



# Implementing the Early Years Single Funding Formula

Practice Guidance July 2009





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# 1. Summary of Key Messages

The Government announced in June 2007 that local authorities (LAs) will be required to design and implement a single local funding formula for funding the Free Entitlement to early years provision for 3 and 4 year olds across all sectors. The aim is to improve fairness and transparency in the way that funding is allocated to providers who deliver the Free Entitlement, and thereby support its extension to 15 hours, to be delivered more flexibly from September 2010.

This document sets out the Government's expectations for the Early Years Single Funding Formula (EYSFF) and provides guidance on how the formulae should be designed and implemented. It updates the interim guidance (published July 2008) and previous information updates to LAs, draws on learning from the eleven pilot authorities and sets out changes to regulations.

The guidance is aimed primarily at LAs and sets out the actions they are required to take, as well as action they must and should take in order to introduce a formula that is successful and consistent with the underpinning objectives.

## 1.1 Timetable and implementation

The EYSFF must be fully implemented across England from April 2010. At the time of publication (July 2009), LAs should already have gained a clear understanding of typical local provider costs and be at the stage of starting to build their formulae in preparation for consultation and development of transition plans over Autumn 2009.

LAs should review their implementation timetable against the timetable set out in Section 3. Any that are behind in the process should seek additional support from their regional Government Office to enable support to be put in place to ensure the April 2010 deadline is met.

## 1.2 Core Principles

This guidance sets out sixteen 'core principles' for the design and implementation of the EYSFF. These must all be observed by LAs. Principles include, ensuring that the EYSFF supports a mixed market and ensuring that all settings are funded on the basis of participation, not places.

## 1.3 Working in partnership

The experience of the pilot authorities has emphasised that all interested stakeholders, both at the LA and provider level, must be fully involved. Early Years and Schools Funding Officers must work closely together at every stage and both

must have regard to the guidance contained here. This team must engage with all settings – private, voluntary, independent and maintained – throughout the process, to ensure that the EYSFF takes account of the diverse spectrum of costs and needs. Engagement on a one-to-one basis is recommended for settings that face particularly difficult issues (for example a significant change in funding), or that find the proposed changes difficult to understand. Final decisions should only be made after widespread consultation.

#### 1.4 Understanding Provider Costs

The EYSFF should be based on a detailed understanding of providers' costs in both the maintained and PVI sectors. LAs that have not completed a cost survey at the time of publication (July 2009) should ensure their Government Office (GO) knows this and move directly to building a typical cost model as a matter of urgency. **BUT** LAs **must** return to this stage no later than six months after implementation to ratify their formula and ensure that any changes can be implemented in time for the next financial year.

#### 1.5 The Structure of the Formula – base rates and supplements

All EYSFF should include a base rate. This can be one single rate or multiple rates differentiated by type of providers according to variations in unavoidable costs. An arbitrary straight maintained/PVI provider split in the base rate that is not justified by the evidence is not in keeping with the core principles for the EYSFF as it is unlikely to reflect true cost differences and therefore has the potential to lock in unjustifiable funding differences.

A deprivation factor will be required by regulation to be part of the EYSFF, as it is with all other school formulae. Other supplements should be considered to ensure the EYSFF supports wider early years policy objectives, in particular supplements should be considered as a means for incentivising improvements in the quality and flexibility of provision. All EYSFF should recognise the costs associated with quality and encourage a culture of continuous improvement.

#### 1.6 Affordability

LAs should consider the new EYSFF budget and the revised 5-16 budget in the context of the whole Schools Budget. LAs should not have a starting position that assumes that everything is correctly balanced at present, but similarly should not start with the assumption that it is incorrectly balanced. All consideration of the split of the EYSFF budget and the 5-16 budget must be considered with the Schools Forum at budget setting time.

In building the formula, the interaction of the EYSFF with the schools funding formula must be considered to ensure no double-counting or gaps. LAs will need to identify which elements of funding within the current schools funding formula will be replaced by the EYSFF, and which elements will be retained.

The EYSFF should be developed in the context of a range of wider issues including other early years initiatives, any proposed changes to local admissions policies, and the review of the DSG.

### **1.7 Ensuring the EYSFF supports providers**

LAs must make every effort to ensure that the EYSFF is designed and implemented in a way that supports their duties in respect of meeting parental demand and supporting child outcomes at five. Sustainability of providers must therefore be a key consideration.

Additional factors, either to support places or cover other cost pressures, can be allocated in exceptional circumstances. However, this must not be used widely and must be based on clearly defined local imperatives for sufficiency and sustainability.

Funding for nursery schools and nursery classes, especially those which were funded on the basis of places and which have low occupancy, may need special attention. The presumption against closure of nursery schools remains. Developing an EYSFF which encompasses childminders satisfactorily may also need special attention.

### **1.8 Counting and adjusting for participation based funding**

There will be a requirement that, as a minimum, participation must be counted on a termly basis across all providers, but where a LA already has systems in place that go beyond this and are more reflective of participation, they are free to continue to use such systems. Budgets must be adjusted in the financial year in order to ensure funding reflects participation adequately and payments to providers must take account of the cash flow needs of providers and recognise that PVI and maintained providers will have different needs.

### **1.9 Transition and Impact**

An assessment of the impact of the EYSFF on all settings must be included in the consultation process and where changes to individual providers are significant, they must be investigated and support must be given to providers. It will be important to ensure that data collection processes reflect the requirements of the EYSFF e.g. local participation forms may need to be updated, and IT systems improved to support additional data processing;

Details of each LA's EYSFF should be made widely available once finalised.

The EYSFF will have to be updated to reflect developments in early years provision, and should therefore be structured to enable periodic change to be made to both basic rates and supplements, without wholesale re-design, in a similar way to the wider schools formula.

### **1.10 EY Providers – Maintained Sector**

Work with the pilot authorities indicates that the most significant implications of the EYSFF are for maintained sector providers, particularly where place-led funding has hitherto been the norm for early years provision, and where settings have been running with spare capacity. Because participation led funding will be the norm, maintained sector providers must engage fully with the development of the EYSFF to ensure that the formula and its implications for funding levels are well understood.

This will mean changes for some maintained providers, but the experience from the pilot authorities has been that although schools approached the change with trepidation, at the end of the process schools have seen very positive results and have been glad they made the changes.

### **1.11 EY Providers – PVI Sector**

The EYSFF brings PVI sector providers into a common funding framework with maintained sector providers. It raises a number of challenges, not least because the EYSFF is likely to be more complex than existing PVI sector funding models, which tend to be based on very simple rate per hour calculations. PVI sector providers must therefore also engage fully in the development of the EYSFF to ensure that the formula and its implications for funding levels are well understood and they have the necessary tools and capacity to provide information to support the EYSFF. Training and IT equipment may be required for those settings which, for example, have struggled to complete electronic pupil census returns.

PVI providers must be aware that an EYSFF does not automatically mean more money. What the EYSFF should mean is that the basis that providers are funded on is transparent and that the funding is provided on a rational assessment of sector costs.



### 1.12 Schools Forum

Schools Forums have a key role to play in the development of the EYSFF. The Forum is the 'guardian' of the local Schools Budget, and its distribution among schools and other bodies, and therefore must be closely involved throughout the development process. Schools Forums should, by now, have a representative of the PVI providers as a mandatory member.

LAs should set up an Early Years Working Group as early as possible in the process to ensure that all provider sectors have appropriate representation, and that key LA departments are involved. Making this working group a sub committee of the Schools Forum could aid communication between key stakeholders and ensure the Schools Forum is regularly updated on developments.

Other key issues for Schools Forums include:

- The affordability of the preferred formula, including whether the funding allocated to it is sufficient for all early years provision;
- Whether transitional protection is required for settings affected adversely by the change, and if so, what form of protection and for how long;
- How the minimum funding guarantee (MFG) should be used to offer such protection;
- The impact on schools admission policies, in particular the frequency of admission to nursery schools and nursery classes.

### 1.13 And Finally...

The words 'must' and 'should' are used extensively throughout this guidance. Whilst a LA cannot be forced to do anything that is not set out in regulations, the word 'must' indicates that not following the guidance will seriously jeopardise a LA's ability to introduce the EYSFF by April 2010. The word 'should' is intended to indicate that LAs will need to give serious consideration as to the issue before making a decision.

As is the case with the schools funding formula, regulations will say that there must be an EYSFF, but much of the detail is left to LAs responsibility to review and refine their formula on a regular basis. This guidance is intended to make clear the expectations we have of LAs in developing their EYSFF and to provide support, drawing on the experience of our pilot authorities and the policy decisions that have been made along the way.

## 2. Introduction

### 2.1 Context

Since April 2004 all 3 and 4 year olds in England have been entitled to part-time free early learning and childcare. The universal free entitlement is now being extended from 12.5 to 15 hours per week, to be delivered flexibly. The new offer aims to improve child outcomes by increasing access to quality early years provision, and by helping parents to access the offer in a way that better supports them to balance work and family life – both of which are crucial to reducing the effects of child poverty.

To support this flexible extension and to address inconsistencies in how the offer is currently funded across the maintained nursery schools and nursery classes and private voluntary and independent (PVI) providers, the Government announced in June 2007 that LAs will be required to develop and use a single local formula – the Early Years Single Funding Formula (EYSFF) – for funding early years provision in the maintained and PVI sectors from 2010-11, and encouraged LAs to introduce the formula from April 2009 wherever possible.

The EYSFF does not equate to there being a single rate of payment. The unavoidable costs that providers face vary by area and between providers so a single rate, that is not based on the evidence, would not be fair or reflective of the needs of providers to cover the costs of delivering the free entitlement. However, the EYSFF aims to introduce a consistent method of distribution of funding across the sector based on common principles and a more transparent approach. The formula also aims to ensure that the funding is more reflective of participation and supports a level playing field between different maintained and PVI providers, principally by ensuring providers are funded according to participation rather than places. This is common practice in PVI settings but has tended not to be the case in maintained settings. 55% of children access their free entitlement through PVI settings (Early Years Census, 2008) and PVIs are therefore an important sector for the free entitlement. Both should be treated equally.

## 2.2 Updating the Interim Guidance

Interim guidance on the implementation of the EYSFF was issued to LAs in July 2008.<sup>1</sup> Prior to that point, DCSF had been working with six pilot authorities that agreed to implement the single formula in April 2009 as part of the Formula Development Project (FDP). The six LAs involved in this project were Croydon, Hertfordshire, Leeds, Rochdale, Somerset and Southampton. A further five LAs subsequently joined the pilot – Derby, Greenwich, North Somerset, North Yorkshire and Shropshire. Of these eleven LAs, all bar two implemented their EYSFF successfully in April 2009. The interim guidance was based on learning from the original six pilot LAs.

Whilst the majority of the core content of the interim guidance remains valid, this document brings that guidance up to date and builds on it and that of the LA updates that have been circulated since to provide a final guidance for LAs. This is in the light of the experience of all eleven pilot authorities and further consideration by the DCSF of some of the difficulties encountered during implementation. Where appropriate, this guidance incorporates material from the interim guidance, so as to create a single source for LAs. This guidance will:

- clarify in one place what action LAs must and should take in the development and implementation of the formula;
- reflect known and likely changes to regulations;
- provide a number of more specific examples based on the detail of the EYSFFs implemented by the pilot authorities – and where we have identified parts of the pilot implementation that are unsuccessful, highlight these; and
- concentrate on the key issues that LAs implementing in 2010 are likely to face.

