

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
Portfolio Holder	Councillor Paul Findlow

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 Decision Requested

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

3.0 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.

4.0 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 be funded initially through a combination of the Dedicated Schools Grant (DSG) and a ring-fenced Standards Fund revenue grant. The Standards Fund revenue grant is provided by the DCSF to fund 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. An indicative allocation of £1.8m Standards Fund is available to Cheshire East for 2010/2011 and a proportion of this grant will be used to fund the single funding formula. The modelling of the single funding formula has been based on a total notional pot (DSG plus Standards Fund) of £10,207,000. Because settings will initially be funded on estimated hours of provision, but will have their budgets adjusted to reflect actual provision, the total notional pot includes a contingency of £510,000 (5%).
- 8.2 A number of funding models have been considered and some of these are attached at Appendix 1. Based on the projected costs of the proposed draft funding model (Model 1), the 2010/11 budget would not at this stage be used in full. This allows some flexibility to accommodate changes, for example, in the degree of flexibility offered by providers and/or the number of providers meeting the quality standards. Model 3 illustrates the costs if all providers were to meet one of the quality factors. 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 There are currently 26 maintained and 178 PVI early years providers. A financial impact assessment of the draft formula has been carried out for all 204 early years settings and the table below sets out the impact on their budget should this formula be implemented. This has shown that the majority of those projected to have a significant budget reduction are maintained nursery units (MNUs) that are operating significantly under capacity. The 6 maintained settings most affected have been visited and transition plans will be put in place for 2010/11, 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.

Estimated gain/loss under proposed new formula	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

*¹ The sector cost analysis report was published in June 2008, based on data from 2006/07 and 2007/08 that identified the cost for different providers of delivering early years education.

9.0 Legal Implications (Authorised by the Borough Solicitor)

- 9.1 The single funding formula is intended to fund, across the maintained and PVI sectors, the free entitlement to early years provision for 3 and 4 year olds 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. In addition, the value of the proposed formula funding factors will be kept under review to reflect the most up to date data and any change to the total available funding pot, before the first budgets are set using the new formula.
- 10.2 Administering the single funding formula could place a significant additional burden on certain staff and IT systems within the authority's Children and Families Service. There is currently a shared service project team whose remit it 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 at the end of September 2009. 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 for East and West with a handover period. A proportion of the available Standards Fund revenue grant has been earmarked to support the administration of the new funding formula.
- 10.3 There are no guarantees of any Standards Fund to support the new single funding formula beyond 2010/11. It is probable that the grant will come to an end and the funding be subsumed into DSG. The broader DSG distribution formula is currently under review by the DCSF and significant changes are likely from 2011/12. In the light of this uncertainty a cautious approach has been taken to the overall size of the funding pot.

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 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 Nurseries 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 – an early years sector 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. New DCSF regulations will require the authority to include a deprivation factor in its early years formula.

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, eg, 20% of children attending from a deprived area would result in addition of £0.1 to base rate (20 x 0.005)	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. As schools they are subject to legal requirements not shared by other early years providers, including the requirement to have a headteacher paid on the national pay scale. 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 and currently receives a delegated budget incorporating lump sum and other funding elements similar to that received by a primary school. Officers will undertake detailed work with Westminster Nursery School to ensure it can be sustained with a formula that is cost reflective, for example, by providing an appropriate level of lump sum funding.
- 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 The Children and Families Scrutiny Committee considered the draft single funding formula at its meeting on 3 August 2009 and resolved that the Cabinet be advised that:

(a) the draft formula comprising a base rate plus additional allowances for the

- factors of flexibility, deprivation and quality be supported but consideration be given to introducing an additional allowance for provision that is suitable for children where English was not their first language;
- (b) the Committee is concerned about the inequity whereby maintained nurseries are unable to offer more than 15 hours childcare per child per week as this may put them at a disadvantage; and
 - (c) a report be submitted to the Scrutiny Committee with the outcome of the consultation on the proposals.

13.0 Access to Information

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

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Budget Impact of Formula Funding Models for Early Years

Model 1

Budget allocated based on previous 3 terms of take up applying the base rate plus additions as currently offered by settings

Provisional Pot excluding 5% contingency	£9,697,000
Budget allocated	£9,504,194
Unallocated	£192,806 (2.0%)

Analysis of £9,504,194 allocation

Base rate	£3.20	£8,566,027	90.1%
Flexibility	in hours	£ 324,824	3.4%
	In weeks	£ 47,459	0.5%
Quality	QTS	£ 367,450	3.9%
	EYPS	£ 7,399	0.1%
Deprivation		£ 191,035	2.0%

Model 2

Budget allocated as Model 1 but doubling the deprivation factor from £0.005 to £0.01 per hour per eligible child.

Provisional Pot	£9,697,000
Budget allocated with £0.01 deprivation factor	£9,695,228
Unallocated	£1,772 (0.01%)

Model 3

Budget allocated assuming all providers have reached level of quality by employing an early years professional or qualified teacher

Provisional Pot	£9,697,000
All providers have an EYPS or QTS	£9,677,857
Unallocated	£19,143 (0.2%)