

TO: SINGLE FUNDING FORMULA REPRESENTATIVE GROUP
DATE: 30 SEPTEMBER 2009

**UPDATE ON PROGRESS TOWARDS
SINGLE FUNDING FORMULA FOR EARLY YEARS**

1 PURPOSE OF DECISION

- 1.1 The purpose of this report is to update members of the Single Funding Formula Representative Group on progress since the last meeting on the development of the Bracknell Forest Council Single Funding Formula for Early Years. Comments are now being sought on the approach taken to date and whether any further work is required in advance of agreeing a consultation document to be distributed to all providers in November.

2 RECOMMENDATIONS

That the Single Funding Formula Representative Group:

2.1 COMMENTS on questions raised in the report regarding:

- a. changes made to the Formula since the last meeting of the Group;
- b. procedural processes and other matters arising.

2.2 IDENTIFIES any further pieces of work required.

3 SUPPORTING INFORMATION

Introduction

- 3.1 The last meeting of the Single Funding Formula Representative Group (the 'Group') was presented with initial proposals for the Bracknell Forest Council Single Funding Formula for Early Years (the 'Formula'). For completeness, this report is attached at Appendix A, amended for minor corrections and omissions from the original report, and this may be a useful reference point when considering the changes now being proposed.
- 3.2 By way of reminder, the initial proposed Formula had been developed through taking account of:
- The baseline data available regarding all providers and the current market in Bracknell Forest;
 - DCSF national and BFC local priorities;
 - Desirable characteristics and features;
 - Lessons learnt from the 11 national pilot LAs;
 - The latest DCSF guidance
- 3.3 The Group concluded from this work that the Formula should:
- Comprise a single hourly base rate, with different levels of funding by provider type where this was supported by reliable evidence;
 - Aim for a relatively high hourly base rate to fund common core costs so as to achieve predictability and stability of funding for providers;

- Include hourly supplements, payable in addition to the hourly base rate to promote national and local policy objectives;
- Use the provider cost surveys to establish relative cost bases and therefore requirement for funding;
- Be robust, and therefore, where the cost data appeared inconclusive, use moderation;
- Use data for funding purposes only where it is readily available for all providers and consistently measured;
- Not be influenced by individual business decisions;
- Be affordable within the current Early Years funding envelope.

3.4 The provisional outcome of the meeting indicated that a BFC Formula should have:

- Differential hourly base rate funding for Maintained and Private, Voluntary and Independent (PVI) sector providers;
- Supplements for:
 - Deprivation (statutory requirement);
 - Quality of provision;
 - Additional Educational Needs (AEN);
 - Flexibility of provision.
- Specific, short term, targeted funding to help sustain providers experiencing financial difficulty where a requirement for the setting is considered necessary.

It was also agreed that more work was required to establish how funding could be allocated to pupils with AEN, e.g. English as an Additional Language (EAL), physical disability etc. In addition, there were a number of other issues to be considered outside the composition of the Formula such as the timing of payments to providers, what funding protection could be put in place to help providers manage a change in income where this is significant and how often budgets should be adjusted to reflect actual participation rates.

3.5 The July report presented the first stage of an iterative process that would result in a gradual refinement of proposals as more information becomes available and decisions are taken. Therefore, the content of this report should be viewed as the second stage of an on-going process.

Last meeting of the Group

Actions arising

3.6 In reviewing the initial Formula proposals at the last meeting, the LA sought guidance and support from the Group on 32 points that were raised in the report. Whilst the significant majority of responses from the Group agreed with the proposals from the LA, a number of areas for further work were identified which as these were progressed, sometimes identified additional queries. Further items for consideration arise from the latest DCSF guidance, as well as the draft DCSF funding Regulations that have recently been published and which will set the statutory framework around which the Formula must operate. Taking these factors into account, a summary of the developments considered necessary to the Formula and associated processes are:

- a) Review average staff costs from the July report, by qualification, as this reflected information from Slough.
- b) Review whether providing funding for pay for temporary staff to cover absence due to short term sickness and training, initially estimated at 15 days per employee, is the correct level.

- c) Review average staff by PVI setting from the initial Level 3 leader and Level 2 core staff i.e. are the initial staff qualification assumptions correct?
- d) Does mandatory deprivation funding have to be related to the pupil, in which case providers could receive different hourly rates for pupils, or can it be targeted to the providers located in the most deprived area?
- e) What criteria should be used to determine funding allocations to sustain providers facing financial difficulties?
- f) Should / how can AEN be reflected in the Formula i.e. what objective data is there readily available for this and to what level should it be resourced?
- g) Should a profit element be added to the PVI sector?
- h) What payment processes and budget adjustments should there be in place?
- i) What short term transitional arrangements should there be in place to help manage any large funding changes that some providers may experience as a result of the new Formula?
- j) What are the costs associated with offering a more flexible provision to parents, and how should this be rewarded in the Formula?
- k) Ensure all proposals are compliant with the draft DCSF funding Regulations.

Outcomes from latest work

- 3.7 The most significant element of the draft Formula in terms of the amount of funding distributed to providers relates to the direct staff costs within the hourly base rate. This had initially been calculated on the basis of applying minimum staffing / pupil ratio's for maintained and PVI settings to an estimated average salary plus employer on-cost together with an allowance to purchase 15 days per person temporary cover to pay for temporary staff to provide cover for short term staff absences for training days and sickness. The outcomes from these calculations were shown in Tables 1, 2 and 3 of the July report which resulted in weighted average hourly funding rates of £2.55 for maintained schools and £1.80 for those in the PVI sector.

The hourly base rate

- 3.8 Some changes to the initial hourly funding rates (weighted average) are now proposed. In terms of the assumptions around minimum staff / pupil ratios, these have been reconsidered and confirmed as appropriate. More work has also been undertaken on average salary costs which had previously relied on information from Slough for the PVI sector and provider information for the Maintained sector. For the Maintained sector, clarifications have been sought on a number of queries, and it has now been possible to quantify precisely the relevant costs of direct staff costs for all providers. This has indicated that the average cost of a Nursery Teacher is at Main Scale Point (MSP) 5, rather than MSP6 that was used in the initial calculation, but that the NVQ Level 3 staff (previously referred to as NNEB staff) had been included at the correct rate, so no change is required here.
- 3.9 In respect of the PVI sector, despite seeking further salary information from local providers, the LA considers it has not proved possible to obtain sufficient data, either in terms of volume or completeness for it to be used with sufficient confidence in setting the base funding level. Therefore, other benchmarking data has been sought to consider whether this could be used. The national average pay rates from the National Day Nursery Association (NDNA) plus recent adverts placed in the south east, outside the M25 and excluding large urban areas, were considered together with the data previously used from the survey of provider costs in Slough. This analysis showed that the national rates were lower than those paid in Slough, which probably reflected the need to pay higher average salaries in the South East where the cost of living is higher, with the recently advertised local vacancies returning rates similar to those of the Slough survey. In view of the limited

information available from providers in Bracknell, the LA considers the most robust approach at this stage is to use the Slough data.

- 3.10 Further work has also been undertaken on the employer on-costs assumed in the initial proposals. This work has recalculated the maintained sector from the previously used 21.9% rate for teachers to an actual average payment made by providers of 19.2% and from the previously used 18.5% for NVQ Level 3 staff to an actual average payment made by providers of 19.0%. In respect of the PVI sector, no detailed information is available, but the actual rate is expected to be considerably lower than the maintained sector where the employer pension contribution is around 15%. At this stage, the PVI rate has been reduced to 7%, but this needs to be reviewed again, and advice is sought from the Group on the best approach to achieve this.
- 3.11 As well as looking at average salary costs, a review of average staffing structures has also been undertaken, and this has identified a need to also review the initial proposals for quality supplements that are to be paid in addition to the hourly base rate. For maintained settings, the current qualified teacher and NVQ Level 3 structure has been confirmed as accurate, so no change is proposed. For the PVI sector, closer analysis of actual staff qualifications shows that 55% of providers have at least a Level 4 member of staff and that 46% of all staff are on Level 2 or below. As over half of all providers have a Level 4 member of staff, it is now proposed that the funding included in the hourly base rate should be based on a minimum of one Level 4 (was previously Level 3) with remaining staff funded at Level 2. A quality supplement will be added to the provider hourly rate where overall staff quality levels reach the higher, specified standards.
- 3.12 The allowance for funding 15 days direct staff absence to reflect additional costs incurred to maintain ratios when staff have short term sickness or undertake training also required validation. No information on this has been gathered from providers as it is considered unlikely to be available. Other data available to inform on this figure includes BFC average absence, which for 2007/08 averaged 5.5 days per employee, and the all sectors employers in the South East of England in 2006/07 (data from Institute of Personnel Managers) which averaged 7.8 days. Allowing each member of staff 4 days training absence would indicate a maximum requirement of around 12 days. The revised formula therefore includes funding for 12, rather than 15 days short term staff absence.
- 3.13 Assuming the above proposed changes are agreed, this would result in the following average staff costs and therefore funding rates:

Table 1: Revised average staff costs and hourly base rate





Questions:

1. Do you agree that based on more detailed work on average provider costs, that the following changes be made to the direct staff cost element within the hourly base rate:
 - a. Nursery Teacher in a Maintained Sector setting should be funded at Main Scale Point 5, not Main Scale Point 6? (Paragraph 3.8).
 - b. That provider cost data from the Slough survey be used as a the best guide to costs in Bracknell Forest? Paragraph 3.9).
 - c. That the employer on-cost for teachers in Maintained sector settings be set at 19.2%? (Paragraph 3.10).
 - d. That the employer on-cost for Level 3 staff in Maintained sector settings be set at 19.0%? (Paragraph 3.10).
 - e. That the employer on-cost for PVI sector settings be reset at 7.0%, pending further consideration of options to validate this amount? (Paragraph 3.10).
 - f. That the Group identify any further work requirements relating to employer on-costs in PVI sector settings. (Paragraph 3.10).
 - g. That the average staff structure used to fund PVI sector settings in the hourly base rate is one Level 4 (was Level 3), with the balance on Level 2? (Paragraph 3.11).
 - h. That the funding allowance added to maintain ratios during short term sickness and training absence is set at 12 days (was 15)? (Paragraph 3.12).
 - i. Do the recalculated weighted average per hour funding rates in Table 1 look reasonable? (Paragraph 3.13).