We are extremely grateful to the pilot authorities for tackling this ambitious project so enthusiastically and for allowing us to follow their progress so closely. All the partners worked with us and discussed their formulae with us throughout the process. But with the benefit of hindsight, some methods of implementation are not working as well as we would wish and we will be working with the pilot authorities to make changes in time for April 2010. Therefore LAs should look at any lessons shared by the pilot authorities in conjunction with this guidance.

## 2.3 Changes to Regulations

Over the last year we have continued to work with our pilot LAs to identify issues, to capture evidence, and to reach conclusions on the policy direction based on that evidence. As a result, at the time of publication (July 2009), we are in the process of making regulatory changes to facilitate the introduction of the EYSFF

<sup>1</sup> 'Implementation of a Single Funding Formula for Early Years: Interim Guidance for Local Authorities' July 2008. [www.dcsf.gov.uk/everychildmatters/earlyyears/localauthorities/lapractice/entitlement/sffundingresources/](http://www.dcsf.gov.uk/everychildmatters/earlyyears/localauthorities/lapractice/entitlement/sffundingresources/)

from 2010. In order to do this, we are introducing primary legislation via the Apprenticeships, Skills, Children and Learners Bill, to amend the School Standards and Framework Act 1998 (section 47ZA Free of charge early years provision outside a maintained school: budgetary framework: England). This change to the primary legislation will enable us to make secondary legislation to bring all early years funding under the Schools Finance Regulations.<sup>2</sup> Draft regulations have been laid alongside the Bill and will be formally consulted on as soon as the passage of the Bill allows. We anticipate that the primary legislation will achieve Royal Assent in the Autumn of 2009, allowing us to make the changes to regulations shortly thereafter.

The key changes to regulations are:

- LAs will have to use an EYSFF to distribute funding for the free entitlement to early years provision;
- Funding for PVI providers 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. This will be set out in the School Finance Regulations and is discussed further in Section 7;
- The EYSFF will be required to include a deprivation factor, as is the case with schools funding formulae. This is discussed further in Section 7 and in the deprivation case study in Appendix 3;
- Funding must be given on the basis of participation – the number of children actually delivered to – not on the number of available places in a provider or similar factors. However, in recognition of the fact that LAs also have a sufficiency duty, the regulations will permit a factor to be included for additional funding to support sufficiency and sustainability, but this must not be used widely, and must have clear criteria as to the reasons for its use.

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<sup>2</sup> Maintained schools in England are funded through sections 47-53 of the School Standards and Framework Act 1998. These sections enable regulations to be made providing detail of how schools are to be funded. These regulations (currently known as the School Finance Regulations) have been updated regularly since 1999. Briefly, the current regulations say that the funding provided by the DCSF to LAs through a grant known as the Dedicated Schools Grant (DSG) must be passed on to schools through a 'Schools Budget'. The Schools Budget is divided into the Centrally Retained Budget (CRB) – that is funding held by the LA to fund, for example, pupils with high special educational needs – and the Individual Schools Budget (ISB) which is given by means of a locally devised formula to schools to meet the needs of pupils in the LA schools. Currently, maintained nursery provision is funded from the ISB, whilst PVI providers are funded from a budget within the CRB. The new Act, assuming passage through Parliament, will allow the Schools Finance Regulations to be amended to allow the ISB to contain all funding for both maintained nurseries and PVI providers in one single budget.

## 2.4 Wider Funding Issues

**Affordability:** We are aware that there is anxiety amongst some providers about affordability and whether the rates paid will be sufficient to support the sustainability of settings. By encouraging LAs to create formulae which are built on clear and robust understandings of provider costs across the sector, the EYSFF aims to help address this issue. The process of defining these costs has led to consideration by the pilot authorities of the current funding totals for the free entitlement to early years provision. Proper consideration of the funding supporting the free entitlement is essential when implementing the EYSFF to ensure that the free entitlement is sustainable and supports the goals of quality provision delivered flexibly to improve outcomes for children. But, this must be in conjunction with an overview of the strategic funding pressures on the Schools Budget.

We would, however, like to remind LAs that in making overall decisions about affordability and sustainability of providers as part of the EYSFF process, there are two important restrictions which must be respected:

**No top-up fees:** As is already set out in the current *'Code of Practice on the Provision of Free Nursery Education Places for Three-and Four-Year Olds'*,<sup>3</sup> 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. In other words, *whilst the rates providers charge for their privately funded hours are a matter for them to decide, and may not be dictated by LAs, providers cannot make access to the free entitlement conditional on the payment of any charge, and the free hours that children receive must be presented clearly to parents as hours on providers' billing documentation.* The Code is in the process of being revised, with a new draft being issued for formal consultation in Autumn 2009, prior to implementation in September 2010, but this aspect of it will not change and we will clarify further that free entitlement hours must be shown as just that, rather than as a monetary 'discount' on bills.

We are also aware that some LAs are telling providers that wrap around care must not be charged at a rate that is higher than the funding provided by the LA for the free entitlement. This is not acceptable and providers must be free to manage their business for wrap around care.

**The Minimum Funding Guarantee (MFG) for schools still applies:** The MFG provides maintained schools with a minimum increase per pupil year on year. This is currently set at 2.1% each year in 2008-11. A major review of the Dedicated Schools Grant (DSG) is being undertaken over the course of 2009 and 2010, with a view to implementation in the next multi-year funding cycle starting in 2011. The future of the Minimum Funding Guarantee is being considered in this context. We will keep you informed of any changes or decisions and how

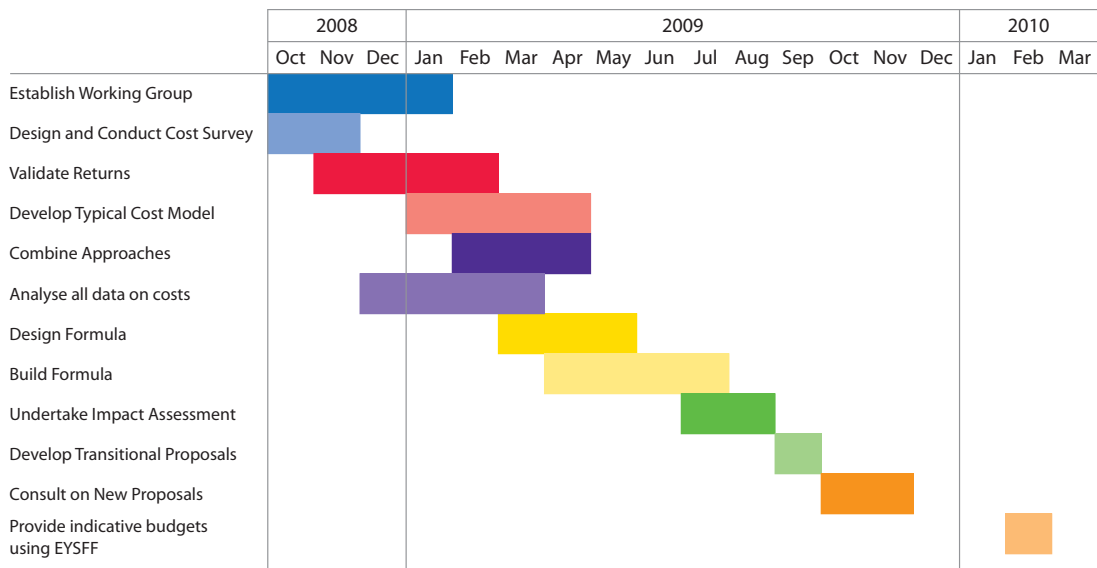
<sup>3</sup> <http://www.dcsf.gov.uk/everychildmatters/publications/0/1747/>

this might effect EYSFF implementation. However, until 2011 the regulations regarding the MFG will continue to apply to maintained schools including the arrangements for Schools Forums to apply variations not affecting more than 50% of pupils in schools in their area. LAs should consider how the MFG will impact in 2010 on the implementation of the EYSFF, but bear in mind that in future its current format is not guaranteed.

### 3. Timetable and implementation process

*LAs should utilise this timetable and the self evaluation tool to assess where they are in the process, which areas need the most urgent attention, and where they need to call on their Government Office for help.*

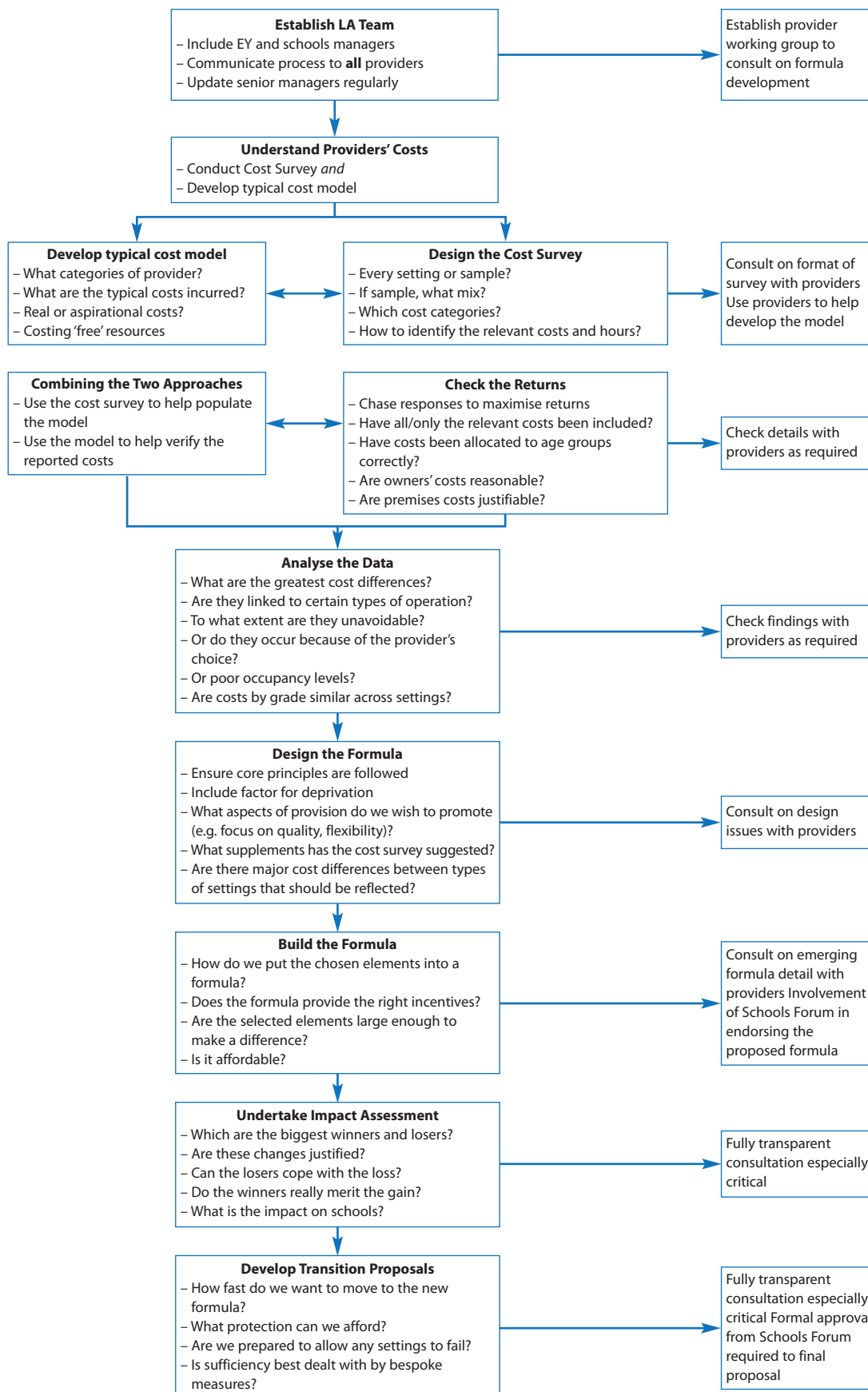
The EYSFF must be fully implemented across England from April 2010. All LAs should have undertaken much of this process at the time of publication of this guidance (July 2009), and be at the stage of starting to build their EYSFF and undertake an impact assessment. Autumn will be a critical time for developing transition plans and consulting on proposals. The timeline below is the same as one which has previously been circulated to LAs:



Any slippage at this stage of the process can impact badly on a LA’s ultimate ability to deliver. LAs should utilise this timetable and the self evaluation tool to assess where they are in the process, which areas need the most urgent attention, and where they need to call on their Government Office for help. They should then look to seek additional support from their regional Government Office and/or the Department to enable support to be put in place to ensure the April 2010 deadline is met.

### 3.1 Key Steps

The overall process, as set out in the interim guidance, is shown below:





## 4. Core Principles

*LAs must have regard to the core principles when developing their formula.*

### 4.1 Core Principles – Interim Guidance

The core principles underpinning the EYSFF were originally set out in the interim guidance and are re-stated here with additional points are set out in italics.

The development of an EYSFF should:

- Support effective and efficient distribution of resources at the local level;
- Facilitate greater flexibility of provision so that parents 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 operation of 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 the main cost elements should have been considered explicitly;
- There should be no perverse incentives and any change in the formula must not endanger 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 incomes should be considered;

- Settings should be funded on the basis of participation, not places or similar factors. *Participation must be counted on a termly basis, at the least, and this will be required in regulation (See Section 7);*
- *An additional factor to support sufficiency and sustainability will be allowed but this must not be used widely and must have clear criteria;*
- 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;
- The application of the formula in different settings should be based on common operating principles wherever possible; *All aspects of the proposed EYSFF must be the result of partnership working with all those involved, and final decisions on structure and operation of the formula should be made only after widespread consultation.*

## 5. Working in Partnership

### *LAs must:*

- *Manage the expectations of their providers effectively and ensure that all providers from PVI and maintained sectors are engaged throughout the process of developing the EYSFF;*
- *Build strong internal partnerships from the outset, including early years and schools finance officers, schools forums and with senior managers and representative members;*
- *Make changes ‘with’ providers not ‘to’ providers.*

### *LAs should:*

- *Engage with all settings to keep them aware of the nature of the changes that will happen – and ensure they are kept broadly up to date with progress;*
- *Set up a smaller working group, which is representative of all providers to discuss the details;*
- *Make every effort to use the knowledge, skills and understanding of representative groups such as the National Day Nurseries Association (NDNA) and the Pre-School Learning Alliance (PSLA);*
- *Establish a local team from the LA that includes the right people from early years policy leads and schools finance personnel;*
- *Ensure senior LA managers, Schools Forum members and elected members are kept informed and up to date.*

### *LAs must not:*

- *Allow the individual needs of one type of setting to dominate discussions within their locally established working groups;*
- *Leave any sector out of the process of building a formula – maintained and PVI providers of all types must be included.*

Effective partnership working within LAs, and with providers outside, is crucially important for ensuring that the EYSFF is developed and implemented successfully and addresses the needs of all partners. The clear message from all the pilot LAs was that the longer the timescale that has been devoted to joint working / consultation with all sectors, the easier the process has been.

### **Partnership working between local authorities and providers**

*It is essential for local authorities to communicate to providers from all sectors, and engage them fully throughout the process.*

The implementation of the EYSFF will generate both expectation and concern amongst providers in all sectors, and LAs must therefore manage the expectations of their providers effectively. Partnership working with providers is also critical to getting the EYSFF right. Achieving early engagement with all of the sectors has, in most pilot authorities, been a challenge. Key learning points have been that it is essential to persevere, to provide regular and frequent feedback, to help the different providers to understand the needs and aims of other sectors and to demonstrate progress and build trust. Those pilot authorities who excluded a sector from their consultation and formula building process found they were not ready to implement the formula in time.

LAs must therefore ensure that all partners are engaged as early as possible in the process of developing the EYSFF, in order to help shape thinking from the outset, and to avoid any group of providers from feeling that they have no influence over the process. Early engagement can be particularly useful in developing a full understanding of provider costs, either from the cost survey or through input toward and sense-checking of the Typical Cost Model (TCM) which LAs should have developed at the initial stage (discussed more fully in Section 6 and at Appendix 2). But ongoing engagement is also vital as discussions over the consultation period can significantly affect the final formula. In every case, pilot authorities' initial proposals for the formula have changed for the better as a result of a robust and full consultation process.

*Engagement throughout the process should be at two levels:*

- *All settings need to be aware of the nature of the changes that will happen, and be kept broadly up to date with progress;*
- *A smaller provider working group, which is broadly representative of all providers, should be established to consult and discuss the detail with.*

It is recommended that you consider appointing a dedicated single contact point, and building a package of measures to help settings keep up to date, for example sending regular updates, holding regular events or running drop in sessions. Settings from all sectors will have many questions and, especially at the beginning of the process, pilot authorities had few of the answers. Having a dedicated and

consistent contact point has proved to be very positive for many pilot authorities. Drop-in sessions for all settings throughout the process gives the authority a mechanism to explain the likely changes to providers, minimises ‘surprises’, and also helps to shape the final outcome.

The composition of the provider working group is a matter for LAs to decide. However models based both on separate consultative groups for each sub-sector, and a single group with representation from all sectors were used by pilot LAs. The latter was more effective in promoting better understanding of the issues across sectors.

There is no prescribed format to the structure and composition of the group – the key issue is that it should be as representative as possible of all providers on a broadly proportionate basis. In particular, LAs must ensure that their maintained sector providers are fully engaged, as there is some evidence that schools have not realised that the changes will affect them. In this respect, one pilot authority has used head teacher ‘champions’ to help communicate the changes to their colleagues, and this has proved to be very effective.

Any group of partners will need to be small enough to discuss detailed issues, but large enough to cover a representative range of providers. This suggests up to a dozen external representatives covering, at least:

- Nursery schools and nursery classes separately;
- Day nurseries;
- Playgroups;
- Larger and smaller operators;
- Settings in deprived and less-deprived areas;
- Different geographical areas (for larger LAs).

Experience from the pilot authorities suggests that the use of existing local communication channels (e.g. representative associations for playgroups, childminders, and day nurseries) is advisable. Pilot authorities found that gaining the active support of these groups proved to be invaluable, since information can be disseminated much more quickly, and through a channel that individual settings already use and trust. This group is often a sub-group of the Schools Forum which enables professional feedback to the Forum of the progress and will help ensure they are engaged and involved. The pilot authorities also found that drawing on the skills and understanding of representative groups, such as the National Day Nursery Association (NDNA) and the Pre-School Learning Alliance (PLA), was valuable. We recommend that other LAs engage with such organisations as well.

Appendix 1 sets out answers to some of the questions that are likely to arise through consultation with providers. Further advice on good consultation, including model terms of reference for an Early Years Working Group, was circulated to all local authorities in June 2009 and is available online.<sup>4</sup>

### **Partnership working with local authorities**

*Schools formula officers must jointly lead the internal consultation with Early Years officers. Staff responsible for the schools finance, information specialists and administrative support must also stay closely involved.*

Pilot authorities also identified the importance of establishing a local team from the outset that includes the right people from Early Years policy leads and Schools Finance personnel. As set out in the Interim Guidance, it is essential for LAs to:

- Establish the authority team as early as possible;
- Include Early Years and Schools Finance managers;
- Update senior managers regularly on the work undertaken and its implications.

Without this, there is a real risk that a process that is perceived as either ‘finance-led’ or ‘early years-led’ may stall at a critical time late in the project, because it hasn’t taken full account of the wider implications of the proposed formula. Although the planning process tends to have been led by one or the other, the involvement of both is vital, and failure to involve both has the potential not only to cause delays, but also the high risk that an EYSFF may not be implemented successfully. This has happened in two of the pilot LAs.

*It is also critical that senior managers of the authority and the Schools Forum are involved in supporting the process from an early stage and that they, and elected members, understand these changes, and can provide strategic leadership for this work.*

### **Section 2: Authority Experiences**

The Schools Forum has an important role and responsibilities in overseeing this implementation. Regular updates on progress are an important tool to ensure ongoing engagement, and to achieve a formula that the Forum will understand and support.

Experience shows that, it is therefore imperative that consultation is undertaken as fully as possible, and as early in the process as possible, so as to allow time for subsequent revision of LAs initial proposals.

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<sup>4</sup> <http://www.dcsf.gov.uk/everychildmatters/earlyyears/localauthorities/lapractice/entitlement/sffundingresources/sffresources/>

## 6. Understanding Provider Costs

*LAs must:*

- *Gain an understanding of typical costs faced by different types of providers in their area, including a reasonable rate of return for PVI providers to ensure they are sustainable;*
- *Be able to explain and justify any differences in the funding allocated to different categories of provider under the new formula.*

*LAs should:*

- *Have completed a cost survey involving all maintained and PVI sectors and have validated the findings in consultation with the Early Years Working Group by the time this guidance is issued (July 2009);*
- *Develop a Typical Cost Model (TCM), involve providers in this process and validate this through checking findings with a cross-section of providers. If a cost survey has not been fully completed by July 2009, LAs should move directly to this activity but the LA must ensure that they go back to validate the model with knowledge of real provider costs within 6 months of implementation to enable any changes that need to be made to the formula to take place before the next financial year;*
- *Update their understanding of provider costs on a regular basis through conversations with providers across the sector.*

*LAs must not:*

- *Develop a formula which is not based on a rigorous analysis of provider costs.*

## 6.1 Introduction

As stated in the interim guidance, it is important that all LAs develop a clear and comprehensive understanding of their providers' costs in order to ensure that, as far as possible, the key principles set out in Section 4 of this guidance are observed. In particular, LAs must be able to clearly explain any differences in the funding allocated to different categories of provider under the EYSFF. LAs must, as a minimum, be in a position to justify and explain in wholly transparent manner:

- The core level of funding and any differences between providers of different characteristics, including any differences in funding levels between providers in different sectors;
- All supplementary payments over and above the core funding level;
- All funding that is based on anything other than actual levels of participation.

