

Item No. 7	Classification: Open	Date: 19 th January 2010	Meeting Name: Children's Services Scrutiny
Report title:		Early Years Single Funding Formula - Update	
Ward(s) or groups affected:		All	
From:		Mike Smith, Assistant Director, 0-5 Services and Community, Children's Services	

RECOMMENDATION(S)

1. The Committee is asked to note the progress on consultation for the introduction of a single funding formula for all early years settings across the borough.
2. The Committee is asked to comment on the recent decision by the Minister of State at the Department for Children, Schools and Families to defer implementation of the single funding formula regulations until April 2011.

BACKGROUND INFORMATION

3. In June 2007, the government announced its intention to require all local authorities to develop funding formulae for providers of free early education in line with funding arrangements in schools. The formulae were to cover the provision of early education across all sectors and should have the effect of creating a level playing field for all providers.
4. Interim guidance on what the formulae should look like and which factors might be included was issued by the Department for Children, Schools and Families in July 2008 and this was followed by practice guidance in July 2009 which outlined precisely what was expected in the single funding formula.
5. Local authorities are required to keep a register of approved providers of free early education and only providers on this register may claim payment for the number of hours per week that are provided for each child up to a maximum of 12.5 hours. The free entitlement will increase to 15 hours per week from 1st September 2010.
6. Local authorities are able to apply conditions to providers who wish to be included in the register. All providers must be registered with Ofsted and therefore be subject to regular inspection.
7. The guidance requires local authorities to plan for four interrelated changes:
 - Introduction of funding based on participation rather than places
 - Development of a single formula covering all settings
 - Extension of the free entitlement from 12.5 hours to 15 hours per week term time only
 - Ensure, as far as possible, that parents have flexibility in using the services
8. Since the council published its proposals in November 2009, the Minister of State in the Department of Children, Schools and Families has decided to postpone implementation of the Government's proposals for 12 months. As a consequence,

the council must decide whether to push ahead with implementation as a pathfinder authority, in which case special dispensation will be required from parliament, or to defer implementation until 2011.

9. Subject to any responses in the consultation, it is likely that the final recommendation will be to continue with implementation in 2010 as the current proposals have been designed such that they will make only minimal changes to funding arrangements this year but will give us an opportunity to test out the likely impact of changes in future years as we will gain real experience of operating the new system.

KEY ISSUES FOR CONSIDERATION

Participation based funding

10. At present nursery classes in schools are funded on the basis of the number of places available. Some schools offer only full time places to parents, some schools offer only part time places and the remainder offer a combination of part time and full time places. Taking a typical size nursery class of 26 places, this would accommodate 26 full time children, or 52 part time children. If the places were evenly split between part time and full time this would mean there would be 13 full time places and 26 part time places. Irrespective of which of the above scenarios applied each school would receive the same funding based on a 26 place nursery i.e. 26 units of nursery funding.
11. The introduction of participation based funding will mean that the above three scenarios would not necessarily attract the same level of funding. Assuming Southwark continues to fund full time places on the same basis as at present, and part time places are funded at half the value of full time places then the change to participation based funding would make no material difference to schools. However, at present a full time place in a school will count as meeting the 15 hours entitlement for early education but a part time place would not and schools that offer part time places will therefore have to extend the hours they offer with the likelihood of incurring additional costs which may need to be reflected through a higher rate for part time places than $\frac{1}{2}$ the value of a full time place.
12. All non-maintained school settings are already funded on the basis of participation so this change will not adversely impact on these settings.

Single formula covering all settings

13. Following lengthy discussions with all sectors working in early years we concluded that the following factors should be taken into account when developing a formula:
 - Basic hourly rate.
 - Social deprivation supplement.
 - Staff qualification supplement.
14. Although the regulations require us to fund all settings according to a single formula, it does not require that different types of settings should all be funded at the same hourly rate. Consequently, it is possible to fund nursery schools at a different rate than, say, settings in the private, voluntary and independent sectors

(PVI settings). However, if we are to fund settings at different rates, we are required to have a rational basis for doing so.