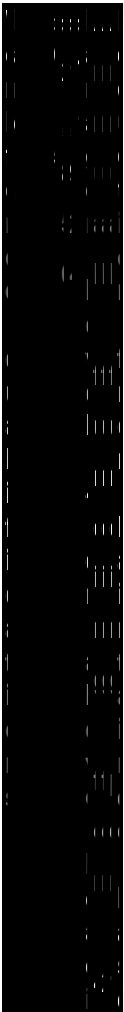
Quality supplement

- 3.14 As mentioned above, the proposed revisions to average salary costs and staffing structures requires the initial quality supplement to be reviewed as the benchmark for the highest supplementary payment was the cost difference between the Maintained Sector Nursery Teacher salary, set at MSP6, and the maximum anticipated salary of Upper Pay Scale Point (UPS) 2. With the revised Nursery Teacher salary now set at MSP5, the maximum hourly supplement, Band D would increase from £0.20 per hour to £0.35 per hour.
- 3.15 The LA believes that there needs to be an incentive for PVI providers to improve staff qualification levels above the current base line level that is funded in the hourly base rate. It is therefore important that thresholds are challenging and achievable with resultant rewards worthwhile. Based on these requirements, and the current base line of qualifications held by staff in the market, the qualifying thresholds for numbers of staff at Level 3 or above in Band B and Band C of the quality supplement have been reduced. The thresholds now proposed are.
 - a) Band D – Qualified Teacher on Upper Pay Scale 2 or above (unchanged) and 75% of staff at Level 3 or above.
 - b) Band C - Graduate (level 5 or 6) leading Early Years Foundation Stage (EYFS) Practice and 60% (was 75%) of staff at Level 3 or above.
 - c) Band B – Manager with Level 4 or above leading EYFS and 35% (was 50%) of staff with a Level 3.
- 3.16 Bands C and B of the quality supplement have been reviewed to ensure the payments reflect actual additional costs. The additional cost to the setting per hour is £0.10 at the

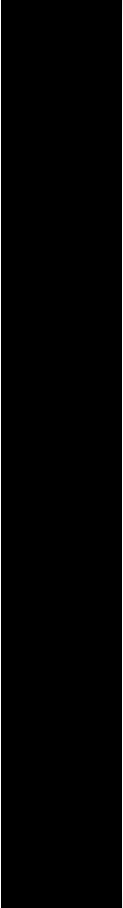
35% threshold and £0.15 at the 60% threshold. Band B of the quality supplement has therefore been revised to pay a supplement of £0.10 per hour (was £0.05) and Band C has been revised to £0.15 per hour (was £0.10).

- 3.17 Funding is not proposed in the Formula for graduate leaders and Early Years Professionals, as specific grants are available to the PVI settings via the Graduate Leader Fund (GLF) where leaders of settings have achieved these levels of qualification.
- 3.18 On reviewing the payment of the quality provision, it became apparent that due to the composition of the costing model, the Maintained sector was being over funded for Level 3 staffing costs. This is due to the costing model funding the full average costs of Level 3 staff, and with all Maintained providers only employing Level 3 and above staff, they automatically qualify for further funding through the quality supplement. As the core staff structure is fully funded in the hourly base rate, receiving a quality supplement results in double funding. In order to rectify this, the LA considers the best approach to adopt in order to achieve an equitable level of funding is to deduct from the Maintained sector hourly base rate the quality supplement added at Band C. Band C has been selected as it represents the lowest Banding that Maintained sector providers would expect to fall into on the costed staffing model. This proposal results in a deduction of £0.15 to the direct staff cost element of the hourly base rate proposed for Maintained sector providers.
- 3.19 Assuming the above changes are agreed, this would result in the following quality supplements:

Table 2 Proposals for quality supplement







Where there is a job share, or other instance where more than one employee fulfils the manager role in a setting, the qualification Band will be established through agreement with the provider.

Questions:

2. Do you agree that based on more detailed work set out above, that the following changes be made to the quality supplement and the direct staff cost element within the hourly base rate:
 - a. That the hourly quality supplement paid at Band D (Qualified Teacher on Upper Pay Scale 2 or above with 75% of staff at Level 3) should be amended to £0.35 (was £0.20?) (Paragraph 3.14).
 - b. That in light of actual qualification levels currently attained, and the local and national priority to improve qualification levels, that the second eligibility criteria to receive quality supplement funding, as based on the number of staff on at least Level 3, be set at 75% for Band D (no threshold previously), 60% for Band C (was 75%) and 35% for Band B (was 50%) (Paragraph 3.15).
 - c. That the hourly quality supplement paid at Band C (Graduate leading Early Years Foundation Stage Practice with 60% of staff at Level 3) should be amended to £0.15 (was £0.10)? (Paragraph 3.16).
 - d. That the hourly quality supplement paid at Band B (Manager with Level 4 leading Early Years Foundation Stage Practice and 35% of staff at Level 3) should be amended to £0.10 (was £0.05)? (Paragraph 3.16).

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| e. | That additional funding is not included in the Formula for graduate leaders and Early Years Professionals as funding is available through the Graduate Leader Fund (Paragraph 3.17). |
| f. | That the direct staff cost element within the Maintained sector base hourly rate be reduced by £0.15 to prevent double funding as all settings are expected to receive at least Band C quality supplement at £0.15 (Paragraph 3.18). |

Deprivation funding

- 3.20 The previous meeting was informed that there will be a mandatory requirement for a measure of deprivation to be included in each LAs funding formula as the DCSF considers the link between high deprivation and low attainment to be proven. It was agreed by the Group that as there was no new cost pressure arising from this requirement, rather that existing funds would in future need to be targeted to providers in a different way. It was also agreed that this element of the Formula would be funded from a £0.10 deduction to the hourly base rate, which is equivalent to around 3% of total funds.
- 3.21 The initial report for funding providers for deprivation was to target resources by provider location, rather than pupil home address. This would make the collection of data easier, ensure that every pupil in the setting was funded at the same rate, and deprivation funding for providers would be stable and predictable. However, it was acknowledged at the meeting that there may be a requirement to fund deprivation by individual pupil. Clear guidance on this has yet to emerge from the DCSF and a response is waited to a query raised seeking clarifications. Therefore no changes to deprivation funding are proposed in this paper, but there may still be a requirement for change at a later date.

<u>Question:</u>

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| 3. Are there any other areas to consider regarding deprivation related funding? |
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Sustainability and sufficiency of providers

- 3.22 There is a statutory duty on the LA to ensure that sufficient education and childcare is available to meet local needs and therefore, on some occasions, financial incentives and support will be needed to encourage providers to make and maintain offers where it would not normally be financially viable to do so. This is only required where the LA determines sufficient demand exists.
- 3.23 To facilitate this requirement, it was agreed at the last meeting that funding should be set aside for allocation when the need arises and that it should be financed from a deduction to the base hourly rate. The appropriate deduction from the hourly rate has yet to be considered in detail, but based on 2008-09 data, a £0.10 deduction would generate around £87k. Clearly, the more money held in reserve to support sustainability and sufficiency, the less money available to allocate to providers, so the total deduction will need careful consideration. For planning purposes, and based on the relatively small value of payments previously made to providers for this purpose, a deduction of £0.05 is proposed, which is around £45k, and funds approximately 25 pupils a year.
- 3.24 As well as needing to reconsider the level of funding to be retained for this purpose, it is also important to establish clear and robust eligibility criteria to ensure that any allocations made are needed and that they are withdrawn when a setting becomes financially stable. Whilst more work is required on this, initial proposals on suitable eligibility criteria and other relevant aspects of a financial support scheme are as follows:
- 1) A setting will only be eligible for sustainability / sufficiency funding when, in the opinion of the relevant Director, failure to maintain / make the provision would result in the LA breaching its statutory duty around sustainability / sufficiency.
 - 2) Where additional funding is agreed, this will be subject to the relevant provider submitting suitable financial records, plans and other data as requested by the LA in order for the extent of financial support to be established.
 - 3) Once additional funding is agreed, the relevant provider will be required to submit further financial records, plans and other data requested at regular intervals, as specified by the LA.
 - 4) The level of financial support provided will be based on the LA paying for the number of places considered necessary for the setting to become financially viable. The number of places supported may be subject to change during the period of financial support as actual pupil numbers change.
 - 5) The rate of financial support shall be based on the average hourly rate paid for the setting type, unless the LA considers a different rate more appropriate.
 - 6) Providers will continue to receive financial support until such time as the LA determines the setting to be financially viable.
 - 7) All allocations of financial support will be subject to endorsement of the Schools Forum and appropriate Executive Member of the LA.

