

REPORT TO SCHOOLS FORUM

1.	Meeting:	SCHOOLS FORUM
2.	Date:	04 th March 2011
3.	Title:	Early Years Single Funding Formula
4.	Directorate:	Children & Young People's Services

5. Summary

The Government announced in June 2007 that local authorities (LA's) would be required to 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 aim was to improve fairness and transparency in the way that funding is allocated to providers who deliver the Free Entitlement, and thereby support its extension to 15 hours, to be delivered more flexibly from September 2010. From April 2011, all local authorities must fund providers from all sectors on the basis of single, transparent, locally defined, participation-led funding formulae – the Early Years Single Funding Formula (EYSFF).

6. Recommendations

That the Schools Forum approves implementation of the Early Years Single Funding Formula as proposed by the Early Years Funding Formula Working Group.

That the hourly rates as per section 8.1 are agreed subject to finalisation of the Dedicated Schools Grant and agreements in respect of central expenditure.

That when the Standards Fund Grant 1.10 for 2010/11 ends as at 31st March 2011, any residual funding remaining is added to the Dedicated Schools Grant in 2011/12 for contingency purposes.

7. Proposals and Details

7.1. Background to the changes

The Government announced in June 2007 that local authorities (LA's) would be required to 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 aim was to improve fairness and transparency in the way that funding is allocated to providers who deliver the Free Entitlement, and thereby support its extension to 15 hours, to be delivered more flexibly from September 2010. From April 2011, all local authorities must fund providers from all sectors on the basis of single, transparent, locally defined, participation-led funding formulae – the Early Years Single Funding Formula (EYSFF).

With effect from September 2010, the entitlement to free early years provision for every eligible child is 570 hours per year, to be taken over no more than 38 weeks in any year.

7.2 How is it funded?

Funding for all sectors delivering the free entitlement is provided through the ring-fenced Dedicated Schools Grant (DSG), which supports the majority of education provision for children aged 3-16. The DSG is based on a guaranteed unit of funding for each local authority, multiplied by the pupil numbers in the January census counts for each authority. There is no specific ring-fence for early years provision within the DSG. The DSG includes funding to local authorities to deliver the free entitlement for 3 and 4 year olds for 15 hours per week for 38 weeks per year.

7.3 Who is eligible?

Children become eligible for the 3 and 4 year old free entitlement in the term after their 3rd birthday. Funding does not apply to the reception classes of maintained schools, as these will be funded through school budgets.

7.4 What's different?

Currently, like many authorities, Rotherham funds the maintained nursery and PVI sectors differently: the former is by means of a pupil/place-led formula, and the latter, a flat rate of funding per pupil, per session, which is adjusted to termly actual take-up.

From April 2011, all authorities will be required to fund all free entitlement provision (15 hours for all pupils whose parents choose to access it) through a single early years' formula that uses the same principles to fund providers and is based upon participation. This does not mean that all providers will be paid the same value, or even that all children will attract the same amount of funding. Where characteristics of providers or children are different, then different values/weightings will be applied.

7.5 Consultation Process

The local authority established an 'Early Years Formula Funding Group' in 2009, representative of provider stakeholder groups, with the remit to develop a single local formula for funding early years provision in the maintained and PVI sectors. Proposals from the EYFFG were submitted for consultation with providers across all sectors in November 2009.

11 local authorities piloted implementation of a single funding formula in 2008/09. The experiences and issues arising from these pilots have informed DCSF guidance to remaining authorities. In the development of the proposed formula for Rotherham, the EYFFG have referenced DCSF guidance and case studies from the pilot authorities.

7.6 Cost Analysis

The local authority through its Early Years Service and Schools Finance Team undertook a cost analysis of all Rotherham providers delivering the free entitlement to gain a clear understanding of typical local provider costs. These were used to inform determination of provider rates and any differentiation of rates between providers.

7.7 Single Funding Formula Factors

The DCSF proposed a formula structure for local authorities that consisted of a base rate with additional supplemental factors. The base rate representing a payment per hour for each child attending. Following consultation with providers, the Early Years Formula Funding Group (EYFFG) proposed the following formula structure:-

**(Basic Hourly Base Rate + Deprivation Supplement + Quality Supplement)
x No. of hours participation.**

(i) Basic Hourly Rate

All early years single funding formula should include a base rate. This can be one single rate or multiple rates differentiated by type of providers. Based upon the cost analysis undertaken, the EYFFG proposed that different base rates be applied to the following types of providers:-

- Maintained nursery schools
- Primary schools with maintained classes
- Private, Voluntary and Independent sector (PVI) providers

All establishments within each of the above 'types' will receive the same rates in the formula i.e. all Maintained Nursery Schools will receive the same as each other, all PVI providers will receive the same as each other.

(ii) Deprivation supplement

The deprivation factor is a mandatory supplement to be included in the formula. It has been agreed that deprivation be measured against the child and not the setting as settings in deprived areas may draw children from more affluent backgrounds and equally settings in more affluent areas may attract children from deprived backgrounds. It is proposed that the Index of Multiple Deprivation (IMD) of the child be used as the measure for deprivation. This brings a level of consistency with aspects of the current schools funding formula.

