Early Years Single Funding Formula

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<tr>
<th>Schools Forum Date</th>
<th>2\textsuperscript{nd} December 2009</th>
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<tbody>
<tr>
<td>Type of Decision</td>
<td>Approval</td>
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| Background Documents | Schools Forum Report 6\textsuperscript{th} October 2009  
                       Early Years Single Funding Formula – Proposal for Consultation October 2009 (appendix 1) |
| Main Consultees    | All nursery education providers from the maintained, private, voluntary and independent childcare sectors |
| Planned Dates      | Implementation of formula in April 2010 |
| Author             | Deborah Lawson Access Commissioning Manager (Childcare Market Management) |

Purpose of Report: To agree the Early Years Single Funding Formula for Gloucestershire

Key Recommendations: That Schools Forum approve the Early Years Single Funding Formula for Gloucestershire

Resource Implications: Early Years DSG for 2010/11 £10,270,164  
                         Early Years Standards Fund (ring fenced) for 2010/11 £3,340,238
MAIN REPORT CONTENTS

Background

To support the extension and increased flexibility of the free entitlement for 3 and 4 year olds and to address inconsistencies in how the offer is currently funded across the maintained and private, voluntary and independent (PVI) sectors, the government has introduced early years funding reforms. These require local authorities to:

- Develop and implement a single local formula for funding the free entitlement in maintained and PVI settings for the 2010-11 financial year
- Carry out an analysis of PVI costs and present the findings to the Schools Forum
- Introduce a consistent pupil count methodology across both the maintained and PVI sectors

The aim of the formula is to distribute funding in a fair, equitable and transparent way, based on specific principles and criteria.

An Early Years Single Funding Formula Steering Group was established to inform and drive the development of the formula. The group is made up of local authority officers and sector representatives from PVI providers. The steering group has:

- Conducted a cost survey and developed a typical cost model
- Designed a formula
- Built a formula to include mandatory supplements and additional supplements relevant to the market needs of Gloucestershire
- Undertaken an impact assessment to identify impact of any changes to settings
- Developed transitional funding model to mitigate the impact on providers for whom the EY SFF will result in loss of income over 2%
- Consulted with providers on the formula and transition model proposals

A questionnaire was sent to a sample of 221 nursery education providers. A typical cost model was developed using information from the cost analysis questionnaire which was tested against actual setting costs. The analysis of the survey did not highlight any significant or consistent cost differences between the different types of providers.

The steering group carefully considered the analyses of the cost survey and the typical cost model. This informed the level of budget to fund the base rate and supplements. The formula has been developed within existing resources and takes account of the fact that a high supplement level results in a low base rate.

Early Years Funding Formula

When developing the formula the steering group considered a number of different models. These included:

- Variable base rate – the cost survey did not demonstrate significant and consistent cost differences between settings to warrant taking this approach.
- Using 10% of the total budget to fund supplements. This model reduces the base rate to a point below which settings would cease to be sustainable. This could lead to greater strategic problems for the LA in ensuring sufficient provision.
Additional supplements for sustainability and flexibility. Increasing the number of supplements actually decreases the funding available to a point where it ceases to be sufficient to make the required impact.

Testing variable percentage losses and transition ‘triggers’ and payment amounts

Following a small number of comments and suggests at the consultation events we have undertaken some work to consider:-

1. Splitting 5% for supplements evenly between deprivation and quality
2. Reversal of 4% and 1% supplement split in favour of quality

After doing some initial work and taking into consideration the feedback from the consultation (so far) it is apparent that:-

- The level of supplement payments are less likely to meet the stated aim to support both national and local early years policy objectives
- Settings would experience a higher level of loss, which would require more than 1% of the budget to fund. This may also lead to longer term sustainability issues for providers
- Using 4% to fund quality would leave some unallocated funding in year 1 which could not be carried over to the following year
- There appears (initially) to be strong support for the formula that has been developed by providers from all types of settings across the county
- The formula developed therefore appears to be acceptable to the sector and affordable to the LA.