Questions:

4. In respect of supporting the sustainability and sufficiency of providers, do you agree that:
 - a. For planning purposes, a £0.05 deduction be made to the hourly base rate to generate a fund of around £45k, equivalent to funding 25 pupils? (Paragraph 3.23).
 - b. The proposed eligibility criteria that providers need to meet in order to receive funding for sustainability and sufficiency of provision are adequate and complete? (Paragraph 3.24).

Additional Education Needs (AEN)

- 3.25 The July report highlighted that evidence suggests certain children have additional educational needs, for example through English as an Additional Language (EAL) or a physical disability or additional learning needs. Providing appropriate support for such children can have cost implications for providers that should then be reflected in the BF Single Funding Formula for Early Years. However, whilst some of the data that could be used for funding purposes is readily available, such as EAL from the annual census, other data, such as levels of special educational needs is not easily obtained for all providers. Since the last meeting it has not been possible to progress options for AEN funding other than in respect of EAL.
- 3.26 Some of the pilot authorities have included pupils with EAL under the heading of AEN in their Formula. Latest BFC statistics show that in May 2009, 8.2% of children in maintained nursery classes had EAL. If this percentage was applied across 2008-09 data for both maintained and PVI providers at an hourly supplement of £0.10, this would provide additional funding of £47.50 per year per child at a total cost of £7,126. If a proposal at this level of funding or lower is agreed, due to the insignificant amount involved, a source of funding would not be sought and this would be financed from the current budget. Should a higher hourly supplement be agreed, then this would need to be funded through a deduction to the hourly base rate.

Questions:

5. With regard to funding providers for pupils with Additional Educational Needs:
- Do you consider that AEN should be reflected in the Formula?
 - What objective and readily available AEN data do you think should be used?
 - Do you have any comments on the illustration of how an English as Additional Language factor could work? (Paragraph 3.26).

Should a profit element be added to the PVI hourly base rate?

- 3.27 In setting funding rates for PVI sector settings, account has only been taken in respect of costs incurred. No allowance has been made to include a profit element to reflect the risk taken by providers and the need to generate a surplus to help cover potential deficits. In order to encourage the full range of providers and to offer a financial incentive, the latest DCSF guidance recommends that a profit element is included in the funding rates. It is therefore proposed to add £0.10 to the PVI hourly base rate for this purpose. This would allocate around £58k of funds.

Questions:

6. With regard to paying a profit element to PVI sector providers:
- Do you agree that the Formula should include a profit element for PVI providers?
 - What should the hourly supplement be set at in respect of a profit element?

What payment arrangements should there be in place to fund PVI providers?

- 3.28 The current payment arrangements for PVI settings would remain in place with two payments per term, one based on expected participation levels, paid at the start of term and one based on actual participation, paid at half term. This is to assist with cash flow and follows guidance from the DCSF regarding a termly head count.

- 3.29 For maintained providers, the Indicative budget given each year would be recalculated each term on actual census data. Written notification of the subsequent budget adjustment required would be provided each term and the relevant adjustment to the budget notification would be actioned termly.

Question:

7. In respect of passing on funding to PVI providers, do you agree that:
- a. Payments should continue to be made on the current twice termly basis?
 - b. That termly recalculations should be made to take account of actual participation rates, and payments / budgets updated accordingly?

Transitional funding arrangements

- 3.30 To ease the transition from the existing funding methodology to the Formula, where there will be some turbulence in individual provider funding, it is proposed to include transitional funding arrangements over 3 years to allow settings to adjust to the new funding levels. In each year of the transition period, it is proposed that providers would be required to absorb the first 10% of the funding change, and in year 1, those providers moving to a higher hourly rate would receive 25% of their gain, and those moving to a lower rate would have 25% of their loss deducted. In year 2 this would become 50%, increasing to 75% in year 3, with full impact of the actual funding level calculated by the Formula taking effect from year 4. The proportion of transitional funding over the three year period would be fixed at the outset of the new Formula and would not then be subject to change, irrespective of changes at individual providers.

A full exemplification of agreed transitional arrangements will be provided for the next meeting of the group on 4 November 2009, setting out the anticipated financial impact on each provider, if the proposed Formula was in place in 2008-9.

Should this proposal result in additional costs, it is proposed to seek a funding increase through the Schools Forum.

Question:

8. In respect of transitional funding arrangements:
- a. Do you agree that transitional arrangements should be put in place to smooth the financial impact of the Formula?
 - b. Do you agree with the LA proposals for a transitional funding scheme, in particular:
 - i. that providers should absorb the first 10% of any change in funding;
 - ii that there should be a three year period of transition;
 - iii that the amount of hourly transitional funding – either addition or deduction - be fixed for three years at the implementation of the Formula.
 - c. Do you agree that any costs associated from transitional arrangements should be funded from new money?

Summary of funding elements within the revised Formula

3.31 Assuming all the above proposals are agreed, the following table sets out the indicative hourly funding rates.

Table 3: Indicative hourly funding rates

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Flexibility of provision

3.32 LAs are required to encourage the development of a more flexible offer to parents around the provision of the free entitlement. A number of pilot authorities have already implemented a flexible scheme and these have been reviewed to guide the development of a proposal for Bracknell Forest.

3.33 As a reminder, this Group has previously agreed a local definition of flexibility as follows:

- **Entitlement:** 15 hrs a week over minimum of 3 days.
- Pro-rata if taken over more than 38 weeks
- **Length of offer:** 38 weeks minimum
- **Minimum hours in day:** 2.5 hours
- **Maximum hours in day:** 10 hours in one day, 12.5 hours in total if over 2 days.
- **Providers:** 2 maximum. Unless the LA deems exceptional circumstances (will apply to maintained once single formula is in place)
- **Parents:** LAs to set out a clear offer of flexible provision for parents within these parameters (assisted by settings)
- **Parental Contracts:** Commitment

3.34 It has also been recognised by the Group that increasing flexibility of provision can increase provider costs, although the exact impact will vary by provider depending on the business decisions taken and the circumstances each provider is in, such as existing spare capacity to provide a flexible offer. Therefore, whilst additional funding will be available for greater flexibility of provision, the impact of additional costs which may arise from a fully flexible offer will need to be considered by a setting prior to the move to full flexibility.

3.35 To help providers assess the practical implications from this definition, Appendix B provides more guidance as well as some worked examples that include provisional funding allocations, based on the illustrative amounts set out below.

3.36 Once a flexibility offer has been approved, it is proposed to make a payment for each available flexible place, at an hourly rate based on the number of hours per week the setting is open. The incentive will be confirmed at the start of each term and paid with all other funding allocations.

3.37 The rate proposed to be paid will be dependent on the number of hours the setting is open each week, with the highest hourly enhancements paid to providers that make flexible places available over the greatest range of hours. More work is required to establish an appropriate funding rate and thresholds, but Table 4 below sets out an illustration of how the model could work.

Table 4 Illustrative proposal to fund providers for flexible provision





- 3.38 The supplement is proposed to be based on the number of flexible places offered, not the number of places taken up. Therefore, where an offer of 10 flexible places is agreed between the LA and a provider, but only 8 are taken up, the difference will not be clawed back, provided that the LA is satisfied that the offer has been adequately marketed to parents, and then provided when requested. Where this requirement is not met, the difference between the incentive paid and take up will be clawed back through the termly payment procedures.
- 3.39 The flexibility supplement would initially be funded by a specific DCSF grant that is aimed at financing the cost of extending the free offer to 15 hours per week and introducing more flexible offers. As such, at this stage there is no direct cost pressure arising from this element of the Formula.

