



Walsall Council

Walsall Children's Services

Report to: Schools Forum

Date: 16 June 2009

Subject: Early Years Funding Reforms

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Purpose of the report: To appraise School Forum of the ongoing work in respect of the early years funding reforms and the introduction of a single early years funding formula in Walsall

1. Introduction

1.1 There will be a number of early years funding reforms implemented during the 2009-10 and 2010-11 financial years. The main objectives of these reforms are to maximise the take up of high quality, flexible, free early years provision across all settings, to better meet the needs of parents seeking employment, in order to achieve the government's target to reduce the number of children living in poverty.

1.2 For historic reasons, inconsistencies exist in the funding of the free entitlement between maintained nursery provision and private, voluntary and independent (PVI) settings. Although there will always be differences between the two sectors, including different legal frameworks, local authorities (LAs) must be able to demonstrate that such differences are justifiable through the single funding formula.

1.3 The DCSF require LAs to review their funding of the free entitlement for 3 and 4 year olds. The key issues for consideration are:

- to develop a single funding formula based upon an hourly rate by 2010-11, to ensure consistency and fairness in the method used to fund early years providers, both maintained and PVI. This does not mean that all providers will be funded at the same hourly rate but that all the same cost drivers and factors will be considered when determining the levels of funding;
- the formula must include a factor for deprivation;
- the formula can contain the factors already set out in Schedule 3 of the School Funding Regulations, and in addition can contain factors on quality and flexibility;
- funding must be based on planned attended hours and then adjusted to reflect actual attendance. Therefore, systems and processes to estimate attendance need to be agreed;
- to analyse the range of costs across the sectors to deliver the free early education places and provide a baseline for the hourly rate calculations;
- funding can only be based on places for reasons of sustainability or to ensure the local authority meets its duty to secure sufficient childcare;
- to consider the right balance between achieving value for money, investing in sustainable provision and enabling longer term planning and improvement; and
- all settings must be provided with indicative budgets before 31 March 2010;

1.4.1 In addition to the introduction of a single early years funding formula based upon an hourly rate, the DCSF is also introducing an extension of the current offer of free early years education from 12.5 hours per week to 15 hours per week, to be delivered on a flexible basis. The extended and flexible offer is available to the 25% of most socially disadvantaged pupils with effect from September 2009. Schools Forum agreed with the LA's proposed extended and flexible offer settings, at its meeting on 11 November 2008.

For 2009-10, it is proposed that temporary funding arrangements are agreed in respect of the extended and flexible offer, as the money is being delivered to the LA through the Standards Fund, rather than the Dedicated Schools Grant (DSG). The single funding formula will be effective from 1 April 2010 and although the Standards Fund grant route will apply in 2010-11 for the extended and flexible offer, the LA will need to ensure that the funding for the additional hours can be accommodated through the new single early years funding

formula. This is because from 2011-12, all of the funding will be included within the Individual Schools Budget, and funded via the DSG. The estimated funding for the extended and flexible offer, based upon January 2009 pupils taking up the extended offer on a 38 week basis, is included in Table 1 of the report.

- 1.4.2** Attached as Appendix 1 to the report is a proposal to distribute the 2009-10 Standards Fund Grant to the extended and flexible delivery pilot settings, using a temporary methodology. This grant is generous and provides a higher rate of funding than our current guaranteed funding unit in the DSG, due to the addition of a flexibility supplement and the numbers of pupils in our pilot settings. The 2009-10 grant allocation must be fully devolved to settings and is currently equating to £5.50 per hour per pupil. The schedule detailed in Appendix 1, the proposed allocation per setting based on their January 2009 census data.
- 1.4.3** The Forum is asked to approve these allocations and also that the remaining funding be used to introduce another setting into the pilot, based upon the next area identified in the original exercise that used Super Output Areas to measure levels of deprivation. This will ensure that the grant is fully devolved in accordance with the grant conditions.
- 1.5** For the purpose of the new formula and the extended and flexible offer, pupils of below statutory school age in reception classes will be excluded.
- 1.6** During the Spring Term 2009, DCSF completed the package of early years and childcare offer by requiring all LAs to offer free places to 15% of the most deprived two year olds in the borough, with effect from September 2009.

For Walsall, this equates to provision for 146 places, plus additional funding to pay for project management, outreach and family support. Total funding available is £246,106 in 2009-10 and £344,078 in 2010-11.

This funding is being delivered through the ring-fenced Sure Start Early Years and Child Care Grant, which is outside of the remit of the Schools Forum. However, it is important that the overall early years and child care strategy and funding regime looks at the whole package of reforms for completeness and continuity.

Information will be provided on the progress of this initiative in future reports.

