

OSC, 10/11/03, ITEM1 – APPENDIX A

Item No.	Classification: Open	Date: 4 th November 2003	MEETING NAME Executive
Report title:		Early Years Best Value Review, Implementation Progress Report	
Ward(s) or groups affected:		All	
From:		Strategic Director of Education and Culture (Acting)	

RECOMMENDATION(S)

1. This is an information item.

BACKGROUND INFORMATION

2. On December 4th 2002, the Executive agreed the Best Value Vision for the Early Years Service, which set out a series of strategic objectives including a major realignment of funding of the Service that would potentially enable savings of up to £3.5m to be achieved over a 5 year period.
3. The principal objective of the Early Years funding strategy is to target Council subsidy towards services for vulnerable children and those at risk whilst encouraging working parents to claim financial subsidy towards the cost of their childcare via the Government's Working Tax Credit scheme. This approach was noted as being in line with many other London Local Authorities and would bring daycare fee levels on par with our neighbouring boroughs. It was also noted that this approach met with the objectives of the Government's 2002 spending review, which announced substantial new investment in childcare, with the intention of doubling resources between now and 2005/06.
4. Implementation of the Early Years Best Value Vision commenced in April 2003 across the Service with the first £618k budget reduction from mainstream services. The most significant area of change is directed at voluntary sector provision and Council run Early Years Centres by developing a community business culture and extending the economic mix of families using these services. It was highlighted that there was a high level of risk attached to the implementation of key aspects of the Vision, most specifically, the proposed funding strategy, and that implementation would need to be carefully managed to minimise the risk of unnecessary loss of childcare places. The Strategic Director of Education and Culture was also asked to explicitly address the issue of affordability of daycare services, effects of similar strategies on the voluntary sector in other boroughs and the impact of the new Tax Credits.
5. The Executive requested that 3 progress reports be presented during this Financial Year to monitor the implementation of the strategy.

6. The first progress report was considered by the Executive at its meeting of 17th June 2003, and highlighted that significant progress had been achieved in terms of implementation of the strategy and that all providers had begun to develop their individual business plans and pricing policies. However, it was also noted that initial difficulties were being experienced with the new Tax Credits and many parents' claims were delayed. A small number of parents (15) had prematurely withdrawn their children from their daycare provision between January and April 2003, and the reasons cited related to affordability issues and inaccessibility of tax credits.
7. The Executive requested that officers undertake a survey of Community Nurseries and Early Years Centres to establish if the level of parental income, increased fees and access to Working (& Childcare) Tax Credits has impacted on the take-up of affordable childcare for consideration in this second progress report.

KEY ISSUES FOR CONSIDERATION

Executive Summary

8. This section of the report summarises the progress made on implementing the Early Years Best Value Review and the key findings of the affordability survey. The Executive is asked to note the key points detailed below:
 - The Council has fulfilled its commitment to the community nurseries to commission a business-planning consultant and to assist them in the development of business plans. The consultant's individual analysis of each nursery has provided useful information to assess their sustainability following the implementation of grant aid reductions on 1 April 2004 without resulting in the loss of any childcare places.
 - The various surveys and subsequent analysis that has taken place since April 2003 has confirmed that community nurseries and early years centre places are still in demand following the introduction of price increases, but there have been difficulties in maintaining full occupancy levels. All nurseries have waiting lists but the highest demand is for the limited number of under 3's places. It is also evident that some parents are increasingly under pressure to terminate their nursery place to take up a part or full time educational place at a nursery/reception class in primary schools in order to secure a school of their choice, there are no fees for these services.
 - Both Community Nurseries and Early Years Centres have increased their prices to maximise their income from the WTC. The initial delay in implementing the new WTC due to Government administrative problems has improved, however this has left arrears totaling £37k to be collected (see appendix 1 section 4). This has been a problem with Council services in

terms of meeting their income targets however, community nurseries have been shielded from this effect due to the one year delay in implementing changes to their grants.

- The survey of parents income levels using both Community Nurseries and Early Years Centres indicates that there is a drift towards higher income (approximately 16% of places). At this stage this is not a significant shift but does indicate the trend that was expressed by community representatives.
- There has been a major increase in the take up of WTC in London 26,000¹ (over 50% increase on last year's figures). This trend would tend to support the successful implementation of the Best Value Review but the need for continuous monitoring and reassessment before implementing a reduction in the grants programme is recognised.
- The analysis of Community Nurseries indicates a significant amount of partnership working is taking place with plans to allocate Neighbourhood Nursery Initiatives and Children's Centre funds.
- The information collected about second and third siblings indicates that there are no major issues with families having three children under the age of five but does confirm the need to recommend discounts for parents with two children in terms of affordability.
- The Service remains on target to achieve the overall savings identified for 2004/05 (£800k), but it has been identified that the level of savings to be found from the voluntary sector may need to be reduced. Any shortfall will be considered as part of the Policy and Resources strategy for 2004/05.