Question:

9. In respect of flexibility of provision, do you agree:
- a. That once a flexible offer has been approved, it is funded by a payment for each available flexible place? (Paragraph 3.36)
 - b. That the funding should be based on a variable hourly rate that increases as the number of hours per week the setting is open increases? (Paragraph 3.36)

- c. That no money is clawed back if the provider is unable to sell the agreed number of flexible places, provided the offer has been adequately marketed? (Paragraph 3.38)

Next Steps

- 3.40 Final proposals will be brought to the Group for its meeting on 4th November which will need to agree the final content of the consultation document to be circulated to all providers and whether the Group wishes to recommend one particular option. Financial exemplifications by provider are planned to be included on the consultation document. This work will also help to determine how affordable the proposals are and whether a funding gap exists and how this could be dealt with.
- 3.41 Dates for consultation with all providers have now been confirmed for 6.30 pm to 8.00 pm at the Bracknell Forest Education Centre for 24th and 25th November and 2nd December. This will give all providers the opportunity to make comments and ask questions in advance of any written response they may make which will be reported back to this Group for consideration before a final report on a proposed Formula is presented to the Schools Forum in the new year.
- 3.42 The approval of the Executive Member to the final proposed single funding formula for early years will be sought next year, after taking account of comments from providers, the Single Funding Formula Representative Group and the Schools Forum

Background Papers

Childcare Act 2006, Section 7

The 2006 Code of Practice on the provision of nursery education places for 3 and 4 year olds

The Extension to the free early education entitlement for 25 percent of 3 and 4 year olds: Interim guidance for local authorities July 2008

Implementation of the single funding formula for early years: Interim guidance for local authorities July 2008

Detailed DCSF guidance from July

Draft DCSF Funding Regulations

Children's Plan – Building Better Futures

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September meeting

TO: SINGLE FUNDING FORMULA REPRESENTATIVE GROUP
DATE: 15 JULY 2009

**UPDATE ON PROGRESS TOWARDS
SINGLE FUNDING FORMULA FOR EARLY YEARS**

1 PURPOSE OF DECISION

- 1.2 The purpose of this report is to inform members of the Single Funding Formula Representative Group on progress to date on meeting Early Years Funding reform requirements and in particular the development of the Bracknell Forest Council Single Funding Formula for Early Years. Comments are being sought on whether the right approach is being taken and if any further work is required in advance of a consultation to all providers in the autumn.

2 RECOMMENDATIONS

That the Single Funding Formula Representative Group:

- 2.3 **NOTES progress since the last meeting in respect of providing free entitlement for 2 year olds and 15 hours support to the 25% most disadvantaged 3 and 4 year olds (paragraphs 3.2 and 3.3);**
- 2.4 **NOTES the provisional amounts of additional funding available to support Early Years Funding Reforms (paragraph 3.4).**
- 2.5 **COMMENTS on the questions set out in the body of the report regarding the development of the Single Funding Formula for Early Years, which are summarised at Annex E;**
- 2.6 **AGREES the draft work plan for implementation of the Single Funding Formula for Early Years at Annex C.**

3 SUPPORTING INFORMATION

Introduction

- 3.1 The two previous meetings of the Single Funding Formula Representative Group have covered the following main areas:
- To agree the purpose of the Group;
 - To receive a detailed update on the required changes;
 - To consider the practical implementation of extending the free entitlement to 15 hours
 - To agree a local definition of flexibility for the free entitlement for 3 and 4 year olds;
 - A review of interim DCSF guidance on implementing a Single Funding Formula;
 - A review of primary legislation governing the changes;
 - A review of the Single Funding Formula already in place at a range of pilot LAs;

- To agree the initial providers who were to be approached to determine if they are in a position to offer 15 hours support to the 25% most disadvantaged 3 and 4 year olds from September 2009;
- To agree draft criteria for the selection of 2 year olds who will be eligible to free provision from September 2009;
- To agree which funding factors should be investigated for inclusion in the BFC Single Funding Formula. These are out at Annex A.

Update on funding for 2 year olds and the providers offering 15 hours free entitlement from September 2009

- 3.2 In respect of free entitlement for 2 year olds, the DCSF has provided ring-fenced funding for the roll out of free early education and childcare for 50 places at 10 hours a week by September 2009. The Group has previously agreed that funding should be targeted at the 15% most disadvantaged 2 year olds. It was also agreed that funding will be allocated to individual children rather than to settings. Additional DCSF grant funding has been provided for project management and for the provision of outreach and family support relating to the project. A paper from the DCSF answering common questions about the 2 year old funding is attached in Annex B.
- 3.3 Letters have been sent to the settings identified as supporting the 25% most disadvantaged 3 and 4 year olds for inclusion in the roll out of the extension to 15 hours of the free entitlement for 3 and 4 year olds. This should help determine if these settings have the capacity and resources to enable them to participate in the roll out. Once the initial uptake of the extension has been determined, it can be established whether scope exists to include further settings in the roll out, with the aim of maximising the uptake of the extension within the limits of the available funding.

Funding arrangements

- 3.4 Provisional funding allocations for the changes to early education funding are listed below. The extension to the free entitlement will only be offered to settings if there is sufficient funding to cover expected uptake. The terms of the funding allocation for 2 year olds specifies the amount of free care that can be offered, and funding has been provided accordingly. Therefore, at this stage, funding is considered sufficient for our needs.
- Standards Fund grant for extending & increasing flexibility of free entitlement for 3-4 yr olds in 2009-10 (Provisional) £171k. 25% most deprived for 2 terms
 - Standards Fund grant for extending & increasing flexibility of free entitlement for 3-4 yr olds in 2010-11 (Provisional) £704k. 25% most deprived for 1 term, all for 2 terms
 - Sure Start Grant for roll out of 2 year old free early education and Childcare in 2009/10 £133k. 15% most disadvantage (50 places) for 2 terms
 - Sure Start Grant for roll out of 2 year old free early education and Childcare in 2010/11 £167k. 15% most disadvantage (50 places) for 3 terms.

Initial proposals for the Single Funding Formula for Early Years

Current funding methodology and base date for 2008-09 financial year

- 3.5 Two different funding regimes currently exist for the provision of the free entitlement through early years education and childcare. In the PVI sector, providers are funded at a uniform rate of £3.60 per hour, based on termly hours of actual participation. This equates to annual per child funding of £1,710. For the maintained sector, in accordance with DCSF funding regulations, schools are funded for nursery education based on actual pupil numbers each January only, i.e. not adjusted for actual participation during the year.

Maintained schools also receive other funding for the whole school, a share of which relates to nursery education. Whilst it is not straightforward to identify relevant amounts, work to date indicates that a 26 place nursery class is funded at around £3.45. This equates to annual per child funding of £1,631. Work is on-going regarding this calculation.

- 3.6 There are currently 49 PVI providers (47 for the whole year), that in the 2008-09 financial year had between 11 and 51 children accessing the 12½ hours per week of free entitlement. For the maintained sector, there are 15 providers, ranging between 12 and 78 children accessing the 12½ hours per week of free entitlement. The average number of children accessing the 12½ hours per week of free entitlement was 27 in the PVI sector and 40 in maintained.

Considerations of how the formula should be constructed

- 3.7 In developing a Single Funding Formula for Early Years, the DCSF has set out the national considerations that LAs are expected to take into account as follows:

- 1 Equality between different types of providers – The formula should ensure that the current inconsistencies of funding between the maintained and PVI sectors are removed and ensure funding is allocated to providers in proportion to their needs.
- 2 Meeting national policy objectives – The formula should support the extension and increased flexibility of the free entitlement and must take account of relative deprivation, either by individual child or aggregated by provider.
- 3 Sustainability – A badly designed single formula or badly implemented move to the extended entitlement and flexibility could have sustainability issues for some providers. It is the Authority's responsibility to ensure the local formula does not cause unnecessary financial hardship to providers.
- 4 Sufficiency – It is the Authority's duty to ensure that sufficient childcare is available to meet local needs. As there is currently no statutory obligation on providers to offer the extended offer or greater flexibility, it is up to the Authority to encourage providers to make these changes.
- 5 Long Term Affordability – The local formula will change the amount of funding paid to individual early years providers. The long term impact of these changes needs to be known prior to the implementation of the new formula as this could have considerable impact to the Authority's budget.
- 6 Regulatory Changes – Funding for the maintained sector is laid down in regulations; these need to change in order to implement the local formula. Changes to maintained sector funding regulations will become available sometime in 2009.

- 3.8 In addition to the DCSF expectations, the following criteria have also been taken into account by officers regarding the data to be used in developing the draft Single Funding Formula for Early Years:

1. Accuracy/Reliability - Whether the data source is reliable and expected to be accurate.
2. Objectivity - A measure which relies on judgements by a provider will need external moderation as otherwise there will be an incentive to over-report at the margin in order to increase funding.
3. Perverse Incentives - Ideally there should not be perverse incentives – e.g. top up funding for providers with low staff skills to incentivise their development could in fact encourage maintaining low skills to continue receiving additional funds..
4. Timeliness - How often can the indicator be updated? National DCSF data is collected every year; census data only every 10 years.
5. Availability/Accessibility - How easy is the data to obtain? Does it rely on special collection exercises? Is it free / in the public domain?

6. Coverage - Does the indicator cover all children and all providers/areas, or only some ages and phases or some other subset of children?
7. Consistency over Time - Does the data rely on definitions or external measures which may change from year to year?
8. Robustness/Volatility - Is the data reasonably stable, or does it change significantly from year to year? Indicators based on small numbers of children e. g. a small proportion of the cohort in a setting may change rapidly from year to year.
9. Stability/Predictability – Does the data allow for budgets that are stable and reasonably easy for providers to predict for their business planning?
10. Ease of Use/Transparency - Will the data and the way it is used in the formula be easy for providers to understand?
11. Ease of operation - Will the data and the way it is used in the formula be easy for management and maintenance of the funding formula?