- 1.7** A sub group of Schools Forum is working with the LA on the development of a single funding formula.

Members of the group are:

Jenny Mander, Dawn Morris, Gill Dutton, Carol Boughton, Julie Taylor, all from WCS Serco.

Sue Machin, Gary Thornton, Elaine Stringer, Rhoda Poyser, as headteachers from the maintained sector.

Keith Morris and Kim Delaney from the PVI sector.

2. Current Funding Arrangements

- 2.1** The free early education entitlement of 12.5 hours is funded through the Dedicated Schools Grant (DSG), although it is not identified as a separate element. All pupils attract the same amount of funding (that is the guaranteed funding unit) through the DSG, regardless of their age or setting. Therefore, the amount of DSG generated by the number of pupils receiving early years provision can be identified, but this sum is not necessarily the amount that is appropriate to be passed on to early years settings. The costs are also complicated by

termly cohort changes for eligible 3 and 4 year olds, and the admission of rising 4s into reception classes.

The DSG is a ring fenced grant that must meet the needs of all children, including those of statutory school age who receive their education otherwise than at school, as well as the costs of centrally managed pupil support services. All of these other costs must be met from the guaranteed funding unit, which is £4,183.10 per Walsall pupil in 2009-10.

Table 1 Illustration of early years pupils attracting DSG across all settings

2009-10	Indicative DSG Calculation	EY pupils in maintained settings	EY pupils in PVI settings
1. Number of pupils (FTEs) – Jan 2009	2,095	1,798	297
2. Apportionment of DCSF top-up funding, to 90% of 3 year old population	62	53	9
3. Total FTE pupil numbers = 1 + 2	2,157	1,851	306
4. Funding per pupil = £4.40 per hour	£4,183.10	£4,183.10	£4,183.10
5. Indicative DSG= 3 * 4	£9,022,947	£7,742,918	£1,280,029
Estimated Extended and Flexible Offer Funding			
6. Standards Fund re. extended and flexible offer (full year equivalent = 4,200 pupils * 90% * 2.5*hours * 38 weeks * £4.40 per hour)	£1,580,000		
Estimated Total Funding	£10,582,947		

2.2 Estimated Early Years Allocations in the 2009-10 Schools Budget

2.2.1 It is not a simple task to extract the exact budget allocations delegated to schools for early years, because the majority of provision for early years takes place in maintained nursery classes in primary schools. There are fixed costs such as management and premises that are provided for in formula factors that apply to the whole school.

2.2.2 The estimated funding allocated for 3 and 4 year olds (excluding rising 5s in reception classes) is **£7.85m**. This is the figure published in the Early Years Annex of the 2009-10 Section 52 Budget Statement.

2.2.3 The £7.85m has been calculated by adding the funding for the discrete nursery schools and the PVI providers to the Age Weighted Pupil Unit (AWPU) and place led funding for maintained nursery classes. In addition to this, an apportionment of school specific factors that could be apportioned to nursery classes has been included such as management time, professional development and professional services. There are no site specific factors included in this sum, but these will be calculated and included, once the measurement of the nursery areas has been completed and checked.

2.3 Current funding arrangements for PVI Settings

2.3.1 The Nursery Education Grant (NEG) payments to PVI settings in Walsall are derived from the value of NEG determined by the DCSF in 2003. A sum of £1,411 per annum will be provided in 2009-10, for a pupil taking up the full free early education entitlement of 12.5

hours per week, for 38 weeks at the current rate of £2.97 per hour. This sum will be reduced proportionately for children taking up only part of the entitlement.

- 2.3.2** PVI settings currently receive their funding once a term. The payments are based upon the actual numbers of pupils and the take up of the free provision based upon the headcount at the start of each term. The new funding system may require there to be adjustments to funding for any mid-term transfer of pupils.
- 2.3.3** The PVI funding system is, therefore, responsive to changes in actual take up each term, but provides no stability of funding and no opportunity to plan over a financial year or beyond. It also has a heavy administrative burden.

2.4 Current funding arrangements for Maintained Nursery Classes

- 2.4.1** The pupil led funding for maintained nursery schools is changing in preparation for the funding reforms. In 2009-10, the first 5 months have been funded on the old methodology, that is the first 13 fte pupils receiving planned place funding at £3,561 per pupil and from the 14th fte child onwards, AWPU funding has been given at £2,488 per pupil. This currently provides a differential rate of funding based upon the size of the nursery class, ranging from £3.75 per hour for a 26 place nursery to £2.62 per hour for a 91 place nursery.
- 2.4.2** From September 2009 a standard hourly rate of £3.18 has been introduced for all nursery class pupils. This rate is based upon the funding for a standard 52 place nursery class.
- 2.4.3** The count used to fund the pupils in nursery classes is the January School Census. The current School Funding regulations requires the LA to fund its schools for the forthcoming financial year, that is the 1st April to the 31st March, on January pupil numbers. This is a one off count used to fund pupils attending maintained provision and there is no adjustment made to a school's funding, even if pupil numbers change significantly at the start of the academic year in September.
- 2.4.4** The annual school funding system provides in-year stability. Schools are able to plan their one year budgets with a degree of certainty.