Developing a level of understanding which enables LAs to justify their formulae in these ways is challenging. Two approaches were used by pilot authorities to develop their understanding of providers' costs – the cost survey, which all LAs should already have undertaken, and what we have termed the 'Typical Cost Model' (TCM).

These two approaches, the cost survey and the TCM, are supportive of one another. *Subject to the level of progress that has already been made, LAs should use both a cost survey and typical cost model to support their further work on understanding provider costs; one should be used to 'sense check' the other.*

## 6.2 Understanding Provider Costs

All of the pilot authorities have undertaken a cost survey, and have supported this with comprehensive work to analyse and validate cost data from both their PVI and maintained sectors. All LAs implementing in 2010 should have already undertaken this part of the overall formula development process. In general, the work involved has not been easy, and has sometimes led to a poor response. Nevertheless, the pilot authorities regard the process as being vital as it built understanding of the differences in cost structures between settings and supported early engagement with all providers and laid the foundations of ongoing partnerships.

In addition, LAs have built a TCM which uses both maintained and PVI cost data to build a detailed view of providers' costs, differentiating between providers with different cost structures as required. LAs that have used this approach have involved providers from all sectors in the process as a part of their engagement with their provider community. An outline process for building a TCM is described at Appendix 2.



The pilot authorities have also used their schools funding formula to help them identify potential cost models for their EYSFF, including which costs will continue to be funded through the schools funding formula, and which will be funded through the EYSFF. This is discussed further in Section 7 and in the case study material at Appendix 5.

We recognise that a cost survey is a lengthy process and at the time of publication (July 2009) it would be almost impossible for a LA which has not yet undertaken such a survey to complete it in time to implement the EYSFF by April 2010. Learning from the pilots suggests that TCMs which are validated against the actual costs of a broad cross-section of providers can provide effective and sustainable base data to inform the EYSFF. Therefore, where a LA has not already conducted and completed a provider cost survey by summer 2009, it must move directly to building a TCM. However, this stage **must not** be forgotten. Where this has happened, LAs must go back within no more than six months of implementation to validate their model with knowledge of actual provider costs and where this cannot be validated, they must review their model to ensure any changes are made in time for the following financial year. It is not acceptable to have a continuing model that is not based on an analysis of the actual costs of local providers.

### 6.3 Updating the Analysis

*As a matter of good practice, LAs should also consider costs as part of the ongoing conversations with providers so as to ensure that their understanding of providers' costs remains relevant and up to date.* For example, LAs may wish to update the main cost categories within the cost analysis on an annual basis using publicly available data such as relevant pay scales or salary cost indices for staff costs. In the event that other costs are subject to significant cost pressures – energy costs are a recent example of this – LAs should also reflect such pressures in their cost analysis. LAs may also wish to use the cost analysis and cost modelling work to help providers develop a more robust and complete understanding of their own costs, especially in cases where the cost survey demonstrates that their understanding is not well developed.

Although not formally a part of the cost analysis, *LAs should also review all other factors which drive funding in the EYSFF, on a regular basis.* These include patterns of deprivation within the LA, and the data which underpins other supplements such as quality and flexibility.

## 7. Design and Implementation

*LAs will be required in regulation to:*

- *Distribute funding for the free entitlement on participation, not places, and count pupils to support this, across all providers, on a termly basis as a minimum;*
- *Incorporate a deprivation supplement, or 'factor', into the EYSFF.*

*LAs must:*

- *Determine one or more basic hourly rates for providers, based on an evidence based approach that is reflective of the cost of delivery;*
- *Ensure measures used to determine supplements are robust, transparent, and easily understandable, that supplements do not create unnecessary bureaucracy and that there are no overlaps 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 must take account of the cash flow needs of providers and payments must be at least half termly, if not monthly for PVI providers;*
- *Give all providers an indicative budget at the start of the year which reflects anticipated participation.*

*LAs should*

- *Decide which supplements are needed to meet local policy objectives;*
- *Ensure all supplements have maximum effect – including by considering whether the impact of significant differences in settings, the fit with other tools the LA has, how to minimise any harm caused by cliff edges, and being aware of implications for data collection processes;*
- *Strongly consider building in a quality supplement and a flexibility supplement. LAs should be clear how this fits with other tools for incentivising and encouraging improvement in these areas and when the EYSFF comes up for review, look at each of these in light of the revised Code of Practice on the free entitlement (due to be published in Spring 2010).*

- *Treat the affordability assessment as an iterative process;*
- *Ensure that funding through the schools formula does not double-fund allocations through the EYSFF (or vice versa);*
- *Pay special regard to the funding of Nursery Schools and Child Minders, who are both distinctive in different ways. The basic approach however should be the same as for other providers – based on evidence of cost;*
- *Take account of the legitimate need for PVI providers to generate some profit;*
- *Consider the size of the EYSFF budget and the revised 5-16 budget in the context of the whole Schools Budget.*

*LAs must not:*

- *Lock unjustifiable sector differences into the funding system permanently, e.g. a dual base rate that offers one rate for all maintained settings, and another for all PVIs;*
- *Use lump sums frequently, without clear justification or as a device to continue existing levels of funding to particular sectors permanently;*
- *Make additional sustainability payments frequently or where size or location do not make sustainability a genuine concern.*

## 7.1 Basic Structure

As set out in the interim guidance, the basic structure of the formula is likely to be:

<b>(Basic Hourly Rate</b>	<b>+ Hourly Supplements)</b>	<b>x Number of hours of participation</b>	<b>+ Other supplements</b>
This rate may vary according to the providers' cost structures	Additional amounts per hour for extra need or to recognise policy objectives such as improving quality	The method of counting the level of participation must be same for all providers and follow the minimum requirements set out in Section 7	In some limited circumstances (e.g. sufficiency) it may be appropriate to provide lump sum amounts

LAs therefore have two options to deliver this and should choose either:

1. To build a differentiated hourly base rate with relatively few supplements; OR
2. A common core rate for funding all sectors supported by relatively high supplements for those types of settings where the core rate did not reflect the underlying costs of certain types of settings.

Whichever option a LA chooses they will need to ensure that as with all parts of their formula the rationale is transparent and justifiable.

As noted in the Introduction, changes to the Schools Finance Regulations will introduce two key changes that will have a significant impact on the design of the formula. These are:

- The Regulations already include a requirement for formulae to have a deprivation factor and this will be extended to the EYSFF. This means that *there must always be at least one supplement – for deprivation*;
- From April 2010 *LAs will be required to fund on a participation basis and place-led funding will not be allowed*. Lump sums should be used carefully and justifiably. Factors to support the sufficiency duty or sustainability will be permitted but should be used sparingly. This means that *LAs should give very careful consideration to the use of lump sums, and avoid using them as a device to continue existing funding levels for particular sectors permanently through other means*.

## 7.2 The Basic Rate

Each EYSFF needs to incorporate one or more basic rates per child – usually expressed as a rate per child per hour. The basic rate – where option 1 is followed – should be sufficient for a provider to deliver the free entitlement in a manner that meets acceptable quality levels to a child who does not have additional educational needs. However, some pilot authorities found that a common rate for all sectors, supported by relatively high supplements capturing underlying costs for certain types of settings, worked (as in option 2). Most of the pilot authorities, however, have developed multiple basic rates, each of which reflects the cost structures of groups of similar providers or settings with similar characteristics e.g. number of pupils or staff qualifications.

Results from the cost survey and/or from the development of the TCM are likely to provide evidence of similar cost structures among different types of provider. It is therefore recommended that local knowledge is also used to determine whether there is a case for differential rates to reflect the differences in costs faced by different types of provider.

As stated in the single funding formula emerging lessons document circulated to all LAs in May 2009,<sup>5</sup> *LAs must not discriminate by sector through an arbitrary dual base rate that offers one rate for all maintained settings and another for all PVI settings.* Experience from the pilots suggests that robust cost analysis is unlikely to conclude that a simplistic, sector-based categorisation is reflective of the range of cost structures of the different types of provider. The effect of making such a simplistic maintained/PVI distinction could be to lock a two-tier funding regime into the system, prevent a level playing field and reduce the ability of the PVI sector to offer quality provision using Level 3 + staff across the piece. *All LAs must therefore ensure that the base rates they identify are the result of an evidence based approach that is reflective of the cost of delivery.*

As noted above, a number of the pilot authorities have developed their EYSFF with multiple, differentiated rates. *Where LAs follow the multiple rates approach, they should ensure that the basis is justifiable and implications are absolutely clear for providers.* This means:

- Data which supports the calculation and administration of different rates can be collected without undue effort at either LA or setting level;
- Settings are given clear guidance on which rates are applicable to them, both for the base rate and any supplements which may apply;
- Settings are given clear guidance on how different rates are to be reflected in payments for additional hours.

Whichever approach LAs take they should as a minimum ensure that the EYSFF recognises and supports the costs associated with meeting national standards on key drivers of quality, especially minimum staffing ratios and qualifications.

### 7.3 Supplements

In addition to the mandatory deprivation supplement, other supplements to the basic rate may be desirable to allow LAs to reflect the needs of individual children, for example to drive local policy objectives, the need to enhance the overall level of quality of provision. A range of supplements were considered by the pilot authorities. In assessing how much funding to distribute through supplements, it is good practice for LAs to consider:

- How different will the levels of funding be between the providers receiving the highest and lowest levels of funding? If settings are very similar in terms of quality and set deprivation criteria, a supplement may not be appropriate.

<sup>5</sup> Updates to LAs have been provided at regular intervals since the launch of the pilots in November 2007. All updates can be viewed on the Every Child Matters website at [www.dcsf.gov.uk/everychildmatters/earlyyears/localauthorities/lapractice/entitlement/sffundingresources/](http://www.dcsf.gov.uk/everychildmatters/earlyyears/localauthorities/lapractice/entitlement/sffundingresources/)

- How much funding will be distributed in aggregate using the supplement? What is the supplement trying to support and what are the costs of that policy intention?
  - If the amount is very high, will it be affordable? Is it reasonable to distribute a high proportion of funding on one supplement?
  - If the amount is very low, is it worth the additional complication of incorporating the supplement? Can the funding be sensibly used to achieve the policy aim it is intended to support?
- How will any ‘cliff edges’ that may appear be smoothed? For example, there is a risk when building supplements that this could lead to settings experiencing very sharp changes in funding levels associated with the gain or loss of such a supplement. LAs must consider how to address these. ‘Cliff edges’ should also be considered in the wider formula as well.
- What will the implications be for data collection processes and information systems which may be affected by the EYSFF, particularly in regard to the payment of supplements?