3.9 In June, the DCSF published updated guidance to LAs on the Single Funding Formula for Early Years which is based on experience from the pilot schemes currently in operation. This therefore draws on practical experiences and attempts to provide best practice advice for LAs to follow:

1. A basic hourly rate which in most authorities varies (based on the cost analysis) between different types of provider.
2. Hourly Supplements – deprivation will be mandatory, but others such as quality, flexibility and sparsity have been considered by some to encourage local and national priorities, with a supplement for quality strongly recommended by the DCSF.
3. Other supplements – in some circumstances (e.g. sufficiency, quality) authorities have considered lump sum payments, but again in the spirit of participation led funding these should be limited, and probably used only to compensate for justifiable unavoidable costs.

Question:

10. Have the right criteria and characteristics as set out in paragraphs 3.7 to 3.9 been taken into account when developing the Single Funding Formula for Early Years?

Determination of provisional funds required

3.10 In preparation for the development of the single local formula for early years, the Council was required by the government to complete and publish a cost analysis review for the PVI sector, with the aim of determining the actual cost of providing the free entitlement. This task was completed in early 2008 and the final report was presented to the Schools Forum. In order to obtain similar information from maintained sector providers, a costing survey has recently been undertaken, the responses of which are currently being reviewed. The information obtained from these surveys has been used to help inform the relative cost base for different types of providers and a provisional indication of the overall level of funds required. Amounts quoted in this report need to be viewed as indicative as they will be updated and verified as work progresses, including receiving feedback from this Group and all providers once the borough wide consultation is undertaken in the autumn.

Question:

11. Whilst areas of the cost surveys are not totally robust or complete, are they the best starting point to estimate costs of providers, and therefore the level of funding required to maintain the setting (paragraph 3.10)?

Initial proposals for the BF Single Funding Formula for Early Years

- 3.11 Paragraphs 3.7 to 3.9 have been used by officers as the basis for developing the BF Single Funding Formula for Early Years. Compromises have had to be made in some areas as well as using estimates where there is insufficiently robust data. As expected, there is no perfect outcome so being able to strike a balance between competing priorities was the key aim. Therefore, in respect of the development of the Single Funding Formula for Early Years, the following key principles have been used in respect of formula design and values:
1. A single basic hourly rate for all providers, with differential amounts for the maintained and PVI settings where this is supported by reliable data.
 2. Impact from individual business practices or choices not to be reflected.
 3. Hourly supplements to be made where justified to incentivise good practice and to promote national and local policy objectives.
 4. Affordability within the existing Early Years funding envelope.

Question:

12. Have the right key principles been applied, as set out in paragraph 3.11, when developing the Single Funding Formula for Early Years?

- 3.12 All amounts quoted in this report should be seen as a guide and subject to change.

Hourly base rate

- 3.13 The hourly base rate will make up the largest portion of the single funding formula. It is intended to cover most of the costs that are common to all early years providers and in particular:
1. Cost of staff directly involved in child care and education.
 2. Staff training.
 3. Support costs:
 - Learning resources.
 - Administration and clerical costs.
 - Premises costs (excluding rent, rates and debt financing).
 - Management costs
 - Long term staff absence

Question:

13. Do the proposed elements of the hourly base rate cover the significant cost elements facing the majority of providers (paragraph 3.13)?

Cost of staff directly involved in child care and education

- 3.14 Staffing is the single largest cost incurred by providers. In order to calculate appropriate costs, average salaries have been applied to the minimum staffing ratios required for different settings. Further work needs to be undertaken to calculate average salaries in Bracknell Forest, so at this stage average salaries 2008/09, as calculated by Slough Borough Council have been used for PVI. Table 1 below sets out relevant data, with varying qualifications, and covers basic pay, employer on-costs and funding for 15 days absence to cover training, sickness etc. Performance related payments made to teachers through the Upper Pay Scale and other allowances are not taken into account in the hourly base rate but dealt with later under the proposed supplement for quality of provision.

Table 1: Average staff costs, by qualifications (PVI data from Slough)



Question:

14. Are the direct staff costs set out in Table 1 representative and accurate (paragraph 3.14)?
15. Is 15 days cover for staff training and short term absences in Table 1 set at the right level?

- 3.15 There are different staffing ratios applicable to different setting types. For PVI settings the following applies, with assumptions also listed. Table 2 provides details of the calculations:
- Minimum staff requirements – 1 level 3 leader plus 1 other staff member
 - Minimum staff ratios 1:8
 - For the purposes of this formula the following assumptions are made:
 - minimum staff qualification is level 2
 - each funded session lasts for 2.5 hours
 - settings provide 2 funded sessions or 5 hours of funded care per day per place
 - settings provide 950 funded hours of care per place a year

Question:

16. Are the key assumptions around staffing ratios and other data for PVI providers as set out in paragraph 3.15 appropriate?

Table 2: Average staff costs for PVI settings

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65
_£
1.8
6_

24
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20
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15,
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2_
£2
6,3
82
_£
41,
43
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£1,
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6_
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82
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16
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£1
5,0
48
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_£
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3.16 For maintained settings the following applies, with relevant assumptions also listed with table 3 providing details of the calculations:

- Minimum staff requirements – 1 Teacher plus 1 other staff member
- Minimum staff ratios 1:13
- For the purposes of this formula the following assumptions are made
 - Other than the required qualified teacher, all staff are NNEBs
 - each funded session lasts for 2.5 hours
 - settings provide 2 funded sessions or 5 hours of funded care per day per registered place
 - settings provide 950 funded hours of care per place a year

Question:

17. Are the key assumptions around staffing ratios and other data for maintained providers as set out in paragraph 3.16 appropriate?

Table 3: Average staff costs for maintained settings



3.17 Weighted hourly costs have been calculated that reflect the number of providers in the groups of places specified in the first column of Tables 2 and 3. At this stage, for simplicity, all amounts in the development of the funding formula been rounded to the nearest £0.05. The cost difference between the PVI at £1.80 and maintained sectors at £2.55 reflects the relative differences in staff costs, in particular, employment of teachers on national pay scales.

A setting in the maintained sector with the average 40 children for 2½ hours per day would receive annual funding for core basic staff costs of £48,450 and a PVI setting with the average of 27 children for 2½ hours per day £23,085.

Staff training

- 3.18 A key priority for the DCSF is the raising of standards by increasing staff qualification levels and making sure the workforce remains adequately trained once qualifications have been obtained. It has not been possible to obtain actual costs from providers to this level of detail, but to recognise this priority, it is proposed that each child will attract £0.10 per hour towards staff training. This equates to £47.50 per fully funded child per year.

A setting with 40 children would receive annual funding for training of £1,900 and one with 27 children £1,283.

Question:

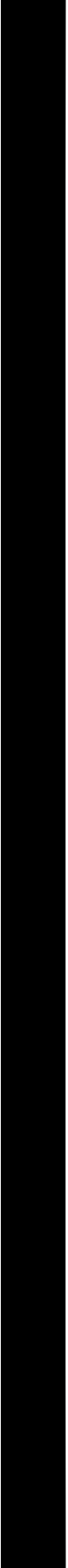
18. Does the draft Single Funding Formula for Early Years deliver the right amount of funding for staff training to the average size setting (paragraph 3.18)?

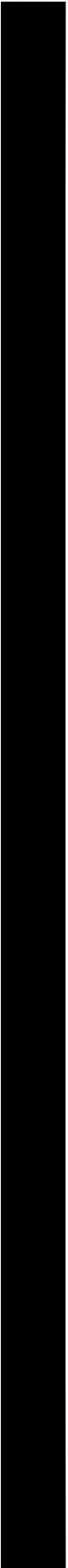
Support costs

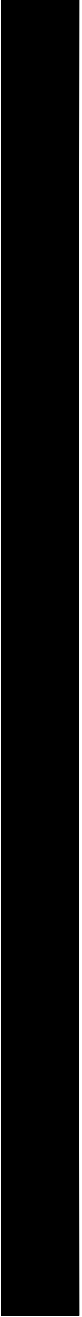
- 3.19 The funding for support costs is intended to cover the remaining operating costs that all providers face. In order to ensure an equitable allocation, no distinction is planned to be made between the types of providers. The amounts proposed to be allocated, as set out below in Table 4, are based on the information gathered from the Costs Analysis.

Table 4: Average support costs for maintained and PVI settings









Question:

19. Does Table 4 include all of the other significant inescapable costs faced by all providers?
20. Do the indicative amounts of funding in Table 4 sufficiently cover costs faced by all providers

Summary

- 3.20 Adding together the proposed amounts for each element of the hourly base rate would deliver the following indicative funding levels:

Table 5: Indicative hourly base rate



Question:

21. Does the overall indicative hourly base rate in Table 5 look reasonable?

Supplements

- 3.21 Additional hourly supplements will be added to target funding to key national and local policy objects and will not therefore be paid to all providers, but where costs and activities warrant. Provisional work indicates that the following supplements should be paid.

Accommodation

- 3.22 Maintained schools receive funding for business rates via their main school funding allocation and it is not practicable to split out costs of the nursery from the rest of the school as this would require a separate rating assessment from the Inland revenue. Therefore, no change to the existing arrangements is proposed. In order to ensure equitable funding to all providers, PVI settings only will receive an accommodation funding supplement to cover the cost of rent (or its equivalent), business rates and debt charges.