2.5 Maintained Nursery Schools

- 2.5.1** The pupil led funding for nursery schools is also changing in preparation for the funding reforms. For 2009-10 there is a split formula, with planned places and AWPU applying for the first 5 months and a standardised hourly rate applying from the start of the new academic year in September 2009. The April to August planned place rate is £5,230 per fte for the first 17 pupils and the AWPU rate is £2,488 for all other fte pupils. These funding levels provide a range of hourly rates. A 60 place nursery receives £4.25 per hour and a 120 place nursery equates to £3.44 per hour.
- 2.5.2** With effect from 1 September 2009 a standard hourly rate of £3.54 has been used to fund places in nursery schools.
- 2.5.3** As discrete nurseries are small schools, they have relatively high overhead and management costs. Some nursery schools in Walsall are judged as outstanding by OFSTED and the DCSF is clear that the funding reforms are not designed to close high occupancy and high performing nursery schools because they are more expensive.

3. The Development of the Single Funding Formula

3.1 In order to develop a new funding formula it is important to understand the cost drivers for each type of early years setting. This is a different issue to the amount of funding delivered through the current funding arrangements.

3.2 The National Day Nursery Association (NDNA) was commissioned to undertake a cost analysis across a range of PVI settings. 10 settings agreed to participate in the survey, but only 5 settings actually responded. In addition, the information received from these settings was incomplete and/or detailed total costs, rather than the costs relating only to the provision of the free entitlement for 3 and 4 year olds. As such, the cost data received varied widely.

The inconclusive outcome of this survey mirrors the experience of many other LAs. Therefore, a decision was taken to build up a cost driven funding model using the legally required staffing levels and best estimates for other non- staffing costs as the basis of the new formula, for all types and sizes of the early years providers.

For maintained nursery schools and classes the LA has access to financial data to assist with the development of a realistic cost model.

The Early Years Funding Sub Group were provided with the draft build for the theoretical funding models. This work is in progress and will provide the basis of the new hourly rates. The outcome will be presented to the Forum at its next meeting.

3.3 At its meeting on the 3 June 2009, the Early Years Funding Sub Group agreed the following principles should underpin the new formula:

- to be equitable and objective across all sectors;
- to support the delivery of high quality, sustainable provision;
- to support effective use of resources and value for money;
- to fund at average costs across all sectors to negate the impact of the local decisions taken by school governing bodies or PVI owner, managers that are specific to their individual setting;
- to be contained within the current funding allocated to early years provision from the 2009-10 Dedicated Schools Grant;
- to support diversity of provision in accordance with parental demands; and
- to support the extended and flexible early years free entitlement with effect from 2010-2011.

3.4 Other issues to be considered as part of this funding review are:

- should the formula encourage PVI settings to employ early years professionals?;
- should there be a supplement to cover flexibility?;
- is there a need to reflect SEN in the formula?;
- the impact of the early education and child care sufficiency audit;
- the sustainability of PVI settings, as there is currently funding to cover this issue within the General Sure Start Early Years and Child Care Grant;

- the impact of the proposed formula on the financial viability of existing nursery provision;
- the cost of the Minimum Funding Guarantee;
- transitional funding arrangements to avoid excessive financial turbulence in any one year;
- the provision of free school meals;
- the methodology to introduce termly funding adjustments into the maintained sector;
- the phasing in of pupils into nursery during the autumn term if funding is based upon actual take up; and
- how this affects the registration of s27 early years activity.

3.5 DCSF recognise that there are some difficult issues to resolve in respect of these funding reforms, the most complicated being how to count early years pupils. The Department will provide guidance for local authorities in the summer and the new regulations will be published in due course.

4. Project Plan

Attached to this report is a project plan for the introduction of the early years reforms, with key dates for both the EY Funding Sub Group and the School Forum. This plan will be reviewed regularly with sub group as the work progresses.

5. Recommendations

5.1 School Forum is recommended to agree the distribution of the Early Years Extended and Flexible Offer Standards Fund Grant as detailed in paragraphs 1.4.2 and 1.4.3 of the report.