Additional actions to support implementation of the Early Years Best Value Review

9. To further support the successful implementation of the Review, the following additional actions are to be implemented by officers during this Financial Year:
 - I. Where the independent business consultant has identified that there is a high risk of closure as a result of the 50% reduction in grant aid as of 1st April 2004, officers will work with these groups to establish a level of reduction that will maintain childcare places.
 - II. The final decision on grant reductions will be made in the January 2004 grants report and will be ratified by the Early Years Best Value Review report due early next year.

¹ Source Inland Revenue CTC and WTC Quarterly Statistics – July 2003

- III. A modified version of the survey of providers undertaken for this report will be conducted in January/February 2004.
- IV. Both umbrella organisations funded by the Early Years grants programme, the Southwark Pre School Learning Alliance and the Southwark Childminding Association have submitted applications for future funding following the implementation of the grant reductions. Officers are due to enter into negotiations with the groups and enter into a contract arrangement for delivery of these services from 1 April 2004.
- V. In negotiating the grants for 2004/05 officers will establish the number of places for low-income families (families claiming WTC) and students, that each community nursery is able to maintain. This will take into account the remaining level of grant aid, partnership working/development and rent subsidies.

Policy implications

10. Since the last Early Years Best Value Implementation progress report, development work with early years daycare providers (voluntary sector and Early Years Centres) has continued, and a number of achievements including those listed below have been made:
 - The Business Consultant appointed to work with voluntary sector providers has conducted a minimum of 2 half-day sessions with each organisation. An interim progress report has been produced by the Consultant which includes a provisional assessment of each organisation's ability to remain sustainable following the proposed 50% reduction of grant aid in April 2004 (see appendix 2).
 - An audit of training needs of management committee members and staff has been carried out together with an audit of premises lease/tenancy arrangements and charges.
 - Training sessions for voluntary sector Management Committees and key staff on Marketing of daycare services and setting up as a Company Limited by Guarantee have taken place.
 - Block adverts in local press highlighting availability of daycare places at Community Nurseries and Early Years Centres have been placed on behalf of organisations.
 - A specification for commissioning daycare places for vulnerable children from voluntary sector providers from 1st April 2004 has been produced. A framework for contracting these places is being developed.
 - Service Proposals for 2004 detailing modernisation options from the 2 funded Early Years umbrella organisations have been submitted for consideration.
 - A comprehensive survey of parents using daycare services has been conducted to examine affordability issues.

Working Tax Credits

11. The new Tax Credits launched In April 2003, were expected to provide more generous support for families and working parents on low to middle incomes. In summary, the tax credits provide support as follows:
- Working Tax Credit – provides a top up to wages for those with or without children on low incomes. The amount people receive will depend on their circumstances.
 - Child Tax Credit – provides additional financial support for families with children, parents may be eligible whether they work or not, including families with incomes up to £58k. Students including Student Nurses may now also be eligible for Child Tax Credits.
 - Childcare Tax Credit – is an element of Working Tax Credit to help working parents with the cost of registered and approved childcare. It will provide up to 70% of childcare costs (for costs of up to £135 pw for one child and £200 for two children) giving maximum benefits of £94.50 for one child and £140 for two. Lone parents must work a maximum of 16 hours per week to be eligible couples can apply where both partners work 16 hours or more (or where one is not working but registered disabled).
12. The Inland Revenue has produced first quarter statistics² giving details of the take-up of the new Tax Credits. In respect of the Childcare Tax, the figures show an overall increase in take-up. 264,000 families in the UK are receiving childcare element of the working tax credit (an increase of 51% on last year's figures for the same period), the value of the average award has also increased from £40.61 to £49.61. The Daycare Trust has stated that "these statistics show that there has been huge progress since the new tax credits were introduced. More families than ever before are receiving financial help to access childcare through the working tax credit."³
- In London, 26,000 parents are reported as claiming the Childcare Tax element at a weekly average value of £62.82 which represents 37% of the average cost of childcare for under 2's in London £168 per week⁴.
13. Many parents reported significant delays in the processing of their new Tax Credit claims and some of these parents were unable to pay all or part of their childcare fees as a result. Community Nurseries took steps to assist parents through this process by delaying collection of all/part of daycare fees until claims were resolved. This has resulted in fee arrears some of which are still outstanding. However, as there has been no reduction of grant aid to Community Nurseries during this Financial Year, the financial impact has not damaged individual nursery budgets due to the Executives decision not to implement changes in grant aid until the Council can measure the impact of implementing the new WTC.

