained.
- 8.4 If the proposed formula were applied to PVI and maintained providers across Cheshire East there would be a number who would experience either an increase or decrease based on their existing budget. There are currently 203 early years settings and the table below sets out the impact on their budget should this formula be implemented. Officers have met with those providers who, based on this assessment, would have the greatest budget variances to establish options for the future and levels of support required.

Variance	Number of providers compared to		
	2009/10 rate of £3.50	2008/09 rate of £3.36	Sector cost analysis* ¹
- £6001 and above	9	7	7
- £3001-£6000	17	5	2
- £1001-£3000	35	20	1
+ or - £1000	78	59	6
+ £1001-£3000	32	44	28
+ £3001-£6000	16	29	58

+ £6001 and above	16	39	101
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*¹ The sector cost analysis report was published in June 2008 and based on data from 2006/2007 and 2007/08.

9.0 Legal Implications (Authorised by the Borough Solicitor)

- 9.1 The single funding formula is intended to fund, across the maintained and PVI sector, the free entitlement to early years provision for 3 and 4 year olds across all sectors which is the authority's statutory duty under Section 7 of the Childcare Act 2006. It will also assist with the authority's delivery of its duty to secure sufficient childcare under Section 6 of the Childcare Act 2006 by supporting the requirement to deliver the free entitlement flexibly and to address inconsistencies in how the offer is currently funded. The authority will commission PVI and maintained sector early years providers to deliver the extended flexible entitlement under the terms of contracts which will be approved by the Borough Solicitor.

10.0 Risk Management

- 10.1 The application of the Single Funding Formula could overspend its allocated budget should participation increase beyond that forecast. Control measures have been put in place to reduce this risk by setting aside a contingency budget equating to approximately 5% of the total indicative allocation.
- 10.2 Administering the Single Funding Formula could place a significant additional burden on certain staff and IT systems with the Authority's Children and Families Service. There is currently a shared service project team whose remit is to ensure that there will be two new IT systems in place to hand over to Cheshire East Council and Cheshire West and Chester Council when the shared service ends. The systems are being developed to meet the new requirements of the single funding formula. Currently the administration also sits within the shared service and a Project Board is working to establish two separate administration teams - East and West and a months training for handover has been allocated.

11.0 Background and Options

- 11.1 In June 2007 the government announced that all local authorities will be required to design and implement a single local formula for funding the free early years provision for 3 and 4 year olds in the maintained and private, voluntary and independent (PVI) sectors from April 2010.
- 11.2 This new single local formula is intended to support the extension of the free entitlement for 3 and 4 year olds from 12.5 to 15 hours per week to be delivered flexibly, by introducing a consistent method of distribution of funding across all sectors based on common principles and a more transparent approach. Maintained Nursery Units currently receive funding

based on 7/12 places and 5/12 occupancy, whereas PVI providers are funded based on occupancy alone. The new formula aims to ensure that funding is more reflective of participation and supports a level playing field between different maintained and PVI providers principally by ensuring providers are funded according to participation rather than places. While funding levels and funding methodologies do not have to be exactly the same for all providers, the local authority must be clear that any differences are justifiable.

11.3 An Early Years Reference Group (EYRG), a sub-group of the Schools Forum and made up of representatives from all early years provider sectors, has been meeting quarterly since December 2007 to work up recommendations for the development of the formula, in line with guidance from the DCSF. The DCSF set out the following core principles to which local authorities must have regard when considering the operation of the formula:

- The same factors should be taken into account when deciding the level of funding for each sector;
- Decisions must be transparent and any differences between the sectors should be justifiable and demonstrable;
- The level of funding should be broadly cost-reflective;
- The formula must be based on common cost information from both the PVI and maintained sectors;
- Settings should be funded on the basis of participation, not places;
- The formula must take into account the sustainability of all settings;
- Transition from the current funding mechanism to the future funding mechanism must be planned and managed carefully, and based on a clear impact assessment.

11.4 With reference to the principles set out above, the EYRG recommend the following factors to be part of the formula:

One base rate to be applied to all sectors – a cost analysis exercise suggests a variance of approximately +/- 5% from a median value across settings from all sectors and sizes.

Flexibility - the view was taken that all settings should be aiming to enable parents to exercise flexibility within the school day (minimum 9.00-3.00).

Deprivation - local authorities are required to take positive measures to address the outcomes gaps between their most disadvantaged children and the rest of the child population.

Quality - the government is committed to every setting employing an 'Early Years Practitioner' (EYP). In addition the EPPE (Effective Practice of Pre-school Education) project suggests that the presence of a Qualified Teacher leading the practice (as opposed to an owner/manager who happens to be a qualified teacher) further improves outcomes for children.

- 11.5 The proposed application of these factors in designing a formula are set out in the table below:

Factor	Application	Additions £ per hour
Base rate	To be applied to all children	3.20
Flexibility	No flexibility	0.00
	Flexibility within school day (6+ hours)	0.15
	Extended day (10+ hours)	0.20
	If providing over 50 weeks	0.05
Deprivation	Based on % of children attending setting from deprived area	0.005
Quality	If Early Years Professional (EYP) Status	0.15
	If Qualified Teacher Status (QTS)	0.25

- 11.6 Nationally, nursery schools have been shown to have the highest cost base. DCSF guidance indicates that local authorities must remain aware of the presumption against the closure of these schools. Westminster Nursery School in Crewe is the only nursery school in Cheshire East. Officers will undertake detailed work with Westminster Nursery School to ensure it can be sustained with a formula that is cost reflective.
- 11.7 Early years providers have been fully involved in the development of the single funding formula through the EYRG. The Schools Forum has been informally consulted and endorsed the draft strategy. The next step is to proceed with a further fully transparent consultation period that gives all stakeholders an opportunity to comment on the draft formula. It is proposed that this consultation takes place in the autumn term with a view to considering responses and finalising the formula in January/February 2010 for implementation on 1 April 2010.

12.0 Overview of Year One and Term One Issues

- 12.1 None

13.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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