**Formula Structure**

The structure of the formula is for 95% of the available funding to be used to fund the base rate of £3.22 per hour. Using the majority of the budget in this way minimises the reduction of the base rate below the level identified through the typical cost model and consequently to a level below which settings cease to be sustainable.

The remaining 5% of the budget will be used as follows:-

- 4% for deprivation supplement from year 1 (April 2010)
- 1% in year 1 only (April 2010) for transitional funding for those settings which loose 2% or more income as a result of the introduction of the formula
- 1% from year 2 (April 2011) to fund quality supplement

Transition funding arrangements will limit the maximum level of loss of any setting to 2%. The impact assessment undertaken demonstrates that the highest level of loss (before transition payment) is 5% for any setting. This equals a total loss of £582.00 for the setting with the highest level of loss. By funding 3% of the total loss, this reduces the loss to £233.00 per annum. The income of some settings will increase as a result of the implementation of the formula.

A series of consultation events took place in November 2009.

The consultation document (appendix 1) outlined the steps the Local Authority is required to take to develop the Early Years Single Funding Formula (EY SFF) along with the work undertaken to develop the formula. Further detail was given at the consultation events including options considered and rationale for the formula being consulted on. A
questionnaire forms part of the consultation document. Hard copies were available for completion at each event. The questionnaire could also be completed online. The consultation ended on 20th November. Six events were held across Cheltenham and Gloucester attended by over 200 people.

**Consultation Feedback**

Consultation on the formula has generally been welcomed by providers across the sectors. Providers expressed support for work undertaken to develop a formula that is as fair and equitable as possible within limited resources.

Analysis of the returned questionnaires shows that there is strong support for the formula with 69% of responses agreeing with the basic structure.

Some providers expressed concern about the detail of the formula; especially should the base rate fall below the current flat rate. This is reflected in the responses received for question 2 however, the majority of responses received are again positive.

There was also strong support for transition funding in year 1 but again, some concern for ongoing losses.

A minority of settings expressed concern about the level of income loss as a result of the implementation of the EY SFF. Initial impact assessments do not corroborate this.

Suggestions and comments made through the consultation process will inform the detail development and operational roll out of the formula.

**Options**

A

The Single Funding Formula for Gloucester is

- A single base rate (of £3.22 in year 1- to be reviewed annually) funded through 95% of the available budget
- 5% of the budget is used for supplements of which 4% will be used to fund mandatory supplement for deprivation and 1% (from year 2 April 2011) to fund a quality supplement.
- In year 1 (April 2010-March 2011) 1% of the budget is used to fund transition payments to ensure that no setting loses more than 2% as a result of the formula being introduced

This option is favoured by the Early Years Single Funding Formula Steering Group and is supported by responses to the consultation.

B

To undertake further detailed work on the suggestions from the small number of providers to explore options and impact of different models based on equal split of funding for supplements.

This option requires further time and resources the result of which is a high risk that the formula will not be in place in April 2010 as required. The further work does not guarantee the
result will significantly improve the formula to meet the required national and local policy objects.

It is recommended that option A is approved.

The EY SFF Steering Group supports this recommendation because:-

- The base rate is at a level which supports sustainability, as will the payment of supplements as a lump sum at the beginning of the financial year
- The single base rate and supplements is easily understood by all
- The Local Authority can afford it
- The base rate and supplement funding is consistent with the participation of children at settings and not places
- The formula does not promote perverse incentives
- The formula will support the achievement of national and local early years policy objectives
- The formula ensures that the Local Authority can meet the statutory requirement to implement an EYSFF by April 2010

Details of the overall costs of the formula and growth are in appendix 2.