² Source Inland Revenue CTC and WTC Quarterly Statistics – July 2003

³ Daycare Trust News Release 11/9/03

⁴ Daycare Trust Survey of childcare costs 2003

14. The backlog of claims is now reported to have cleared. The Inland Revenue has indicated that the delays experienced this year should not be repeated in April 2004 as parents already in receipt of Tax Credits will not have to reapply, their awards will continue they will only be required to sign a disclaimer confirming that their circumstances have not changed or inform of any changes as appropriate. New claimants will have to apply and there are still reports that some new claims are being delayed due to appeals over entitlement.

Affordability survey results

15. The key results of the affordability of daycare survey of parents and providers carried out in September 2003 are attached as appendix 1 of this report. 19% of current users of Early Years Centres and Community Nurseries responded to the survey.
16. The survey does not provide us with conclusive results on the affordability of childcare in Southwark, however it does indicate a number of trends. The target price recommended for full day care per week was £135, the majority of community nurseries and all the early years centres have moved to this price.
17. The survey indicates that in deprived areas in Southwark, some nurseries are unable to fill their places for over 3's at this pricing level (they have been advised to reduce their fee to between £100-£120).
18. The affordability of childcare in Southwark following the introduction of the WTC varies according to the geographical location. The trend indicates that nurseries located in central areas of Southwark are able to charge a fee between £100-£120 per week whilst those located in the north and south are able to fill their places with a fee of £135 per week.
19. Daycare providers particularly Community Nurseries have indicated that they are still experiencing a higher number of parents withdrawing their children prematurely than has been the case in previous years, the survey results show this can be attributed to parents moving their children into school earlier as well as affordability issues.

Children's Centres and NNI Partnership Working

20. To add to the sustainability and development of community nurseries and early years centres a number of voluntary sector organisations have been invited to work in partnership to develop new childcare places or seek additional funds to support family development projects.
21. Due to the high number of deprived wards in Southwark, the Health Authority was awarded and accepted seven Sure Start local programmes bringing significant investment for the development of services to children under 4 and family support strategies. The next stage of the Sure Start programme is the development of Children's Centres, again due to the high level of deprivation in Southwark the Children's Centre allocation is £4.2 million capital and £1.4 million revenue.

22. The Executive has recently received a report on the Children's Centre Strategy, which has a target of creating 620 childcare places and 9,000 reach target. Included within the Children's Centre Strategy are a number of significant developments, which relate to both early years centers and community nurseries.
23. The Children's Centre Strategy includes the development of Bishops House and Tenda Road Early Years Centres as Children's Centres, an extension to Nunhead and Ann Bernadt Early Years Centre. The Copleston, East Dulwich, Happy Faces and All Nations community nurseries are all linked to Children Centre developments (details of which can be found in the Children's Centre Strategy).
24. Five of the community nurseries are also involved in increasing their number of childcare places through the Governments Neighbourhood Nursery Initiative. A total of 124 new places will be funded at a unit cost of £5,400 per place over a three-year period.

'Every Child Matters'

25. Southwark is currently considering the Green Paper 'Every Child Matters'. The deadline for feedback to the Government is 1 December 2003. The Green Paper includes many of the issues for the development of family and children support services which are contained in the Children's Centre Strategy (Sure Start programme) and the continuing funding of the development budgets to implement the National Childcare Strategy.
26. The Best Value Review recognised the importance of ensuring that there is no loss of childcare places as a result of implementing the budget adjustments. It is clear that both the early years centres and the community nurseries will play a significant role in implementing the objectives of the Green Paper in Southwark. These are the front line services that have contact with many of the vulnerable families and children and have a track record for providing the appropriate support and education programmes.

Effect of proposed changes on those affected

27. The Best Value Review identified a number of significant changes that will specifically affect voluntary sector funded daycare providers and users of their services. This section provides an update on the implementation of these strategic changes to date and any subsequent affect identified.