Question:

22. Is the current proposal to fund only PVI providers for accommodation, with maintained schools continuing to be funded for Early Years provisions through their main school the most appropriate course of action (paragraph 3.22)?

3.23 The Cost Analysis of PVI settings gathered relevant accommodation costs. However, this has indicated extremely varied costs in the sector, from mortgages on houses to pepper corn rates for church halls. Due to this extreme variation in accommodation arrangements, the 'average' cost is not truly representative of actual market costs.

3.24 What was evident from the Costs Analysis was that settings which had high accommodation costs operated a business model which took into account these costs e.g. full day care settings who could cover costs via higher charges for non-funded hours. It was also clear that the largest group in terms of accommodation type were those that hired a hall, for which an average of around £10 per hour was charged.

Question:

23. Due to the wide range of different costs facing PVI providers, is it appropriate to base funding for accommodation on the average cost of room hire for 38 weeks per annum (paragraph 3.24)?

3.25 Using the £10 per hour rate for hall hire, an approximate funding rate per hour can be determined as follows. £10 per hour of hall hire for 3 hours per session, 5 days a week, 38 weeks a year would cost £5,700. For the average size setting of 27 children being funded at 2½ hours per day, then 6,650 hours of funding would be received, meaning around £0.85 per hour needs to be provided to cover costs. Deducting funding for utilities and energy etc included in Table 4 that are not payable in addition to the hire charge, plus the expectation of being able to negotiate a discount on the hire from a long term letting, the rate reduces to £0.50 per hour. It is proposed to fund all PVI providers at this same rate. The average size PVI provider of 27 places would receive £6,415 per annum for these accommodation costs.

Question:

24. Is the indicative funding of £6,415 for a 27 place PVI provider adequate (paragraph 3.25)?

Deprivation

3.26 It will be mandatory to allocate a proportion of funding based on deprivation. The purpose of the deprivation element of the funding formula is to target additional funding to support children from socially deprived backgrounds, as significant evidence exists that demonstrates that these children generally achieve lower attainment with subsequent poorer life chances.

3.27 There are several measures of deprivation readily available for LAs to use, for example Income Deprivation Affecting Children Index (IDACI), Tax credit data, Mosaic, Acorn. A review by officers of these options considers IDACI to be the most appropriate measure of deprivation for BFC.

3.28 IDACI gives a score and rank for any postcode in England, the most deprived having a rank of 1, the least deprived having a rank of 32,482. At this stage of the development of proposals, the score and rank of the Early Years Providers i.e. the postcode of the settings

has been used, but work at individual child level is possible, but this clearly increases the administration requirements of the formula and the amount of data to be supplied by providers.

Question:

25. Should relative deprivation be measured via the Income Deprivation Affecting Children Index or should an alternative measure be used (paragraph 3.28)?

3.29 In setting a level of resource to be allocated through deprivation measures, it is proposed to use the same proportion as allocated to BFC for the Schools Budget by the DCSF, which currently amounts to 7%. As no costing data has been requested to evidence the additional cost of deprivation, and evidence of actual costs by specific categories of expenditure is the basis of how the BFC funding formula is being developed, this supplement creates a pressure. This can be funded either from new growth to the budget of around £220,000, or an appropriate deduction from another part of the overall hourly rate. As a key aim of this work is to maintain costs within existing resources, it is proposed that the hourly base rate would have an appropriate deduction. On current data, the relevant deduction would be around £0.25 per hour. However, as the national data indicates that levels of deprivation have a greater impact on older children, at this stage it is proposed to limit the deduction to the hourly base rate to £0.10, equivalent to around 3% of the total current funding.

Question:

26. Should the total funds allocated by deprivation measures be set at around 3% of the total budget, around half the proportion of funding received by BFC from the Government for Education (paragraph 3.29)?

27. Should deprivation funding be financed through a deduction from the hourly base rate, if not, what other funding source (paragraph 3.29)?

3.30 Having considered a methodology to determine the level of funding to be allocated for deprivation, all providers have been ranked according to their score. At this stage in the development, funding has been allocated to the top 60% of the most deprived areas only on a weighted basis. Therefore, 40% of providers would not receive any supplement to fund the additional costs of deprivation and are categorised as Band 0 providers. This proposal to limit supplementary funding to a limited number of providers has been made on the basis of deprivation funding data used by the DCSF. This shows that BFC is the 4th least deprived LA in England which implies significant areas of the borough have very low levels of deprivation. On the current model, within the 60% of providers proposed to receive supplementary deprivation funding, the top 10% have been weighted at 3 times the basic rate (Band 3), the next 25% have been weighted at 2 times the basic rate (Band 2) and the final 25% have been weighted at the basic rate (Band1). The additional weighting to the most deprived settings reflects evidence that the attainment gap is greatest in the most deprived areas.

Question:

28. Should only the 60% most deprived providers – by location – receive a deprivation supplement, and 40% of providers receive nothing (paragraph 3.30)?

29. Assuming only 60% of providers receive funding for deprivation, should the top 10% be funded at 3 times the basic rate (Band 3), the next 15% at 2 times the basic rate (Band 2) and the final 15% at the basic rate (Band1) (paragraph 3.30)?

3.31 The outcome from this element of the funding formula is that 39 providers would receive supplementary deprivation funding, with Band 1 at £0.10, Band 2 at £0.20 and Band 3 at £0.30. Providers with deprivation below these levels would not receive a funding supplement and fall into Band 0. Table 6 below sets out the proposed deprivation supplement

Table 6: Proposals for deprivation supplement





Quality of provision

- 3.32 A key national and local priority is to promote quality provision in settings and the measure proposed to use this is the skills of staff employed in settings. Looking at the current early years workforce it is clear that the staff in the maintained sector are better qualified and paid than staff in the PVI sector. Over 80% of early years providers are in the PVI sector but the percentage staff at graduate level is small. Only 3% of full day care staff in PVI settings are graduates compared to 40% in the maintained sector.
- 3.33 The Government has set a clear ambition to improve the quality of the PVI workforces. This ambition includes every full day care setting being led by a graduate by 2015 and all staffing aiming for a minimum of a full level 3 qualification. It is therefore proposed to include a quality supplement, based on relevant staff qualifications that will incentivise the move to a higher qualified workforce in the PVI sector, while allowing settings to pay the higher staff costs associated with these higher qualifications.

Question:

30. Is the proposal to use relevant staff qualifications data the most appropriate measure for quality of provision (paragraph 3.33)?

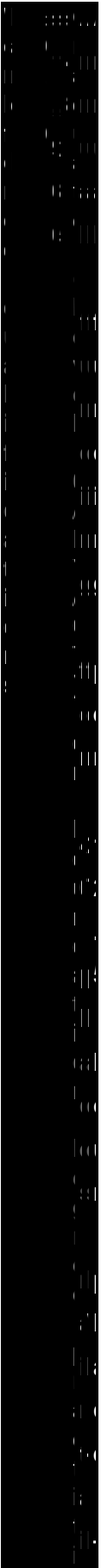
3.34 Current qualification levels in the maintained sector are considered high and do not therefore need improving, however the higher cost of maintained sector staff needs to be accounted for in the formula, (this was not done in the base rate) and this supplement will allow for that and all other settings with high quality staff.

3.35 In order to determine the level of funding a setting will receive under the quality supplement, the qualification levels of the staff at a setting will be compared to the table below. The supplement has been set at 4 levels; Band D equates to the current qualifications and experience levels at maintained settings, where a teacher is paid on the Upper Pay Scale (UPS). Based on UPS2, this costs £4,922 per annum more than the cost funded through the hourly basic rate. Bands C and B specify other qualifications at a lower level that are nonetheless above the level of funding included in the hourly basic rate. Funding for Band C has notionally been set at half the level allocated to Band D qualifications, with Band B at half the level of Band C. Table 7 below sets out the proposed quality supplement. Providers with qualifications below these levels do not receive a funding supplement and fall into Band A.

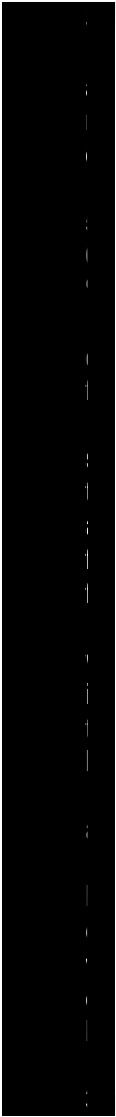
Question:

31. Assuming staff qualifications data is used to fund providers for quality, is the proposal for allocations to be based on 4 different qualifications levels right (paragraph 3.35)?
32. Is the proposed measure of the funding gap in maintained schools correct, which would fund a 26 place nursery for an NNEB and a qualified teacher on UPS2 (paragraph 3.35)?
33. Are the proposed bandings and their relative funding proportions correct (paragraph 3.35)?

Table 7: Proposals for quality supplement







Sustainability and sufficiency of provisions

- 3.36 As set out above, it is the Authority's duty to ensure that sufficient childcare is available to meet local needs and therefore on some occasions, financial incentives need to exist to encourage providers to make the required offers where demand exists. It is therefore proposed to set aside funding to be allocated to providers for fixed periods of time to help cover a shortfall of income compared to costs arising from low participation if sustainability is required to meet the Authority's duties. The criteria to allocate funding have yet to be determined.

