



Walsall Children's Services

Report to: Early Years Funding Sub Group
Schools Forum

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Subject: Implementing the Early Years Single Funding Formula
- Guidance July 2009

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Purpose of the report: The report summarises the key points in the DCSF guidance, Implementing the Early Years Single Funding Formula. It is intended to help the Early Years Funding Sub Group and the School Forum understand the reforms and support the local authority in the development of a Walsall Early Years Single Funding Formula.

Recommendations: The report is for information only. No decisions are required as a direct result of this report.

1. Introduction

- 1.1 The DCSF issued its final guidance on the implementation of the Early Years Single Funding Formula (EYSFF) in July 2009. This document confirms much of the information issued to date and outlines the proposed changes to the School Funding Regulations. The new systems must be implemented by 1 April 2010.
- 1.2 The EYSFF is designed to harmonise the counting of pupils, the funding of settings and payment methods. The current systems are derived from different education acts, have been in place for different periods of time and were designed as completely separate systems. The implementation of the EYSFF is a significant challenge for all local authorities (LAs). Until now the EYSFF proposals have been evolving based upon the experiences of a number of pilot authorities.
- 1.3 Although the new system standardises the funding of early years in some respects it will recognise the varying cost drivers in the different settings. For example early years provision in a nursery school will always be more expensive than provision in a maintained nursery class because of fixed costs such as the headteacher salary and premises. The EYSFF must recognise these factors and promote and sustain a stable and diverse range of nursery provision across the borough.

2. Changes to the School Finance Regulations

- 2.1 Primary legislation is being introduced via the Apprenticeships, Skills, Children and Learners Bill to allow secondary legislation under the Schools Finance Regulations. The key changes to the regulations are:
 - LAs will have to use an EYSFF to distribute funding for the free entitlement to early years provision:
 - Funding for Private, Voluntary and Independent providers (PVIs) in the Schools Budget in a LA will move from the Centrally Retained Budget to the Individual Schools Budget;
 - As a minimum, the counting of pupils to support participation-led funding must be on a termly basis;
 - The EYSFF will be required to have a deprivation factor; and
 - Funding must be given on the basis of participation – the number of children actually delivered to - not the number of available places in a provider. However, in recognition of the fact that LAs also have a sufficiency duty, the regulations will permit a factor to be included to support sufficiency and sustainability, but this must not be used widely and must have clear criteria.

3. Wider Funding Issues

- 3.1 Affordability is a key issue. The funding of the free entitlement must ensure that provision is sustainable and supports good quality education delivered flexibly to improve outcomes for children. But this must be done in conjunction with an overview of the strategic funding pressures.
- 3.2 The EYSFF does not change the current 'Code of Practice on the Provision of Free Nursery Education Places for Three and Four Year Olds' and therefore LAs must continue to ensure that the basic entitlement is free at the point of delivery and that providers should not levy any fee in this respect. Providers are free to determine their fees for all other provision, including wrap around.
- 3.3 The Minimum Funding Guarantee (MFG) provides a maintained school with a minimum increase per pupil year on year. This is currently 2.1% for the 2008-11 multi year budget period. The MFG will remain for the 2010-11 financial year but may be subject to change as part of the national review of the education funding system. The Schools Forum has the power to approve a variation to MFG at a local level, where less than 50% of pupils are affected.

4. Development of the EYSFF – Core Principles

4.1 The core principles detailed in the guidance reflect the Walsall approach to the project and are:

- Support the effective and efficient distribution of resources at the local level;
- Facilitate greater flexibility of provision so that parents can have greater choice in how they use the free entitlement;
- Preserve diversity and choice in the market;
- Incentivise improvements in the quality of provision and recognise the ongoing costs associated with quality;
- Support the narrowing of achievement gaps and recognise the additional costs associated with children from deprived backgrounds;
- Be clear and transparent.

With regards to the formula:

- The same factors should be taken into account when deciding the level of funding for each sector;

- Decisions must be transparent and any differences between the sectors should be justifiable and demonstrable;
- The level of funding should be broadly cost-reflective and all main cost elements should have been considered explicitly;
- There should be no perverse incentives and any change in the formula must not endanger the sufficiency of provision;
- The formula must be based on common cost information from both the PVI and maintained sectors and all costs and public sources of income should be considered;
- Settings should be funded on the basis of participation, not place or similar factors. Participation must be counted on a termly basis, at least.
- An additional factor to support sufficiency and sustainability will be allowed but must not be used widely.
- The formula must take into account the sustainability of all settings, giving sufficient stability to all sectors to plan for the future and improve quality;
- Transition from the current funding mechanism to the future funding mechanism must be planned and managed carefully, and based on a clear impact assessment; and
- The application of the formula in different settings should be based on common operating principles, wherever possible. Aspects of the proposed EYSFF must be the result of partnership working and final decisions on structure and operation of the formula should be made only after widespread consultation.

5. Understanding Provider Costs

- 5.1 LAs are expected to understand the operating costs of providers in the local area to help with the development of the EYSFF. They should also update the cost model used to determine the formula on a regular basis.

6. Design and Implementation of the EYSFF

- 6.1 LAs must :

- Determine one or more hourly rates for providers, reflective of the cost of delivery ;
- Fund on participation only, using at least a termly count;
- Incorporate a deprivation supplement;
- Ensure measures used to determine supplements are robust, transparent and easily understandable, that supplements do not create unnecessary bureaucracy and do not overlap with the base rate;
- Ensure quality is sufficiently supported and incentivised in the funding system in general;

- Adjust budgets within the financial year to reflect participation adequately across all sectors and take into account the cash flow of providers in the PVI sector. Payments must be at least half termly; and
 - Give all providers an indicative budget at the start of the year which reflects anticipated participation.
- 6.2 LAs can consider introducing additional supplements into the EYSFF to cover the quality of provision and flexibility of the provision offered, along with any other factors as permitted under the School Finance Regulations.
- 6.3 The basic structure of the formula will be:
- (Basic Hourly Rate + Hourly Supplements) x Number of hours of participation + other supplements**
- 6.4 The basic hourly rate will be the same for each child in each funding category. This is intended to meet the cost of provision for a child with no additional needs.
- 6.5 A deprivation supplement is mandatory and work is ongoing to model the impact of a deprivation supplement based upon IDACI, as agreed by the sub group and the Schools Forum.
- 6.6 A quality supplement is optional, and if included, could include workforce qualifications, Ofsted inspection ratings, membership of an approved quality scheme, well developed self-evaluation processes.
- 6.7 A flexibility supplement may also be included. This should recognise and support the costs associated with delivering different patterns of provision, such as delivering over the lunch break or opening longer hours. The supplement should drive patterns of delivery more responsive to parental demand.

7. Impact, Transition and Review

- 7.1 LAs must undertake an assessment of the effect of the new formula for every setting.
- 7.2 Each LA must ensure settings fully understand the basis on which they will be funded, including the basic hourly rate and any supplements that will apply.
- 7.3 The new data and administrative requirements required as part of the new EYSFF need to be tested and communicated.
- 7.4 The maximum period over which transitional funding arrangements for all providers can be implemented is three years.

- 7.5 The impact assessment will also include the extended and flexible offer, and look at the two year old offer.
- 7.6 The impact on admissions processes also needs to be considered.

8. Further information

- 8.1 This report provides a brief summary of the relevant sections of the DCSF guidance issued in July 2009. The full document can be downloaded from <http://www.dcsf.gov.uk/everychildmatters/earlyyears/localauthorities/lappractice/entitlement/sffundingresources/sffresources/>