Providers

28. The funding strategy for the Service as detailed in the Vision requires a realignment of resources to take place. This includes development of the following:
 - A mixed economy of children is maintained across services i.e. Council and Voluntary Sector daycare providers to provide a mix of services for vulnerable children, children with special needs

- and children of working parents
 - More daycare places for children with special needs
 - A commissioning arrangement from April 2004 for the Council to purchase places for vulnerable children and children with special needs from voluntary sector providers
 - Council funds to be targeted towards funding services for vulnerable children ensuring that funding follows the child
 - Council subsidy for working parents to be reduced and replaced with Government subsidy i.e. Tax Credits.
29. The strategy proposed initiating a sustainability programme for voluntary sector providers which included support to develop a business plan which would promote maximisation of fees income and other funding through other sources such as New Nurseries Initiatives childcare expansion projects. The programme also included training for management committee members and childcare practitioner staff and development of a commissioning arrangement throughout 2003/4. Funded organisations were to be in a position to sustain a 50% reduction in grant aid from April 2004, which would achieve a saving of £650k as part of the overall 5 year budget reduction package.
30. An interim progress report has been produced by the Business Consultant engaged to work with early years voluntary sector organisations (appendix 2) detailing progress to date in respect of each funded group. The report confirms that each organisation has to be considered individually in terms of its sustainability, due to the different starting points, geographical location and other factors which will impact on the way the organisation will develop its business plan.
31. The interim business development progress report confirms that all funded Community Nurseries and most playgroups have commenced work on their business plans and are on target to complete them by 31st December 2003. The Pre School Learning Alliance and Southwark Childminding Association have both submitted proposals to the Council detailing service delivery options for consideration and will produce their business plans once an agreed service option has been agreed.
32. The interim progress report also gives a provisional indication as to whether a group is considered to have a high, medium or low risk of not being able to continue as a viable concern following the withdrawal of 50% grant aid from April 2004. (See Consultant's report appendix 2 pages 9-18).
33. In addition to the interim progress report, Children's Services (Education) officers have also conducted a number of audits and visits to funded organisations (including all Community Nurseries) throughout September and October to ascertain key information in respect of the current financial and management arrangements in place. Information has included confirmation of current levels of occupancy and current waiting lists for daycare places, premises costs and charges, details of daycare fees, update on nursery expansion plans as well as to identify any areas of particular concern expressed by groups.
34. As highlighted in the September Survey, there is a significant level of

vacancies across Community Nurseries 52 recorded vacancies out of 276 places (81% occupancy). This can be attributed to several factors including:

- Most vacancies are within the 3 to 5 year old range, as more children are taking up places in local schools earlier.
 - High numbers of children are on community nursery waiting lists but many are under 2 years of age and not yet old enough to be offered a place (most community nurseries cater for 2-5 year olds).
 - There is generally a high turn over of children in September as children leave to go to school and new starters join. Children are phased in through September, which can affect the numbers on register.
 - Many places after being offered to parents on waiting lists are then declined leading to delays in filling vacancies.
 - Some nurseries have stated that due to their location and a high concentration of competition from private sector and other community nurseries, some parents may be opting for lower priced provision and they are now having to examine their market more closely when setting fees and charges to remain competitive. There was no clear evidence however, to suggest that increased fees alone were prohibiting parents from using Community Nurseries, particularly due to the high numbers on waiting lists (up to 200 at one nursery).
35. An audit has been conducted to establish the position regarding rents charged to community nurseries and lease/tenancy arrangements. 6 nurseries are currently occupying premises rent-free or have a peppercorn rent agreement. The remaining 4 nurseries have charges ranging from £6,000 to £14,000 per annum.
36. Community nurseries across the board have made significant progress in developing their business plans and working towards the Council's strategy to reduce their level of grant aid in April 2004. The following points have been raised by community nursery representatives as areas which are proving the most challenging at present:
- Market confidence that they will be able to operate at and maintain full capacity from 1st April 2004.
 - Not being able to access sufficient alternative funding/fee income to replace withdrawn LEA grant aid.
 - Not having adequate management committee input to manage services in a business context.
37. Officers acknowledge that Community Nurseries have experienced difficulties in filling their places due the factors outlined above. Current waiting lists indicate that there is demand for these places from working parents. There has been a reported increase in the take up of Tax Credits in Southwark but it has not been possible to confirm that entitlements are necessarily sufficient to enable daycare to remain affordable to all parents across the household income levels. The need to further develop management committee structures to enable nurseries to successfully operate within a community business environment is also seen as a major challenge.