Question:

34. Do you have any comments on the proposals regarding funding settings for sustainability to ensure sufficiency of places (paragraph 3.36)?
35. Should sustainability and sufficiency funding be financed through a deduction from the hourly base rate, if not, what other funding source?

Additional educational needs (AEN)

- 3.37 Evidence suggests that certain children have additional educational needs, for example through English as an Additional Language (EAL) or a physical disability or additional learning needs. Providing appropriate support for such children can have cost implications for providers that should then be reflected in the BF Single Funding Formula for Early Years. However, whilst some of the data that could be required for funding purposes is readily available, such as EAL from the annual census, other data, such as levels of special educational needs is not available for all providers. Therefore, more work is required on this area before a recommendation can be made as to how AEN can be included in the BF Single Funding Formula for Early Years.

Question:

36. Do you have any comments on the proposals regarding funding settings for additional educational needs (paragraph 3.37)?
37. Should additional educational need funding be financed through a deduction from the hourly base rate, if not, what other funding source?

Flexibility of provision

- 3.38 The focus of the work on the BF Single Funding Formula for Early Years has been based on the 2008-09 financial year so that meaningful financial and other comparisons can be made between the existing funding arrangements and the new regime, had it been in place last year. Therefore, at this stage funding flexibility of provision has not been considered in detail. Proposals on this will be made in the autumn.

Question:

38. Do you have any comments on the proposals regarding funding settings for additional flexibility of provision (paragraph 3.38)?

Summary

- 3.39 Taking account of the work undertaken to date, Table 8 below set out a summary of a range of potential hourly funding rates for providers. Annex D shows a more detailed summary, together with an indication of funding levels for different sized settings.

Table 8: Indicative hourly funding rates

Item
 Amount
 paid
 per
 hour
 PVI

Core

£

Funding:

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2.75

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£

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3.40 Some general questions for consideration remain at the end of this report:

Question:

39. Is the balance between the hourly basic rate paid to all providers and supplements for policy objectives right? Should more or less be through supplements?
40. Do any other costs or factors need to be taken into account?
41. Should there be a wider range of funding bands other than PVI and maintained? E.g. splitting PVI into say full day care, private sessional and voluntary sessional.

Other issues still to be considered

3.41 As well as developing the BF Single Funding Formula for Early Years, a number of practical issues also need to be considered. Current issues include the following:

- Inclusion or exclusion of exclusive SEN nursery provision in the Single Funding Formula (e.g. Kennel Lane Maintained Special School)
- Should a minimum increase in funding each year be included in the Single Funding Formula?
- Should the Single Funding Formula include a factor to reduce the impact of severe fluctuations in participation levels?
- Are temporary transition arrangements needed to protect settings adversely affected by the introduction of the Single Funding Formula?

- How and when should participation be counted? Termly or annually?
- On what basis should indicative budgets be calculated (all providers must have indicative budgets prior to the start of the financial year)?
- How often should budgets be adjusted to account for actual participation levels?
- How often should payments be made to PVI providers?
- Are different rates of funding for some factors appropriate for PVI and maintained schools to reflect differing cost bases?
- Should there be specific funding allocations to the smallest settings?

Next Steps

- 3.42 Once this meeting to review the preliminary work on the Single Funding Formula has made comments and given direction to any further work requirements, this will be undertaken over the summer with a view to updating this group on 30th September (to be confirmed), subject to sufficient issues having been identified that require consideration by this Group. This work will include a detailed assessment of whether the formula is affordable.
- 3.43 Final proposals will be brought to the Group for its meeting on 4th November (to be confirmed) which will need to agree the final content of the consultation document to be circulated to all providers and whether the Group wishes to recommend one particular option. Financial exemplifications by provider are planned to be included on the consultation document.
- 3.44 A revised workplan is attached at Annex C which the Group is asked to endorse.
- 3.45 The approval of the Executive Member to the final proposed single funding formula for early years will be sought next year, after taking account of comments from providers, the Single Funding Formula Representative Group and the Schools Forum.

Background Papers

Childcare Act 2006, Section 7

The 2006 Code of Practice on the provision of nursery education places for 3 and 4 year olds

The Extension to the free early education entitlement for 25 percent of 3 and 4 year olds: Interim guidance for local authorities July 2008

Implementation of the single funding formula for early years: Interim guidance for local authorities July 2008

Children's Plan – Building Better Futures

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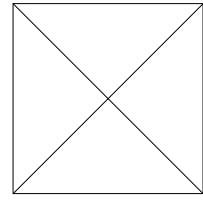
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Annex A



Some Common Questions about the Offer for Two Year Olds

There is a greater detail on a lot of these issues in the two year olds guidance document, which we are in the process of updating to reflect the extended offer, but still remains valid.

1. What is my funding?/How is it calculated?

Place number allocations - This number is calculated using a combination of 2007 local population data, and the 2007 Income Deprivation Affecting Children Index. This gives a number of disadvantaged children in each area, and LAs are funded for 15% of this number.

N.B. '15% **of** the most disadvantaged' is not the same as '**the** 15% most disadvantaged'.

Funding is calculated using the formula:

Places x hours (10 or 15) x weeks (38) x hourly rate (4.85 or 6.00)

All LAs will receive £45,000 per year for Project Management, and they will start receiving this from April 2009.

Annual funding for **both** Outreach and Family Support is banded on the following basis:



Outreach funding will also be allocated from April 2009.

Funding is paid quarterly through the Sure Start and Early Years Capital Grant.

2. Can LAs carry over unused funding from one year to the next?

No. Due to Government accounting rules any money that is unspent will be clawed back.

3. What is the Eligibility Criteria?

All families accessing the offer **MUST** meet (i.e. be in receipt of) at least one of the following income-based criteria:

- Income Support
- Income-based Jobseeker's Allowance
- Child Tax Credit at a rate higher than the family element
- Extra Working Tax Credit relating to a disability
- Pension Credit

LAs are encouraged to set further criteria to really narrow down onto the most disadvantaged children in each area.

4. Can LAs use referrals?

Yes, the Department does not preclude LAs from using referrals, but you have to use a data-driven approach for the two year old offer. This involves using hard data sources to identify the most disadvantaged two year olds first, and then using appropriate Outreach to go out and engage them.

5. How do we find out where the most disadvantaged two year olds live?/What data sources should we use?

This is subject which will be covered at the delivery workshops, but there are a variety of ways of doing this. You can use:

- SOA data cross matched with data from IDACI (available at the Communities and Local Government website)
- 2007 Workless benefits data from DWP (available on request)
- commercial packages such as ACORN or MOSAIC
- Children's Centre data
- Live birth data

6. What does Child Tax Credit at a rate higher than the family element mean?

The family element is the basic element of Child Tax Credit, and the current rate at which this is paid is £545 per year. Any family receiving any further elements will receive significantly more than this and will thus be eligible. Families will know this by looking at their award letter, where it states at the top the rate of award. Further info on tax credits is available here:

<http://www.direct.gov.uk/en/MoneyTaxAndBenefits/TaxCreditsandChildBenefit/TaxCredits/index.htm>

5. Are asylum seekers eligible for the offer?

A child moving to England from another country is entitled to free nursery education on the same basis as any other child regardless of whether they have British citizenship.

There is a difficult question regarding proving eligibility given the headline criteria of receipt of certain benefits, which by virtue of being asylum seekers, they cannot access. The important thing is that the offer focuses on those suffering from economic disadvantage, and as such asylum seekers should not be excluded from accessing a place. There is flexibility on how you prove eligibility but one criterion you may want to consider in this case should be that they are receiving support under Part VI of the *Immigration and Asylum Act 1999*. It is also worth noting that those families receiving support under the Act are eligible for Free School Meals.

7. Quality - Can LAs use a 'satisfactory' Ofsted-rated setting?

The Department have deliberately set high quality standards in response to evidence that to impact positively on child outcomes provision for 2 year olds must be good quality. If an LA wishes to use a setting that is 'satisfactory' then the LA **has to be** confident that they are working towards a 'good' rating, and they need to make a judgement about whether they should be included based on clear evidence – for example from participation in a quality improvement scheme or hiring graduate staff. We are deliberately trying to raise the bar on standards, whilst not being overly prescriptive on the type of setting that can be used.

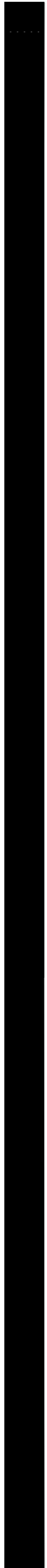
8. Target Places – Does the allocation refer to children or places?

The target refers to places. A family should always be offered the maximum number of hours available to them (10 or 15) but may choose not to take them all up. These 'spare' hours can be used to fund another child. As a general rule the funding should always follow the child, and should not be allowed to support empty places. However, if you feel that funding some empty places is absolutely necessary for the purposes of generating take-up or support from high quality providers that is up to your discretion.