#### **7.4 Deprivation and the deprivation supplement**

Meeting the needs of deprived children is a key part of the Government’s objective of narrowing the gap between children from different backgrounds. Therefore, as noted, funding for deprivation will be a mandatory part of the EYSFF and, as such, LAs should incorporate a deprivation supplement into their formula. A deprivation factor is already a requirement under the schools funding formula and therefore in introducing the EYSFF, early years providers will be brought under the same regulatory framework.<sup>6</sup> LAs must consider a number of core factors in relation to deprivation including:

- The approach used to classify deprivation. Pilot authorities have used the Income Deprivation Affecting Children Index (IDACI), the Index of Multiple Deprivation (IMD), MOSAIC (a commercial package based on post-code data), and tax credit data, sometimes in combination;
- The approach already in place for the wider schools funding formula and whether this can be easily passported to the EYSFF;

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<sup>6</sup> All early years providers will be brought under the Schools Finance Regulations. These are currently set out in the Schools Finance (England) 2008 Regulations which will be amended to include early years provision. Section 19 (2) sets out the requirement for LAs to have a factor for deprivation. The current regulations can be viewed at [http://www.opsi.gov.uk/si/si2008/uksi\\_20080228\\_en\\_1](http://www.opsi.gov.uk/si/si2008/uksi_20080228_en_1)

- The amount of deprivation funding to be allocated within the EYSFF and how providers can use it to support narrowing the gap; and
- The method by which the total deprivation funding will be allocated to each setting.

LAs will also have to ensure they have detailed information relating to existing levels of deprivation; review the methodology currently used in the schools funding formula; develop a methodology which balances ease of administration, at both LA and setting level, with a need to target funding where it is most needed; and ensure there is a clear basis for any differences in the value of deprivation supplements across settings.

Although there are many commonalities, each pilot authority has adopted a different approach, either in terms of the methodology used to classify deprivation, the amount of funding to allocate through the deprivation supplement, or the way that the additional funding for each setting is calculated. Further details are set out in the case study material on deprivation at Appendix 3.

### 7.5 Quality and the quality supplement

All the available evidence shows that quality is the key driver for improving children's outcomes and narrowing attainment gaps, and that it is particularly crucial for children from disadvantaged backgrounds. *As such, LAs must use the EYSFF to support and promote quality and encourage a culture of continuous improvement in the quality of provision.*

LAs need to consider how they can incentivise high quality provision and improvement. The pilot authorities who most successfully incentivised quality through their EYSFF did so through the use of a quality supplement. *All LAs should strongly consider including a quality supplement to reward providers who demonstrate strengths or efforts to raise quality.*

Suitable indicators of quality include:

- Workforce qualifications;
- Ofsted inspection ratings;
- Membership of an approved quality improvement or assurance scheme that has been developed in conjunction with providers, combined with a continuous cycle of quality improvement;
- Well-developed self evaluation processes, based on the Ofsted Self Evaluation Form (SEF) and which include active plans for staff development and training.

Learning from the pilot authorities emphasises that in applying these measures to a supplement it is critical to think through the implications from the provider perspective. *LAs should ensure that any measures used are robust and transparent, take into account sustainability in quality improvement and should not build in unnecessary bureaucracy for providers.* This means:

- employing data that is easy for providers to supply and for LAs to collect, that is readily understandable to providers;
- Employ data which leads to predictable levels of funding;
- Put plans in place to smooth 'cliff edges';
- Ensure quality assurance schemes are widely known and trusted and build on the process involved in the Ofsted Self Evaluation Form;
- Ensure you have a scheme that will reflect improvements in quality on an annual basis;
- Ensure that your scheme does not impose unnecessary additional burdens on providers;
- considering the implications for providers that work across a number of LAs , including balancing the benefits of flexibility between quality schemes where another scheme is of an equivalent standard.

#### **Designing a quality supplement**

- a) One pilot authority took an approach of taking account of minimum expectations through a differentiated base rate, and using the quality supplement purely as a means of rewarding settings who go the extra mile. Their model included six different base rates for the different types of providers, for example a playgroup, a day nursery, a maintained nursery class, a childminder etc. Their quality supplement was then based on two quality measures. The first is attendance at training schemes that they have established locally, where participation adds an amount to the hourly base rate of a provider. The second is based on meeting the criteria and signing up to their local quality assurance scheme as a first step to promote a culture of continuous improvement. Providers who are signed up receive a lump sum of £1000 per year.
- b) Another option could be to aim for a simpler base rate and take account of unavoidable cost differences associated with staffing through the supplement. For example, a quality supplement based on the employment of graduates would mean all maintained settings would be entitled to the supplement



because of legal requirements for nursery classes to have a teacher, but the supplement also acts as an incentive to PVI providers, most of whom do not currently employ a graduate. In this instance, the LA could align the Graduate Leader Fund (GLF)<sup>7</sup> with the EYSFF pot and draw on this funding to support a supplement on training of, or recruitment of, graduates.

c) A LA could build a quality supplement based on participation in a local quality improvement programme reflecting the four key principles of the Early Years Quality Improvement Support Programme (EYQISP) developed by the National Strategies:

- the role of effective leadership in securing and improving quality;
- a continuous cycle of self-evaluation, improvement and reflection;
- a system of support and challenge which is transparent and agreed by all;
- strong partnerships between LAs, settings, and the settings' communities.

Ofsted ratings could be used as a further measure to target those settings which were receiving consistently 'satisfactory' ratings with the aim of achieving 'good' or higher. The LA Early Years team could support the settings to use the Ofsted Self Evaluation Form to establish their strengths and areas for development and work with them on action plans to improve their provision across the board.

As illustrated by the examples above, in taking account of quality, *LAs should also ensure they are clear about how it fits with other aspects of the formula and tools that the LA has for raising quality.* This means:

- Being clear about the fit between the base rate and the quality supplement, and whether the supplement is being used to incentivise quality improvement only or incentivise improvement *and* reflect some of the costs associated with meeting national standards;
- Being clear about the inter-face with the Graduate Leader Fund;
- Being clear about how the quality supplement interacts with other tools for raising quality which the local authority has.

<sup>7</sup> The Government is considering making it a legal requirement that all full daycare settings have a graduate by 2015 and that all early learning and childcare workers have a full and relevant Level 3 qualification by the same date. LAs will need to bear in mind that at a future date the formula may have to be updated in time to reflect this change as part of an ongoing review of the formula.

As set out in the introduction, at the time of publication the Code of Practice on the Free Entitlement is being reviewed. *This section of the guidance should be reviewed in light of the final Code which is due for publication in early 2010 (to be implemented September 2010).*

Further details on these issues and a list of questions for consideration are included at the checklist at Appendix 4.

### **7.6 Flexibility and the flexibility supplement**

The Government has committed to extending the free entitlement to 15 hours and for that entitlement to be delivered more flexibility from September 2010. We recognise that for many providers the move to flexibility represents not only a significant culture change, but also some real practical and sometimes financial barriers. *We therefore strongly encourage all LAs to use the EYSFF as part of a package of measures to support, promote and incentivise flexible patterns of delivery by:*

- *Recognising and supporting the costs associated with delivering different patterns of provision, e.g. delivering over the lunch period or opening longer hours; and*
- *Incentivising settings to move away from sessional provision and deliver the entitlement in patterns that are more responsive to parental demand.*

It is for LAs to decide how best to take account of these factors and how best to reflect these factors between the base rate and a flexibility supplement. However, we know from our pathfinder authorities on the flexible extension that financial support is not always the most important factor and where it is made available it should be accompanied by planning and support from the LA.

The introduction of flexibility means that the entitlement needs to be offered to parents in a way which meets their needs and gives them real choices about how they access their free provision. That will require close co-operation at the local level between LAs and the diverse range of providers we want to see delivering the free entitlement.

LAs will need to build a definition of flexibility for their local area, within the national parameters,<sup>8</sup> and to work in partnership with providers to build a clear offer to parents. Flexibility is not necessarily about just offering longer hours, but also about offering different patterns of provision. Based on this, LAs will need to:

- Build a local definition of flexibility;
- Decide what they want to incentivise;
- Decide how they want to do it.

LAs will need to negotiate with all their providers on how they will contribute to the 'local flexible offer' in order to meet demand, but balance that with practical considerations for providers. Whilst we recognise that not all providers will be able to offer the same levels of flexibility, LAs should encourage providers to be ambitious about what they offer and so should consider how the EYSFF can support those ambitions.

There are two broad approaches that LAs can take to building a flexibility supplement – although neither are exclusive and both can be utilised within the formula. However, LAs should be clear about why they have adopted an approach and any implications for the wider formula. The two approaches are:

- a) Build a supplement that acts as an incentive to deliver different patterns of provision; and/or
- b) Build a supplement that recognises the additional costs of delivering flexibility.

LAs will need to decide their approach based on their local definition of flexibility and the demands of their local parents.

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<sup>8</sup> National parameters for flexibility have recently been consulted on as part of the revision of the Code of Practice for LAs on the provision of the free entitlement. The process to revise the Code began in May with the launch of a Discussion Paper which closed on 8 July 2009. This was the first of a two staged approach. The Discussion paper looked to ask for views on flexibility around whether the national parameters currently in place were the right ones; whether the process for reaching a locally set entitlement properly balances the need to respond to parental demand with the need to ensure delivery is practical and sustainable for providers; and whether the model struck the right balance between nationally set principles and parameters and a locally determined entitlement as well as wider issues. The results of this discussion paper will be used to draft a new Code of Practice that will be put out to a formal 12 week consultation in the Autumn of 2009. The current version of the Code, *A Code of Practice on the Provision of Free Nursery Education Places for 3 & 4 year olds (2006)* can be found at [www.dcsf.gov.uk/everychildmatters/strategy/improvingquality/guidance/nurseryeducation/nurseryeducation/](http://www.dcsf.gov.uk/everychildmatters/strategy/improvingquality/guidance/nurseryeducation/nurseryeducation/)

### **Designing a flexibility supplement**

#### **Approach A:**

Incentivising flexible patterns of delivery can mean different things and our pilots that took this approach considered both longer hours and different patterns of delivery, such as delivery over more than the minimum 38 weeks. In the first case, the supplement was built to encourage providers to offer parents the opportunity to access more hours in a day rather than sessions and therefore an additional uplift was built in depending on the range of hours a provider could offer. The longer the hours available, the bigger the uplift. Others gave an additional lump sum per hour, per child once providers were able to offer a minimum number of hours.

The second approach was to incentivise providers to allow parents to 'stretch'<sup>9</sup> the free entitlement over a longer period than 38 weeks. Where providers were able to deliver the offer over a period of 40 weeks or more, an additional lump sum per hour, per child was offered.

#### **Approach B:**

Delivering flexible provision can come with additional costs for providers and some of the pilot LAs looked to use a flexibility supplement to recognise this and enable providers to change their patterns of delivery. For example, flexibility can mean that provision is delivered over the lunch period therefore one pilot authority based their flexibility supplement on the cost of a meal. This enabled providers to deliver over the lunch period and ensured that the cost of lunch did not become a barrier to access.

Another approach was to recognise that flexibility can mean that provision is delivered at less popular times and therefore staff costs may be increased. A higher base rate was therefore introduced for any provider that was able to deliver flexibility.

*All approaches must use measures that are easily understandable to providers and lead to predictable levels of funding.*

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<sup>9</sup> 'Stretching' the free entitlement over more than 38 weeks is a Government ambition set out in the document *Next Steps for Early Learning and Childcare (Jan 2009)*.  
<http://publications.everychildmatters.gov.uk/default.aspx?PageFunction=productdetails&PageMode=publications&ProductId=DCSF-00173-2009>

Where a LA decided to use a flexibility supplement they should:

- Make sure your definition of flexibility is within the national parameters;<sup>10</sup>
- Ensure that your definition of flexibility is reflective of parental demand;
- Clearly communicate to both parents and providers what flexibility means in your area;
- Ensure your scheme does not impose additional burdens on providers.