15. In developing the funding options, we carried out an analysis of costs across all sectors. The initial assessment of settings in the PVI sector created problems as there was such variation and we were unable to draw from this a rational formula. Consequently we looked at the hourly rate charged in this sector (on the basis that these settings were at least breaking even and therefore covering their costs). We compared the median hourly charge for a place in these settings and with the amount we were providing currently through the Free Early Education Entitlement payments. Since the latter value was fractionally higher than the former value we concluded that the current rate in most cases provided adequate resources to deliver the entitlement.
16. The hourly rate currently provided for nursery classes in mainstream schools is below that provided to PVI settings. Our analysis shows that the economies of scale offered by the larger organisation and the fact that the higher rates payable for teachers is offset by the lower staffing ratios required in schools, means that this lower rate is sufficient to enable school nurseries to deliver the entitlement.
17. The hourly rate currently provided for nursery schools is much higher than for all other settings. Our analysis shows that this higher figure is not unreasonable as nursery schools have to cover the higher costs associated with employing a headteacher on national conditions of service and the relatively higher costs associated with being smaller institutions than primary schools.
18. All local authorities are required to include a deprivation factor in their formula and for simplicity we have simply taken the current value attached to nursery aged pupils in schools as the basis for funding all settings. Qualifying children are those living in Lower Super Output Areas which have a social deprivation indicator which places them in the lowest quartile nationally. Consequently, a relatively high number of children living in Southwark will attract this additional funding.
19. Finally, in recognition that all settings are required to increase the level of qualified staff they employ, which in itself brings an expectation of higher remuneration, we have proposed the introduction of a qualifications factor. At present, the additional costs of employing qualified staff are covered by dedicated government grants and therefore we will not be distributing any resources on this factor in 2010 but the factor is being included in the expectation that government grants to cover these costs will disappear in the near future.

Extension of free hours from 12.5 to 15 per week

20. As indicated in paragraph 9 above, those schools offering full time places will already meet the extended hours. However, schools that currently offer part time places will need to extend the number of hours to 15 if they are to continue to attract the full funding for these children.
21. Although the current proposals do not offer any additional payments to schools offering part time places, many schools in this situation have indicated that they expect to incur additional costs and we are currently evaluating what these may be and the final proposals may take account of these additional hours.
22. Most PVI settings already provide more than 12.5 hours to their clientele and the extended hours is most likely to offer them the opportunity to reduce their weekly

rates on the basis that they will be attracting an extra 2.5 hours of funding through this source.

Flexible offer

23. The government is keen to see parents getting greater flexibility in how they access the 15 hours so that they can pick and choose the days they need and how long their child attends. The flexibility is subject to the sustainability of settings and we know that settings have had financial difficulties where they have offered complete flexibility to parents.
24. The diversity of offer in Southwark already offers considerable flexibility for parents and this issue did not feature strongly when we last carried out a childcare accessibility assessment. However, we will continue to keep the matter under review as changes are implemented.

Policy implications

25. All the proposals being consulted on are required by central government.
26. At present the allocation of part time and full time places in schools does not have a clear rational basis as these decisions were made many years ago and there is no record of the policy basis for such arrangements. As the allocation will have significant impact if the request for differential rates for part time and full time places is taken into account, it will be necessary to bring forward in future a clear policy framework for the allocation of full and part time provision. For the current year it is proposed that no changes are made to the historical practice.