9. Proving eligibility – How does this happen and is it a barrier to take-up?

We have found that in some instances asking families to prove their eligibility can be a barrier. One of the most successful ways has been using a tick box form (e.g. in the Guidance). LAs can either ask outreach workers to sign off on this (by seeing proof), or asking parents to self-certify. If parents do self-certify they need to be aware that if they falsify their details it is fraud. The key issue here is the relationship between the family and the worker. We have found that using a professional who has an ongoing relationship with, or good knowledge of the family (e.g. a Health Visitor) can make all the difference.

Revised Draft Work Programme



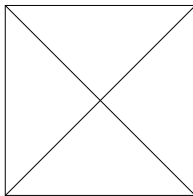




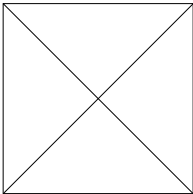




Detailed summary of hourly funding rates



Provisional Funding Model



Questions to Single Funding Formula Representative Group

Methodology

1. Have the right criteria and characteristics as set out in paragraphs 3.7 to 3.9 been taken into account when developing the Single Funding Formula for Early Years?
2. Whilst areas of the cost surveys are not totally robust or complete, are they the best starting point to estimate costs of providers, and therefore the level of funding required to maintain the setting (paragraph 3.10)?
3. Have the right key principles been applied, as set out in paragraph 3.11, when developing the Single Funding Formula for Early Years?

Hourly Base Rate

General

4. Do the proposed elements of the hourly base rate cover the significant cost elements facing the majority of providers (paragraph 3.13)?

Direct staff costs

5. Are the direct staff costs set out in Table 1 accurate (paragraph 3.14)?
6. Is 15 days absence to cover for staff training and short term absences in Table 1 set at the right level?
7. Are the key assumptions around staffing ratios and other data for PVI providers as set out in paragraph 3.15 appropriate?
8. Are the key assumptions around staffing ratios and other data for maintained providers as set out in paragraph 3.16 appropriate?

Staff training

9. Does the draft Single Funding Formula for Early Years deliver the right amount of funding for staff training to the average size setting (paragraph 3.18)?

Support Costs

10. Does Table 4 include all of the other significant inescapable costs faced by all providers (paragraph 3.19)?
11. Do the indicative amounts of funding in Table 4 sufficiently cover costs faced by all providers?

Summary

12. Does the overall indicative hourly base rate in Table 5 look reasonable (paragraph 3.20)?

Supplements

Accommodation

13. Is the current proposal to fund only PVI providers for accommodation, with maintained schools continuing to be funded for Early Years provisions through their main school the most appropriate course of action (paragraph 3.22)?
14. Due to the wide range of different costs facing PVI providers, is it appropriate to base funding for accommodation on the average cost of room hire for 38 weeks per annum (paragraph 3.24)?
15. Is the indicative funding of £6,415 for a 27 place PVI provider adequate (paragraph 3.25)?

Deprivation

16. Should relative deprivation be measured via the Income Deprivation Affecting Children Index or should an alternative measure be used (paragraph 3.28)?
17. Should the total funds allocated by deprivation measures be set at around 3% of the total budget, around half the proportion of funding received by BFC from the Government for Education (paragraph 3.29)?
18. Should deprivation funding be financed through a deduction from the hourly base rate, if not, what other funding source (paragraph 3.29)?
19. Should only the 60% most deprived providers – by location – receive a deprivation supplement, and 40% of providers receive nothing (paragraph 3.30)?
20. Assuming only 60% of providers receive funding from deprivation, should the top 10% be funded at 3 times the basic rate (Band 3), the next 15% at 2 times the basic rate (Band 2) and the final 15% at the basic rate (Band1) (paragraph 3.30)?

Quality of provision

21. Is the proposal to use relevant staff qualifications data the most appropriate measure for quality of provision (paragraph 3.33)?
22. Assuming staff qualifications data is used to fund providers for quality, is the proposal for allocations to be based on 4 different qualifications levels right (paragraph 3.35)?
23. Is the proposed measure of the funding gap in maintained schools correct, which would fund a 26 place nursery for an NNEB and a qualified teacher on UPS2 (paragraph 3.35)?
24. Are the proposed bandings and their relative funding proportions correct (paragraph 3.35)?

Sustainability and sufficiency of provisions

25. Do you have any comments on the proposals regarding funding settings for sustainability to ensure sufficiency of places (paragraph 3.36)?
26. Should sustainability and sufficiency funding be financed through a deduction from the hourly base rate, if not, what other funding source?

Additional educational needs (AEN)

27. Do you have any comments on the proposals regarding funding settings for additional educational needs (paragraph 3.37)?
28. Should additional educational needs_funding be financed through a deduction from the hourly base rate, if not, what other funding source?

Flexibility of provision

29. Do you have any comments on the proposals regarding funding settings for additional flexibility of provision (paragraph 3.38)?

General

30. Is the balance between the hourly basic rate paid to all providers and supplements for policy objectives right? Should more or less be through supplements?
31. Do any other costs or factors need to be taken into account?
32. Should there be a wider range of funding bands other than PVI and maintained? E.g. splitting PVI into say full day care, private sessional and voluntary sessional.

15 July 2009

Flexibility Test

You must offer the extended 15 hours to qualify for the flexibility incentive. To keep things simple, we assume here that the setting is offering all flexible places, but you could decide to offer some flexible places and some extended 15 hours only places. If so, only the flexible places have to pass the test.

- Opening times: are the places available for more than 15 hours per week?
- Days per week: do parents get a choice about the number of days their child receives the free entitlement: either 3-4 days a week, or 4-5 days a week (a choice of 3 or 4 or 5 days a week is even better).
- Notice of change: if parents need to change their child's pattern of attendance, does the setting seek to meet any request within six weeks (subject of course to the parents' choice of times/days being available in the setting).
- Attendance periods: the minimum funded attendance period is 2.5 hours, but beyond this does the setting seek to provide the session length parents request (subject of course to availability and the setting's opening hours). (NB the maximum **funded** period per day is 10 hours – if parents want more than that, they have to pay for the extra hours).
- Additional care: can parents buy additional time over and above the free 15 hours per week (at the setting's published rates for 3 and 4 year olds), **without being required to do so**.
- Flexibility of drop-off/pick up times: does the setting allow parents some lee-way? To count as flexible, we would expect there to be some lee-way. For example, a setting offering a total of five hours provision in a morning would allow parents to drop off their child up to an hour after the first children had arrived.

If the answer to all these questions is 'yes', you have passed the flexibility test and are eligible for the 'flexibility surplus'. If you are not sure if you do or you need a bit more time to pass the test, advice can be obtained from the LA.

You will need to provide evidence of your flexible offer; your prospectus or similar materials should be sufficient. However the authority reserves the right to request further evidence, including visits to the setting by a representative of the authority, if this is deemed necessary.

EXAMPLES

Please note that in all of the 3 following examples, parents pay for every hour above the free 15 hours, at the setting's published rate for additional hours.

Setting A is a day nursery. It is set up to provide 26 full day-care places for 3 and 4 year olds. In practice, some full day-care places are taken up by two children, as they don't all need full day-care. However, they are available as full day-care places if parents want them. Therefore, the number of flexible places is 26.

The flexible places are available throughout the setting's opening hours, 8am – 6pm every day of the week i.e. 50 hours a week. So:

- The 'flexibility incentive' is £0.35 per hour
- $£0.35 \times 26 \text{ places} \times 12.5 \text{ hours} \times 38 \text{ weeks} = £4,323$ (or £166 per place per year)
- The £166 per flexible place does not have to be returned, even if there is in the end less demand for flexibility than the setting thought when planning the number of flexible places.

Setting B is a pre-school, which is used to provide 26 places in a morning session only. It surveyed its parents and found there was also a demand for afternoon provision Monday – Thursday. So it now offers 26 sessional places from 9am till 12 noon every day; 16 of these are extended flexible places which carry on till 3pm (including a lunch club) on Mondays – Thursday.

There are therefore 16 flexible places available from 9am – 3pm, 4 days of the week i.e. 24 hours a week. So:

- the flexibility incentive is £0.05 per hour
- $£0.05 \times 16 \text{ places} \times 12.5 \text{ hours} \times 38 \text{ weeks} = £380$ (or £24 per place per year)
- The £24 per flexible place does not have to be returned, even though in the end Thursday afternoons were poorly attended (the settings is now considering dropping the Thursday afternoons or alternatively opening every afternoon as some working parents are asking for care throughout the school week).

Setting C is a primary school with a 26 place nursery class open morning and afternoon. The school is offering some children the full school day with a hours lunch club in between the sessions. The exact number of flexible places varies from term to term (depending on demand and on the number wanting session only places). This term there were 18 children wanting these flexible places. However while the teacher is on lunch the nursery nurse (level 3) is in charge, helped by a class room assistant and a ratio of 1:8 applies, so to be cost effective the school is only offering 16 places.

There are therefore 16 flexible places, available from 8:30 am to 3:30 pm 5 days a week. So:

- The flexibility incentive is £0.15 per hour
- $£0.15 \times 16 \text{ places} \times 12.5 \text{ hours} \times 38 \text{ weeks} = £1,140$ (or £71 per place per year)
- The £71 per flexible place does not have to be returned, even if the take up of the full school day care was slightly lower because 3 families moved away during the previous school holidays and could not be replaced.