Where a quality and flexibility supplement are used, when the EYSFF comes up for review, LAs should particularly look at each of these in light of the revised Code of Practice on the Free Entitlement that will be published in the Spring of 2010.

## 7.7 Affordability

The affordability of the proposed arrangements has been a prime consideration for the pilot authorities. After due consideration of the evidence by Schools Forums, some have identified additional funding from their Schools Budget to help implement the changes, and in particular to fund incremental increases in levels of funding to the PVI sector. In other words, the pilot authorities have not necessarily assumed that the early years funding is a 'zero sum game', in which increases to one sector inevitably means decreases to another.

*LAs should treat the affordability assessment as an iterative process, to match an overall funding limit, and to ensure that the impact on individual providers is managed. In this respect, some LAs have found the concept of defining a local early years budget, based upon a robust cost analysis useful and it is recommended that, as a matter of good practice, authorities explore this option.*

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<sup>10</sup> The national parameters are not themselves a definition of flexibility, but the national boundaries within which the free entitlement must operate within. Also see footnote <sup>9</sup>.

### **Coping with the affordability challenge**

Hertfordshire identified that its proposals for its EYSFF would require a significant increase of around 10 per cent in the funding allocation to Early Years. The team working on the EYSFF first raised the need for additional funding with the Schools Forum in April 2008, following a presentation on the development of the formula and a discussion about the LAs processes for allocating DSG headroom. The matter was discussed with the Schools Forum over several meetings, addressing issues such as targeting the extra funding at raising standards. A breakdown of the requirements for additional funding was agreed in October 2008 allowing them to proceed with their formula.

Rochdale, in contrast with the LAs that found additional funding for the EYSFF, sought to build a formula that addressed the perceived inequalities in the former funding system, whilst not increasing the overall cost. This was achieved successfully through the introduction of differentiated funding rates; supplements for deprivation, flexibility and quality; and application of the Minimum Funding Guarantee as a transition measure to offer protection to all providers that would have lost funding (although the LA has made it clear to providers that they should not rely on the MFG for long term protection and that it may need to be gradually faded out).

## **7.8 Interaction with the Schools Funding Formula**

For maintained sector funding, and especially for maintained nursery class funding, the interaction of the EYSFF and the schools funding formula has to be considered as, in addition to pupil-led elements, funding for nursery education may be allocated directly or indirectly through a range of other formula elements including premises-related elements, lump sums, Standards Fund allocations, and capital funding. The application of MFG protection is also potentially very significant, particularly for settings which have been receiving protection for some time in relation to changes in funding connected to nursery provision.

Choosing to disaggregate items from the schools formula or using an abatement factor (which is consistent with the approach used for sixth form funding in secondary schools by many LAs) offers transparency in relation to these funding streams, but LAs will have to decide whether the sums of money involved are sufficient to justify the work involved in disaggregating them from the schools funding formula. However, they *should ensure that funding through the schools formula does not double-fund allocations through the EYSFF (and vice versa)*.

Further details in relation to interaction with the Schools Formula are set out in Appendix 5.

## 7.9 Nursery Schools

In most of the pilot authorities, nursery schools have been shown to have the highest cost base. Whether this translates into a significantly higher rate per hour appears to depend fundamentally on the extent to which:

- The costs are absorbed by a sufficiently large number of hours of provision, thereby leading to an acceptable cost per hour of provision;
- The costs can be shared by other services, thereby leading to a sharing of management, administration and premises costs.

In determining funding for nursery schools under the EYSFF, LAs must remain aware of the presumption against closure of nursery schools. Therefore, LAs must undertake detailed work to ensure that the costs and funding of maintained nursery schools have been examined fully as part of the cost analysis, and that these costs are fully reflected. However, where applicable LAs must be able to demonstrate the reason for higher base rates for nursery schools and avoid large lump sum supplements, where they are not cost-reflective, and are designed to simply perpetuate existing funding differences. Instead they must work closely with any nursery school that will see substantial reductions in their funding.

Further details are set out in Appendix 6.

## 7.10 Childminders

Childminders have a very different cost structure to other early years providers, primarily as a result of the lower numbers of children they provide for and the fact that they deliver from home, rather than from dedicated business premises. Our pilot LAs took various approaches to funding childminders.

At one end of the spectrum, some pilot authorities took quite a narrow approach to operating within the principles of the EYSFF – paying childminders quite a low rate, on the basis of a strict interpretation of their cost analysis of what it costs a childminder to deliver the free entitlement. At the other end, some pilot LAs took the approach of looking at what it ‘should’ cost a childminder to deliver the free entitlement if they were treated on a comparable basis with a daycare provider (so were paid for premises, for their low ratios, aspirational qualifications etc) and consequently came out with a far higher rate.

*It is our view that a LA’s approach to funding childminders should, so far as possible, be the same as the approach to any other sector and stay in line with the principles of the EYSFF, primarily that where a differentiated base rate is implemented, it is based on the evidence shown from a LA’s cost survey and TCM. The cost analysis should take into account the distinctive elements of delivering as a childminder – the impact on a childminders home of operating their business from it, the smaller group sizes involved etc.*

A LA should also consider (as it does for other settings) how it can incentivise quality within its childminder market through the use of supplements within its formula. In *'Next Steps for Early Learning and Childcare'*, published in January 2009, we committed to looking at new approaches to enhance childminders' professional development and LAs may like to consider how to use their quality supplement to support this ambition.

### 7.11 Other Funding

Funding for the free early years entitlement must be based on participation levels. However, there may be a very few circumstances in which an alternative approach is appropriate. One might be in rural areas where the sustainability of particular settings would suffer if all funding was participation based.

In general, the pilot authorities have chosen to address sustainability issues outside their formula by extending approaches to sustainability already in place for PVI settings. However, there are also examples of supplements being used to deal with sustainability issues connected to sparsity and/or rurality. For example:

- North Yorkshire weights the basic hourly rate by +75% if the setting is more than three miles from the nearest alternative, and by +125% there is no other provider within five miles;
- Hertfordshire protects the number of places funded in some small rural settings.

*These additional payments should apply to only a very small proportion of providers where their size and location make sustainability a genuine concern.*

### 7.12 Profit

There may be a temptation for private sector providers not to declare profit or for LAs to 'disallow' it for the purpose of calculating appropriate funding levels. However, in the context of a mixed market with significant provision from the private sector it is entirely legitimate for providers of all kinds to generate surpluses, either to provide a return on their own investment or for future investment. *LAs must take this into account when designing their formulae.*

### 7.13 Counting and adjusting for participation led funding

As stated in the introduction, *the counting of pupils to support participation-led funding must be, at least, on a termly basis. This will be set out as a requirement in the School Finance Regulations and is a change from previous regulations which required authorities to use the most recent data about actual hours and led to significant variation in the data used by LAs.*



The rationale for this change was set out in advice circulated to all LAs in June 2009 and available online.<sup>11</sup> There has been a reconsideration of this advice since its publication and it has been revised slightly as a result. *At a minimum, LAs must count participation using data collected at census date.* LAs are therefore free to continue to utilise systems that they may already have in place that go beyond this and are in fact more reflective of participation. Where this is happening we would strongly welcome any case studies as to how this might work more widely. We are concerned that there should, where possible, be more budgetary stability in the system for providers but recognise that local practice does not always make this an option.

In order to support a genuinely participation-led approach, *all LAs must also adjust budgets to reflect fluctuations in participation within the financial year, across all sectors.* Providers will need to know as early as practical the effect that the new adjustment will have on their budget. For the maintained sector this may be enough and the actual adjustment to the budget can take place later as a ‘wash-up’ at the end of the year. PVI providers however have different needs. Providers need to pay staff monthly and need to have the cash to do so. It is completely unreasonable that a provider should rely upon an overdraft at any stage as a result of payment schedules of LAs. *LAs therefore must consider how they will notify providers of adjustments to budgets and how they will pay providers the adjusted budget so that the provider remains viable and does not have cashflow difficulties.*

In addition, *LAs must provide all providers with an indicative budget at the beginning of the financial year which broadly reflects anticipated participation.* To achieve this they will need to estimate take up of the free entitlement. The methodology can be determined locally, but experience from the pilot authorities suggests that basing figures on the previous year’s census for each of the three terms can be a reliable indicator in the majority of cases where known change is not happening, and LAs may wish to consider using this as a starting point. Using ‘known’ data for the initial allocations is an important factor to those settings receiving actual cash as it helps make the process of determining their initial funding profile more transparent.

The indicative budget should be as accurate as possible and therefore LAs should also consider if and how they intend to estimate for exceptional changes over the coming financial year – such as planned expansion of a nursery.

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<sup>11</sup> <http://www.dcsf.gov.uk/everychildmatters/earlyyears/localauthorities/lapractice/entitlement/sffundingresources/sffresources/>

### **7.14 Counting and adjusting in North Yorkshire**

There will be a termly count of pupils on the same date for both maintained and PVI settings, based upon the number of hours the child is registered to attend in the week of the count. Indicative funding allocations will be based on the count for the previous year, and these will then be adjusted for the count of the actual year in question.

Funding will not be deducted for children who leave immediately after the count, but it is expected that settings take children who wish to start after the count, providing they still have an available place and providing the additional child does not trigger the need for additional staffing.

Although some LAs had chosen to track start and leaving dates of all children and only fund settings when a child is actually attending, North Yorkshire argued (and settings agreed) that to introduce such a system for over 400 early years settings would add considerably to the bureaucratic burden on providers.

PVI settings prefer the continuation of existing arrangements under which funding is adjusted each term to reflect the actual numbers of children/hours in that term's count. This reflects current arrangements, except that settings support a modification to introduce monthly rather than termly payment.

Schools prefer their funding to be fixed at the beginning of the financial year and not adjusted during the year. Schools' budgets will therefore be adjusted at the end of the year, based on participation levels during the year.

## 8. Impact, Transition and Review

### *LAs must:*

- *Undertake an impact assessment of the effect of the new formula for every setting;*
- *Ensure settings fully understand the basis on which they will be funded, including the basic rate and any supplements that will apply.*

### *LAs should:*

- *Look for possible unintended consequences of the new formula for every setting such as changes of provider behaviour in response to the new funding regime;*
- *Consider the interaction between the formula and other policy changes – including to school admissions and in relation to other early years initiatives;*
- *Identify where exceptional circumstances mean there is a clear argument for additional funding to support sufficiency and sustainability – and be able to show there are clear reasons for its use;*
- *Allow time to test out any changes to administrative and data collection processes as part of the EYSFF;*
- *Not see the introduction of the EYSFF as the end of the process, but review it periodically as a matter of good practice;*
- *Ensure their EYSFF is widely available.*

### *LAs must not:*

- *Use the Minimum Funding Guarantee to allow funding for maintained settings to continue at current levels irrespective of actual participation in the long term;*
- *Implement transitional arrangements which require more than 3 years for settings to reach the level of funding determined by the EYSFF.*

## 8.1 Impact

The introduction of the EYSFF may create winners and losers in terms of funding levels. This will depend, amongst other things, on the levels at which base rates and supplements are set, and whether or not additional funding has been added to the overall early years funding level.