- 38 The final assessment of grant aid withdrawal for 2004 is subject to the outcome of individual business plans, the final report from the Business Consultant and further discussion with individual groups. All groups will also be given an opportunity to attend a meeting with Officers between November and January, to discuss their future funding arrangements. The final voluntary sector funding proposal for 2004 will be reported to Executive early in the New Year as part of the final Best Value Implementation progress report and in line with the Council's grant setting timetable.

Commissioning arrangements

- 39 A Commissioning Specification has been developed detailing arrangements for vulnerable children to be referred by the Council and placed within Community Nurseries from April 2004 and has been consulted on with Community Nursery representatives and Social Services. A Service Contract is being developed to support this process which is due to commence in April 2004. It is envisaged that each Community Nursery will be in a position to accept placement of vulnerable children under this contractual arrangement from April although it is not possible at this stage to confirm how many places will be allocated to each nursery.
- 40 The successful implementation of the Best Value Review will depend on the commissioning arrangements that are to be negotiated and for the placement of vulnerable children. The key principle that is to be adopted is that funding is allocated to the child and not to the organisations providing childcare places.

Resource implications

41. The Early Years Best Value Review recommends a £3.5 million reduction in the Early Years budget over a five-year period from the Social Services allocation. The budget reduction for 2003/4 was £618k; the target budget reduction for 2004/5 is £800k and the target budget reduction for 2005/6 is £500k.
42. The initial budget reduction of £618k is being achieved by raising the fees in early years centres from £100 to £135 per week and a further increase in prices to under 3's place to £150 per week in 2004. The remaining savings came from reduction in senior management costs.
- 43 The second year of budget reductions is largely funded by a recommended 50% reduction in the voluntary sector grants budget, which is equivalent to £669k worth of savings. The implementation of the grants reduction was based on the successful implementation of the business planning strategies and the take up of the WTC.
- 44 The Council is on target to achieve the 2004/05 budget reduction of £800k. However, the original intention to reduce voluntary sector grants by 50% across the board may not be possible for the reasons outlined in this report. Any shortfall will be managed as part of the overall policy and resources strategy for 2004/05.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Borough Solicitor & Secretary

45 There are no specific legal implications to this report.

Consultation

Voluntary Sector Providers	The voluntary sector assisted in the completion and distribution of the survey. There has been regular consultation with the Community Nurseries Forum. The business consultant has been working with each individual community group to develop their business plan. A copy of the business consultants report and this report has been sent out to community groups at short notice due to the delays in completing the survey information.
Social Services	The Chief Executive of Southwark PCT and Director of Social Services has received a copy of this report and a consultation meeting has taken place. Social Services Department remains a key partner in the implementation of the Best Value review.
Elected Members	Individual briefings have taken place with both the Executive and Scrutiny members of Education and Culture.
Early Years Development and Childcare Partnership	The Chair of the EYDCP provided comments on the survey to assist in its quality. The Chair and Vice Chair of the Executive of the EYDCP have received individual briefings on this report and the interim report from the business consultant.
Trade Unions	Issues concerning the implementation of the Early Years

	Best Value Review are raised at the Departmental local committee (local consultation forum)
Parents/Service Users	The survey contained within this report was partly directed at parents and service users. The report contains some specific references of individual parent views and case study information.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
<i>Best Value Vision for Early Years – (Executive Committee report December 2002)</i>	<i>Early Years After School and Play, Education & Culture John Smith House</i>	<i>Glenn Garcia</i>
<i>Daycare Trust News Release – Survey of childcare costs (30/01/03) Childcare tax credit reaches more parents (11/9/03)</i>	<i>Early Years After School and Play, Education & Culture John Smith House</i>	<i>Glenn Garcia</i>
<i>Inland Revenue WTC and CTC statistics – July 2003 (from IR Website)</i>	<i>Early Years After School and Play, Education & Culture John Smith House</i>	<i>Glenn Garcia</i>
<i>Children’s Services Questionnaire returns (September 2003)</i>	<i>Early Years After School and Play, Education & Culture John Smith House</i>	<i>Glenn Garcia</i>

APPENDIX A**Audit Trail**

Lead Officer	<i>David Wallis</i>	
Report Author	<i>Glenn Garcia</i>	
Version	<i>Draft</i>	
Dated	<i>24/10/03</i>	
Key Decision?	<i>No</i>	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Borough Solicitor & Secretary	Yes	Yes
Chief Finance Officer	Yes/No	Yes/No
<i>List other Officers here</i>		
Executive Member	Yes	No
Date final report sent to Constitutional Support Services	27/10/03	