5.2 School Forum is asked to note the content of this report, and the attached project plan.

**PROJECT PLAN 2009/10
EARLY YEARS FUNDING REFORMS**

No.	Task	Responsible officer (s)	Completion date	Date to EY funding Sub Group	Date to Schools Forum
1.	Report to introduce the returns for 3 and 4 year olds and agree an action plan	Julie Taylor	31.05.09	03.06.09	16.06.09
2.	Undertake a detailed cost analysis of the provision of EY education across all settings	Julie Taylor and Dawn Morris	31.05.09	03.06.09	16.06.09
3.	Agree the allocation of the grant funding for the extended, flexible offer for 3 and 4 year olds	Julie Taylor	31.05.09	03.06.09	16.06.09
4.	Review and refine the theoretical funding model/ cost analysis with EY Funding Sub Group..	Dawn Morris	13.07.09	13.07.09	
5.	Review of the range of EY provision across the Borough and take up levels <ul style="list-style-type: none"> - identify surplus places - identify gaps in provision - link to financial viability - determine if there us a need to have some place led provision in areas of high levels of deprivation - consider options such as federations 	Carol Boughton and Jenny Mander	31.08.09		
6.	Read and interpret the impact of the DCSF guidance and regulations	Julie Taylor	Summer 2009		
7.	Development of draft EY funding formula to comply with regulations and support the local cost analysis	Julie Taylor / Dawn Morris	9.10.09	see 11	see 11
8.	Undertake financial impact assessment of the introduction of the proposed formula for all settings	Dawn Morris	9.10.09	see 11	see 11
9.	Estimate the cost of the Minimum Funding Guarantee.	Dawn Morris	9.10.09	see 11	see 11
10.	Development of a transition plan, if required, to facilitate the implementation of a new formula	Dawn Morris	9.10.09	see 11	see 11
11.	Share detailed work and formula proposals with EY funding Sub Group and Schools Forum	Julie Taylor		12.10.09	20.10.09

12	Prepare consultation document for all affected providers	Julie Taylor	31.10.09		
No.	Task	Responsible officer (s)	Completion date	Date to EY funding Sub Group	Date to Schools Forum
13.	Arrange consultation/ communication events for schools, PVI providers and governors	Julie Taylor and Carol Boughton	November 2009		
14.	Prepare report for EY funding Sub Group and Schools Forum to report consultation outcome	Julie Taylor	30.11.09		
15.	Prepare articles for School News, PVI newsletter and Governor news on the forthcoming changes	Julie Taylor and Carol Boughton	October 2009		
16.	Establish systems and processes to facilitate accurate pupil number projections and budgets for EY providers over a three year multi- budget period	Dawn Morris and Jenny Mander	December 2009		
17.	Determine systems and processes to facilitate the collection of data from PVI providers to enable annual indicative budgets to be issued before 31 March	Dawn Morris and Jenny Mander	December 2009		
18.	Agree systems and processes to undertake budget adjustments to reflect participation led funding, including audit processes	Dawn Morris and Jenny Mander	January 2010		
19.	Review/ update contracts with PVI providers to reflect the new funding arrangements and reconciliation processes	Carol Boughton and Jenny Mander	January 2010		
20.	Review policy on nursery admissions to establish if the funding reforms will have an impact	Susan Lupton	Autumn Term 2009		
21.	Agree policy on fair competition between providers and what action will be taken and funding provided to settings who deliberately exceed admissions limit	Carol Boughton & Susan Lupton	Autumn Term 2009		

Schools Forum			Appendix 1
Early Years Funding Review Group			Meeting 13 June 2009
Proposal to fund additional 2.5 hours @ £5.50 per hour, allocated against the number of pupils recorded at January 2009			
	Jan. 2009	Allocation	
Identified Pilot Schools	Pupil Nos.	Sept09-March10	
Stanleys	26	7,925	
Almozene	15.4	4,694	
Busy Bess	1.4	427	
Charlie Caterpillars	12.4	3,779	
Little Professors	5.8	1,768	
Palfrey Day Nursery	27.8	8,473	
St Matthews Little Monkeys	17	5,181	
Little Stars	13	3,962	
Birchills	52	15,849	
County Bridge	26	7,925	
Croft Primary	34	10,363	
Edgar Stammers	52	15,849	
Green Rock	16	4,877	
Harden	30	9,144	
Hatherton	52	15,849	
Hillary Primary	78	23,774	
Leamore	37	11,277	
North Walsall	43	13,106	
Palfrey	91	27,736	
Salisbury	40	12,192	
St Bernadettes	20	6,096	
St Patricks	48	14,630	
Sunshine	39	11,887	
Whitehall Infant	52	15,849	
Fullbrook	80	24,383	
Valley	72	21,945	
	Total of allocations	298,939	
	Grant	357,173	
	Balance	58,233	
The grant balance would provide funding for an additional 190 pte nursery pupils from Sept.2009, or 445 pte from January 2010.			