All of the pilot authorities have undertaken full impact assessments to determine the extent of such change in implementing their EYSFF, and have shared the outcome with their providers through the consultation process. In a number of cases, the outcome of the impact assessment and of subsequent consultation has led to changes in the proposed EYSFF, and a further review of the impact assessment, which was again shared with providers before implementation.

Impact assessments will need to be undertaken at the earliest opportunity, shared with all settings, and explained fully. *In carrying out the financial impact assessment LAs should ensure that:*

- *There is consistency in content, data and presentation of the assessment to all settings;*
- *The impact assessment for all settings is included in the consultation process undertaken in respect of the implementation of the EYSFF;*
- *The cost of any transitional/protection arrangements (see below) is identified clearly in the assessment, together with any proposals to fund such costs, including the timescales by when all settings will be on the same funding basis;*
- *The impact on settings which are significant to the LAs sufficiency duty is well understood;*
- *The impact assessment is reviewed regularly to reflect the latest iteration of the formula.*

The greatest impact in the pilot authorities has been on the maintained sector, particularly where place-led funding was used, and where occupancy levels have previously been low. In addition, moving to participation-led funding can add to the funding shortfall in circumstances where schools have allowed children to take advantage of long 'lead-in' times following admission. However, for the PVI sector which has always been participation-led funded, the impact has generally been positive.

Where there have been significant shifts in funding, pilot authorities have put in place appropriate transition measures – which are covered in more detail below – to ensure that a setting does not see a sudden fall in funding levels, whilst also ensuring that transition is carefully managed to ensure their continued viability and sustainability of the setting. In some cases, this has been achieved through a gradual reduction in their funding levels over a three year period. In some pilot authorities additional funding has been allocated to early years from total DSG levels. Such increases have both permitted increases in the level of funding for PVI settings to a level nearer to that of maintained settings, and have reduced the need for protection for the maintained sector (See section 7.7 for further discussion).

### **8.1.1 Wider factors for consideration in the impact assessment**

*Impact assessments must take account of the fit with and impact on other early years initiatives.* Two other significant early years initiatives are being introduced or rolled out from September 2009 and LA's must take account of these changes:

- The free entitlement for three and four year olds is being extended from 12.5 to 15 hours per week, to be delivered flexibly. From September 2009 it will be available to the 25% most disadvantaged three and four year olds. All three and four year olds will be eligible for 15 hours from September 2010;
- The offer to provide free early learning to 15% of the most disadvantaged two year olds has been extended further to cover all LAs.

LAs must use the impact assessment process to make sure that the implementation and operation of the EYSFF supports the development of these policies and the objectives behind them – and does not detract from them.

### 8.1.2. Local authorities also need to consider the interaction with schools admissions as part of the impact assessment.

Schools admissions policies and processes, including issues such as one point of entry, early admissions, and late admissions, have been an important consideration in implementing these new EY initiatives. LAs may therefore wish to consider:

- The impact of changes to their admissions policy: changes to admissions arrangements can affect the pattern of demand for nursery places in both the maintained and PVI sectors and, consequently, the level and predictability of providers' funding levels. In considering this impact, *LAs should be aware that in response to the Rose Review of the Primary Curriculum, the government has accepted that it should become the norm for all children to enter school in the September following their fourth birthday, but have also committed to enabling a child to access the equivalent place (up to 25 hours) in a PVI setting or maintained nurseries from 2011.*<sup>12</sup>
- The wider impact on the local market of participation-led funding, and in particular whether participation-led funding will provide an incentive for schools to admit children earlier, thereby reducing the potential market for PVI providers.

## 8.2 Transition

Using the impact assessment to understand which settings are to experience changes in funding levels as a result of the EYSFF, the pilot LAs have built transitional mechanisms into their formulae.

The favoured approach of the pilot authorities to transitional protection has been a phased transition to the new funding levels over a two or three year timescale, allowing settings time to adjust to the new funding level. *It should be remembered that transitional protection is only a temporary measure and that there must be a clear plan over no more than three years to move a setting gradually to its new funding levels under the EYSFF.*

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<sup>12</sup> In response to Jim Rose's Primary Curriculum Review on 30 April 2009, the government accepted the proposal that children should ideally start school in the September immediately following their fourth birthday, possibly on a part-time basis for some children, but with parents having freedom to choose up until compulsory school age (which starts the term after a child turns five). Two thirds of local authorities already operate September entry admissions policies which are in keeping with this commitment but a number of authorities may be anticipating having to make changes to their admissions for 2011. In response to Rose, the government also recognised that not all parents wish their child's early years experience to take place in a school setting and therefore committed to funding for full time provision (up to 25 hours) for those children whose parents did not opt to start reception at this stage. At the time of publication, the government's implementation plans for this policy have not been finalised but they will be set out in autumn 2009. A copy of the Report and the Written Ministerial Statement can be found at <http://www.dcsf.gov.uk/primarycurriculumreview/>

It should be noted that MFG can also offer some transitional protection to schools, but this is presently under review as a part of the wider DSG review, and should not therefore be relied on as a simple solution to the transitional issue. Some of the pilot LAs have excluded early years from the MFG.

Some of the pilot authorities are also offering other forms of non-financial support, such as helping providers to re-shape their services to limit the impact of the changes, or providing support in business or financial planning, over the transition period. Indeed, such measures can be of more benefit in the longer term.

### 8.3 Review

The introduction of the EYSFF should not be seen as the end of the process. The formula will need to be kept under review as a matter of good practice, but in the first few years of the formula, this is especially true. The impact of the formula over the first year should be monitored and if changes are required, then these should be recognised in time to consider and consult upon change for 2011. The way that it was envisaged that the formula would work and the way that it actually works could be different and the earlier that changes can be made, the better for providers.

To aid this review, *LAs should make their EYSFF widely available once finalised.* This will enable providers from across the spectrum to better highlight any issues, should they exist.

Further details on both impact assessment and transition are set out in Appendix 7.

## GLOSSARY

Term	Stands for	Description
ACORN		ACORN is a leading geo-demographic tool used to identify and understand the UK population (competitor to MOSAIC – see below).
Aspirational Costs		Costs which reflect a desired cost level rather than the actual current cost level.
AWPU	Age Weighted Pupil Unit	A factor used in local authority funding formulae to distribute different amounts of funding for pupils of different ages.
CEL	Central Expenditure Limit	The maximum amount of expenditure that can be retained by the local authority from the Schools Budget for central items without gaining the approval of the Schools Forum.
Cliff Edge		Any situation where a formula creates a significant change in the level of funding as a result of a minimal difference in the characteristics of the provider.
Code of Practice		Statutory guidance on the free entitlement, to which local authorities must have regard – draft revised version to be consulted upon in Autumn 2009, with final implementation September 2010.
Cost Apportionment		The apportionment of the costs relating to a single resource or activity to the multiple users of the resource or activity on an agreed basis.
Deprivation		Funding to support children from socially deprived backgrounds so as to promote their opportunity to achieve at equivalent levels to other children.
Dividend		A distribution of the profits of a business to its owner(s) in proportion to their share in the ownership of the business.



Term	Stands for	Description
DSG	Dedicated Schools Grant	The ring-fenced grant from DCSF to local authorities covering funding delegated to schools, and other provision for pupils such as Pupil Referral Units and early years education in Private, Voluntary and Independent settings.
Early Years Abatement Factor		An amount of money which would be deducted from school allocations for nursery classes to reflect funding now being delivered through the EYSFF, rather the schools funding formula.
EYC	Early Years Census	The annual collection of information from each local authority on pupils accessing the free entitlement in private, voluntary and independent settings.
EYSFF	Early Years Single Funding Formula	The agreed acronym for the new single formula.
Flexibility		The free entitlement is being extended to 15 hours, offered flexibly from September 2010. Interim Guidance on the extension of the free entitlement and the definition of flexibility is available at <a href="http://www.everychildmatters.gov.uk/earlyyears/lapractice/entitlement/">www.everychildmatters.gov.uk/earlyyears/lapractice/entitlement/</a>
FTE	Full Time Equivalent	DSG funding is based on the number of full-time equivalent pupils. Where a pupil is not in full time education the purpose is to reflect the amount of provision they are taking up for funding purposes.
IDACI	Income Deprivation Affecting Children Index	A supplementary index to the IMD measuring income deprivation amongst children.

<b>Term</b>	<b>Stands for</b>	<b>Description</b>
IMD	Index of Multiple Deprivation	IMD combines a number of indicators across economic, social and housing issues into a single deprivation score for each small area in England. This allows each area to be ranked relative to one another according to their level of deprivation.
Impact Assessment		An assessment of a change to each individual setting within a LA. For example the financial impact or pupil number impact and to also consider any benefits there may be.
ISB	Individual Schools Budget	The sum of the delegated budgets of all schools in a LA.
Management Fee		A fee levied by an owner of a business in payment for services provided to the business or by a head office of a business on a subordinate part of the business in payment for services provided by the head office function.
MFG	Minimum Funding Guarantee	A guaranteed increase for a school in year-on-year funding per pupil where pupil numbers are constant. For the current funding period (2008-2011) this is 2.1% per annum per pupil.
MOSAIC		A market-leading consumer segmentation product which classifies all 24 million UK households into 11 groups, 61 types and 243 segments (competitor to ACORN – see above).
NCMA	National Childminding Association	The professional association representing childminders.
NDNA	National Day Nurseries Association	The professional association representing day nurseries.

Term	Stands for	Description
Outlier		A value at the outer ends of a range of values and which may not be consistent with the other values in the range.
Participation		The level of attendance at a setting on which funding under the free entitlement is to be based.
Perverse Incentive		A feature of the formula that provides a reward for taking a future action that is at variance with or even the opposite of that intended, and/or that promotes inefficiency.
PLA	Pre-school Learning Alliance	The professional association representing sessional pre-schools.
PVI	Private, Voluntary, Independent	The different categories of childcare providers other than those in the maintained sector.
Schools Budget		The sum of funding from the DSG plus Learning and Skills Council for post 16 education plus any other funding the LA choose to add which must be used for purposes prescribed in regulation for education. The early years funding for the free entitlement is part of the Schools Budget.
School Budget Share		The funding provided to a school under the terms of the local authority's school funding arrangements.
Sufficiency		A LA's obligation to ensure that sufficient places exist to offer parents provision under the terms of the free entitlement.
Supplement		An additional payment to a setting which reflects a particular characteristic.

<b>Term</b>	<b>Stands for</b>	<b>Description</b>
Sustainability		The ability of a setting to remain financially viable.
Windfall Gain		An unexpected and significant gain from a change in the funding arrangements which cannot be justified.
Transitional Arrangements		Arrangement put in place to ensure that the transition from the current funding regime to the single formula is manageable for all or the large majority of settings.