Next Steps

Following agreement of the formula by Schools Forum a letter will be sent to all providers informing them of the outcome of the consultation and details of the EYSFF for Gloucestershire. This will be followed in February with a further letter detailing the indicative budget for each individual setting. The indicative budget will include the amount of the base rate and the likely income term by term generated by participation. It will also detail any level of income loss anticipated along with amount of transition payment if eligible and the level of deprivation supplement with the formula used to calculate. Both the transition funding and deprivation supplement will be paid as one off lump sum payments at the beginning of the financial year. This will enable settings to more accurately forecast cash flow across the year and put in place any remedial action to address potential cash flow and sustainability issues.

Confirmation of the total predicted spend should be available for Schools Forum in February 2011.

Between December and February the EY SFF steering group will continue to meet to attend to detail of the formula and address operational issues. It will also continue to work on the development of the formula for the payment of the quality supplement. This will ensure that the EY SFF for Gloucestershire is implemented on time in April 2010.

Issues

The formula has been developed to be funded through the existing combined resources of the EY DSG and until March 2011, the ring fenced Early Years Standards Fund. The issues which emerge as a result of this are:-

- Using Standards Fund to finance the formula in the first year creates a significant funding gap in 2011 and beyond. Consideration of the implications of using Standards Fund in this way is therefore required. Appendix 2 details the level of funding required to fund the core hours and anticipated growth, based on comparisons of growth since 2007.
• Using Standards Fund in this way eliminates the availability of funding to further incentivise and promote settings to deliver the extended entitlement flexibly

• All calculations have been made based on the predicted EY DSG income (at a standstill level) inflated by 2.1% and the indicative Standards Fund. The actual level of Standards Fund received for 2009/10 was approximately £450,000 less than the indicative allocation. Should the indicative allocation for 2010/11 be reduced and the Early Years Census reflect a reduction in pupils and or hours delivered, the available budget will also reduce

• The existing DSG budget appears to be insufficient to accommodate anticipated growth; it is therefore essential that additional income generated by additional pupils and pupil hours is made available to fund the free entitlement.
## Estimated Budget 2010/11

<table>
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<tr>
<th>Fund</th>
<th>£</th>
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<tr>
<td>Standards Fund</td>
<td>3,340,238</td>
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<tr>
<td>DSG (current + 2.1% inflation)</td>
<td>10,485,836</td>
</tr>
<tr>
<td>Carry forward anticipated under spend of standards funding from 09/10</td>
<td>175,780</td>
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<td><strong>Total</strong></td>
<td>14,001,854</td>
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## Forecast spend 2010/11

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<tr>
<th>Formula rate</th>
<th>%</th>
<th>Growth Rates</th>
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<tr>
<td></td>
<td>None</td>
<td>2%</td>
<td>3%</td>
<td>3.5%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Base rate £3.22</td>
<td>95%</td>
<td>13,030,910</td>
<td>13,291,528</td>
<td>13,421,837</td>
<td>13,486,992</td>
<td>13,552,146</td>
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<tr>
<td>Deprivation</td>
<td>4%</td>
<td>548,670</td>
<td>559,643</td>
<td>565,130</td>
<td>567,873</td>
<td>570,617</td>
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<tr>
<td>Transition</td>
<td>1%</td>
<td>137,167</td>
<td>139,911</td>
<td>141,282</td>
<td>141,968</td>
<td>142,654</td>
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<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>13,716,747</td>
<td>13,991,082</td>
<td>14,128,249</td>
<td>14,196,833</td>
<td>14,265,417</td>
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It is anticipated that the formula to fund transition payments will cost approximately £46,000 in year 1 of the formula. This could represent a potential saving of £91,000 - £96,000; however, this would only be in first year of the formula. The total 1% of the budget will be required to fund the quality payments from April 2011. This represents further strain on the budget if growth continues at the current rate of 3.4-3.5% from 2011.

## Annual hours

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<tr>
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<th>2008/09 Actual</th>
<th>2009/10 Actual + Forecast</th>
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<tr>
<td></td>
<td>3,781,381</td>
<td>3,913,419</td>
<td>4,046,572</td>
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<tr>
<td>Percentage increase</td>
<td>3.50%</td>
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