To calculate the IMD per setting, it was agreed that the January pupil census data be used. Each pupil attending a setting on the January census date will be allocated an 'IMD score' and then an average for each setting calculated. The average score will be used to band settings into 3 categories:- low, medium and high. The hourly rate will be set using the banding and this will remain fixed for the following financial year. No adjustments would be made in year to the rate.

(iii) Quality supplement

It was proposed that a quality factor be included in the formula in accordance with DCSF guidance. Four indicators of quality were considered drawn directly from DCSF guidance :- Workforce qualifications; Ofsted inspection judgements; membership of an approved quality improvement scheme; well developed self evaluation processes based on the Ofsted SEF.

On the recommendation of the Extension to the Free Early Education Entitlement Working Group, it was agreed that Quality in Action Accreditation should be used as the single measure for the Quality Supplement. All providers should be paid the funding for a guaranteed two years (2011-12 and 2012-13), to enable them time to achieve accreditation. For the 2013-14 financial year, the supplement would be withdrawn from providers who have not achieved the accreditation.

(iv) Other supplements

In accordance with DCSF recommendations, additional supplemental factors were considered for:- flexibility of a providers offering to parents, SEN, sustainability, training, premises. All supplements considered should ensure the EYSFF supports wider early years policy objectives. The EYFFG gave particular consideration to a factor for 'flexibility' in accordance with DCSF guidelines. Flexibility would probably need to be linked to delivering different patterns of provision, e.g. delivering over the lunch period or opening longer hours. However, it was suggested that these do not necessarily lead to patterns of provision that are more responsive to parental demand. Reference was also made to the findings of a parental survey conducted by the Rotherham Early Years Service regarding flexibility. Other factors were considered but it was proposed that the formula needed to be easy to understand and to operate to ensure that administrative overheads are kept to a minimum and funding is focussed on delivery.

8. Finance

8.1 Single Funding Formula Hourly Rates 2011-12

Provider	Basic Hourly Rate	Deprivation Rate - Low	Deprivation Rate - Medium	Deprivation Rate - High	Quality Rate
Maintained Nursery schools	£6.40	£0.05	£0.10	£0.15	£0.10
Primary schools with maintained classes	£3.30	£0.05	£0.10	£0.15	£0.10
Private, Voluntary and Independent sector (PVI) providers	£3.40	£0.05	£0.10	£0.15	£0.10

All providers will be issued with an indicative budget at the beginning of the financial year which broadly reflects anticipated participation for the 3 and 4 year old free entitlement.

The total funding requirement for the Early Years Single Funding Formula will be met from allocations from the Dedicated Schools Grant 2011/12 and any residual funding from Standards Fund Grant 1.10 for 2010/11 allocated specifically for this purpose. When the Standards Fund Grant 1.10 for 2010/11 ends as at 31st March 2011 all residual funding should be added to the Dedicated Schools Grant for 2011/12 to provide a contingency reserve to cover growth in take-up of places and protection for providers that have had funding reduced as a consequence of introduction of the formula.

8.2 Budget adjustments

From April 2011, it is a requirement that local authorities apply budget adjustments to reflect fluctuations in participation in each term.

For maintained schools (this only applies to the 3 and 4 year olds as part of the free entitlement), it is proposed that a single budget adjustment will be made towards the end of each financial year (February or March). Schools will be issued with notifications of budget changes after each termly count to facilitate effective financial planning.

For the Private, Voluntary and Independent sector, funding is based on actual take up of places on a termly basis. This is paid in advance on an estimated headcount, with an adjusted payment made based on a final actual headcount. No changes are proposed to the arrangements for PVI providers.

8.3 Protection Factor

Every effort will be made to ensure that the EYSFF is designed and implemented in a way that supports the authority's duties in respect of meeting parental demand and supporting child outcomes at five. Sustainability of providers will therefore be a key consideration. Most changes to a funding formula result in 'winners' and 'losers' in financial terms. As is the practice with previous funding formula changes, it is proposed that transitional protection be applied to limit the extent of any losses at provider level to a maximum of 5%.

The local authority notes the Government's presumption against closure of maintained nursery provision as a consequence of the funding reforms. All 3 Nursery Schools currently fall into the Minimum Funding Guarantee (MFG) which has been set by the Government at -1.5% for 2011/12 meaning that no school will have a cut in its budget of more than 1.5% per pupil before any pupil premium is allocated.

9. Risks and Uncertainties

The level of funding for schools for 2011-12 has been maintained at flat cash per pupil, so will rise or fall in line with pupil numbers. Schools will be protected from large losses by a Minimum Funding Guarantee as announced by the Government on 13th December 2010.

Since 2003, local authorities have received funding for the actual number of 3 year olds who take up a part time entitlement place or an amount equivalent to 90% of the 3 year old population doing so. The Government has also decided to retain the 90% participation element of the pupil count for 2011-12.

10. Policy and Performance Agenda Implications

Rotherham's Scheme for Financing Schools.

11. Background Papers and Consultation

- Implementation of a single funding formula – DCSF guidance, July 2008.

Contact Name:
David Ashmore
Resources and Business Strategy Manager
Resources, Planning and Performance
Children and Young People's Services
Extension 54846
david.ashmore@rotherham.gov.uk