Community Impact Statement

27. Details of the impact of these changes appear in the consultation document which is attached.

Resource implications

28. A range of early years settings are currently funded to provide free early education in Southwark, including:
 - a) Maintained Schools:
 - i. Nursery schools
 - ii. Primary schools (Nursery Classes)
 - b) Non-Maintained Settings
 - i. Private sector settings
 - ii. Voluntary sector settings
 - iii. Independent schools
 - iv. Council, College and NHS-Managed settings
29. Funding for the FEEE is provided to the Local Authority through a government funding mechanism known as the Dedicated Schools Grant (DSG). In Southwark, total FEEE expenditure budgeted for within the DSG in 2009-10 is as follows:

Sector	Total Funding 2009-10
Maintained Nursery Schools	£3,536,000
Maintained Primary Schools (nursery element only)	£7,184,000
Non Maintained Early Years Settings (including PVI and Council-managed provision)	£3,690,919
Total	£14,410,919

30. The Council also receives additional funding through the Standards Fund to finance the extension of the FEEE from 12.5 hours to 15 hours. In 2009-10 Southwark has received an allocation of £520,000 for this purpose. This allocation will be increased substantially in 2010-11 to £2.4M in order to recognise parents' new entitlement to access this level of provision.
31. The proposals contained in the consultation document deal only with the distribution of DSG and Standards Fund resources. No additional funding will be required from the council's core budget.

Consultation

32. These proposals were developed in consultation with a FEEE Steering Group which had representatives from the Schools Forum (including a Governor, Nursery School Head and Primary School Head), private and voluntary sector setting, parents, childminders and Council officers. It was chaired by Mike Smith, Assistant Director of Children's Services (0-5 and Community).
33. Progress on developing proposals was reported to the Schools Forum at its meetings in September 2008, June 2009, October 2009 and December 2009.
34. The proposals are now out to full consultation with all affected stakeholders. A final report will be produced and presented to Schools Forum in January 2010 before a final decision is made by Individual Member Decision.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

35. Further supplementary advice will be sought once final proposals have been drawn up.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Statement to Parliament-School Early Years Funding 25 June 07 from The Minister of State for Schools and 14-19 Learners - Jim Knight	Divisional Project Management Team Children's Services 0-5 Services and Community	Cherelle Baker-Duff 0207 525 4953
Implementation of a single funding formula for early years (Interim guidance for local authorities July 2008)	Divisional Project Management Team Children's Services 0-5 Services and Community	Cherelle Baker-Duff 0207 525 4953
Implementing the Early Years Single Funding Formula (Practice Guidance July 2009)	Divisional Project Management Team Children's Services 0-5 Services and Community	Cherelle Baker-Duff 0207 525 4953
Early Years Single Funding Formula for maintained schools letter dated 28 October 2009 Rt Hon Dawn Primarolo MP – Minister of State for Children, Young People and Families	Divisional Project Management Team Children's Services 0-5 Services and Community	Cherelle Baker-Duff 0207 525 4953
Early Years Single Funding Formula letter dated 10 December 2009 from Ann Gross Director Early Years, and Extended Services and SEN Group DCSF and Stephen Kingdom, Head of School Funding Unit, DCSF	Divisional Project Management Team Children's Services 0-5 Services and Community	Cherelle Baker-Duff 0207 525 4953

APPENDICES

No.	Title
Appendix 1	Changes to the Delivery and Funding of the Free Early Education Entitlement, Consultation Document (November 2009)
Appendix 2	Early Years Single Funding Formula letter dated 10 December 2009 from Ann Gross Director Early Years, and Extended Services and SEN Group DCSF and Stephen Kingdom, Head of School Funding Unit, DCSF

AUDIT TRAIL

This section must be included in all reports.

Lead Officer	Strategic Director of Children's Services.	
Report Author	Mike Smith, Assistant Director, 0-5 Services and Community	
Version	Final	
Dated	8 th January 2010	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director for Legal and Democratic Services	No	No
Finance Director	Yes	Yes
List other officers here		
Executive Member	No	No
Date final report sent to Constitutional/Community Council/Scrutiny Team	Month/date/year	

Note: Consultation with other officers

If you have not consulted, or sought comments from the borough solicitor or the finance director, you must state this in the audit trail.