# APPENDIX

## APPENDIX 1: Working with providers – Frequently Asked Questions

### 1. Can the free entitlement be offered over two days if parents require those hours?

**NO** – The free entitlement must be delivered over a minimum of three days as set out in the current national parameters for flexibility.

### 2. My setting is in a church hall and we can only open in the morning and could not offer eight hours in one day. Does that mean that I cannot claim funding?

**NO** – The requirements state maximum hours that a parent can claim for one day but if you are open for shorter periods, that is fine and you can still claim funding. You can also encourage parents to take more days.

*It is a LA's responsibility to ensure that there are enough settings in the borough offering different packages for parents.*

### 3. We are a nursery and allow parents to just access free entitlement, but only in the mornings. Can we continue to do this?

**MAYBE** – Each setting will need to offer a package of provision that is reflective of parental demand. Whilst we do not expect a setting to be able to meet the needs of every individual parent, we do want them to shape their offer in a way that is responsive to the needs of most.

### 4. I am a Network Childminder. Can I offer the free entitlement as part of my service?

**YES** – As long as you meet the basic criteria set out in the Code of Practice and any delegated conditions the LA may have, then you are encouraged to offer the free entitlement as part of your service.

### 5. We are a nursery class. Can parents have some sessions in our class and some in a local pre school or nursery?

**YES** – Parents can, if a school can offer this flexibility, mix between schools and private providers. However, the entitlement can only be claimed across a maximum of **two** settings.

**6. What does ‘free at point of entry’ mean?**

*That the free entitlement should be just that – free. A parent, whether they are just taking up the free entitlement or also purchasing additional hours, should not be charged, required to pay a deposit, or any top up fees for the first 12.5 hours (rising to 15 in 2010).*

**7. We are a nursery and we take the funding off the fees. Can we still do this?**

***NO** – the funding is not a subsidy, it is to deliver a free place. This is wrong. Your billing must be clear and show that the parent has accessed free entitlement.*

**8. If a parent is going to use our nursery for more hours than their free entitlement can we charge a deposit?**

***YES** – But only in relation to the additional hours. Your policy should be clearly communicated.*

**9. I am a childminder. Do I have to show the free entitlement as part of my bill?**

***YES** – If you are offering the free entitlement it must be clear which hours are free.*

**10. Our setting is offering the free entitlement over a lunch time. Can we charge for the meal?**

***YES** – But it cannot be a condition of access. Parents must have a choice. So you will need to allow the parent the opportunity to provide a pack lunch if they prefer.*

**11. Is there going to be a head count day for each term?**

***YES** – this will be the department’s census day for the term. These days should be used as a minimum, but where a LA already has systems in place that are more representative of participation across all sectors, it can continue to use these. We are keen to ensure that there is stability of budgets as well as consideration of participation.*

*This is discussed further in Section 7.*

**12. Will children be funded for more than 38 weeks a year?**

*Each child will be funded for 12.5 hours, rising to 15 hours from 2010, over 38 weeks a year. In addition, we are considering how best to deliver the free entitlement over more than 38 weeks for those parents who wish to 'stretch' the offer, as per our commitment in Next Steps for Early Learning and Childcare published in January 2009.*

**13. I'm a provider. Will I have to fill in termly returns for the council?**

**YES** – *This is the minimum basis that a LA will use in order to count the number of children a setting will have to deliver to and use that information to provide indicative budgets at the start of the year, and adjust during the year where necessary.*

**14. What happens if I suddenly have a lot of children join my setting that I had not estimated for? Will I have to wait for the following year to receive the money?**

**NO** – *The system allows us to adjust your payments up, as well as down. How each LA adjusts payments will be left to local discretion, however, they are strongly advised to adjust payments according to the needs of the setting.*

**15. We are a nursery class. Will we be funded from the beginning of term?**

*If you are delivering the free entitlement from the beginning of term, you will be funded from the beginning of term, otherwise the funding will start when the child starts your setting.*

**16. Will children be eligible for funding as soon as they turn three years old?**

**NO** – *This has not changed. A child qualifies from the 1 September, 1 January or 1 April following their 3rd birthday.*

**17. Will funding be cut for days when a child is sick or on holiday?**

**NO** – *Providers will not be penalised if a child is booked to attend the setting but is absent for these reasons. However LAs will want to use their discretion where absence is recurring or for extended periods.*

## **APPENDIX 2: Developing a Typical Cost Model (TCM)**

The main reason for producing a typical cost model is to use it as a 'sense check' against your cost survey results. However, it can also be of use where:

- The data gathered from the cost survey is unsatisfactory;
- The cost survey provides information only on current or historic expenditure, and may not therefore be suitable to the implementation of the fully flexible offer, when the nature of provision, and therefore costs, may change.
- The LA is behind schedule and has not conducted a cost survey by summer 2009.

This appendix provides guidance for LAs in preparing their own cost models. Two examples of typical cost models were also included at pages 33-37 of the interim guidance published in 2008.

### **Where to start**

The nursery pupil Age Weighted Pupil Unit (AWPU) in the schools formula may provide a starting point for developing a cost model for the EYSFF, particularly for LAs which have an activity-led schools formula. The AWPU will contain most of the information required to calculate a typical cost model for the maintained sector. The methodology can be applied to the PVI sector by substituting the unit costs which apply in that sector. For example, the average unit cost for a teacher would be substituted by an average unit cost for an EYP working in the PVI sector.

Where LAs do not have an activity-led AWPU, or the AWPU is an inappropriate basis for the PVI settings, they can generate similar information by mapping provision within and across settings to identify all the inputs which are required to deliver the free entitlement. Working with small groups of providers, from all sectors, LAs can collect information which is broadly equivalent to the cost survey, including:

- Management and administration costs;
- The qualifications and numbers of staff, how many children are included in each teaching group, and how much time is allocated to the free entitlement in addition to direct teaching time for preparation, planning and assessment for example. This staff profile will be the basic determinant of the overall costs for each setting / sector;
- Materials and supplies essential to the delivery of the free entitlement; and
- Premises and maintenance requirements.

For each of these inputs, LAs will be interested in both:



- Costs which are applicable uniformly across all types of providers;
- Significant and genuine cost differences between different types of providers.

These cost differences may eventually be reflected in differential hourly rates for different types of providers.

Where LAs are introducing a quality supplement, this approach can also be used to identify criteria which can be used to define quality provision. LAs can also use this approach to address cost and delivery issues in relation to the implementation of the fully flexible offer by modelling how provision might change with increased flexibility.

### Developing Staff Profiles for Different Sectors

Staff salaries will be a major influence on the overall costs of provision, and variations in staff qualifications between settings will be one of the main drivers in the variation in overall salary costs. There are three stages in developing the analysis:

- Gathering information about staff profiles and qualifications, and how these are related to the delivery of the free entitlement. In other words: how many staff with what qualifications and for how many children?
- Attribution of a salary cost to each staff type e.g. based on their qualifications;
- Allocation of the salary costs on a per pupil basis.

### Stage 1: Staff Profiles

The table below shows the type of information that LA should seek to collect from their provider discussions (or from the development of their activity-led AWPU):

	Nursery School	Nursery Class	Full Day Care	Sessional Pre-school	Childminder
Children per Group	26	26	20	30	3
Staff per Teaching Group	3	3	4	5	1
Senior teacher	1				
Qualified teacher		1			
NN School	1	1			
Early Years Professional (EYP)			1		
Qualified (level 5+)					
Qualified (level 4)			1	1	1
Qualified (level 3)	1	1	2	2	
Qualified (level 2)				2	
Qualified (level 1)					

LAs should also take account of the statutory requirements for the different sectors:

- For the maintained sector there is a legal requirement for a qualified teacher in a nursery class. In addition, a 1 to 13 staffing ratio applies to all nursery classes. The first person must be a qualified teacher and the next person must have a relevant Level 3 qualification in early years or childcare;
- The PVI sector has a staffing ratio of 1 to 8 for three and four year olds, and a ratio of 1 to 3 for childminders;
- In most settings it could be argued that, irrespective of the size, there is a need to fund a supernumerary in order to undertake other tasks.

Discussion may identify differences between settings within the same sector – LAs should therefore investigate whether the different staff profiles result in significantly different overall salary costs when translated into a per pupil amount (see stage 3).

### **Stage 2: Identifying Salary Costs**

Having identified staff profiles for each sector, a salary cost will then have to be attributed to each staff type:

- For teachers, LAs will have to choose a point on the pay scales that is broadly representative of the costs in their maintained settings;
- For other staff employed in maintained settings, comparable pay scales for nursery nurses and learning support assistants (LSAs) are usually set by the LA and should be accessible through HR support;

For staff employed in PVI settings, salary data is likely to be more difficult to obtain and to validate. One option is to map LA pay scales (for staff working for the LA in early years settings) to PVI staff contracts / qualifications and calculate a set of salary estimates for each qualification standard – this can again be validated with PVI settings representatives.

For all staff costs, LA's will also need to consider:

- On-costs i.e. National Insurance and other conditions of service such as pension contributions and sickness pay. The impact of on-costs is likely to be greater in the maintained sector than the PVI sector but should not be assumed to be so, especially in quality settings;
- Contracted hours e.g. there are a contractual number of hours for teaching staff which may differ to other staff employed within the maintained sector;

- Holiday entitlement – this may be slightly different for different sectors, and may vary according to whether settings are term-time only or open all year round;
- Training and development – this can be included in the staff cost assumptions, or specified as a separate cost;
- Hours allocated to the free entitlement – for a teacher in a nursery class, for example, all of their time and therefore salary is attributable to the free entitlement, but for a full day care setting, only a portion of the total staff salary is attributable to the free entitlement.

Completing this process will provide LAs with the total teaching costs related to the delivery of the free entitlement. This can then be translated into an hourly rate for the EYSFF (incorporating other costs to be considered later in this appendix).

### Stage 3: Allocating Staff Costs on a Per Pupil Basis

By adding up the total salary costs and dividing by the number of hours of provision, LAs can compare costs between different types of settings, and to determine whether it is appropriate to incorporate different rates for different types of settings within the EYSFF. LAs may also wish to consider whether to incorporate a factor relating to occupancy levels at this stage in order to meet their sufficiency and sustainability duty. This approach recognises the difficulty of achieving 100% occupancy and therefore reduces the number of children per teaching group, and increases the per pupil cost. The occupancy level can be varied by type of setting to recognise the differing levels of occupancy typically achieved.

### Other Inputs

In addition to staffing, LAs will also need to consider whether to include a range of other inputs including:

Element	All Settings
Management Time	All costs associated with the management of the free entitlement for a setting e.g. headteachers / deputy headteachers or managers / deputy managers.
Administration Time	All costs associated with administration of the free entitlement e.g. arranging parent / teacher meetings, completing statutory paperwork.
Supplies and Materials	All costs incurred in providing supplies and materials to support the free entitlement e.g. art materials, IT supplies.
Building Resources	Premises related costs including the internal space occupied by the setting, outside space, utilities, cleaning supplies, maintenance.

As with the staff costs, LAs will need to consider variation within and between sectors, and to determine when and if different costs should be reflected in their EYSFF. In particular, it is important to ensure that:

- Appropriate and transparent salary levels are used;
- Costs are attributed on a participation basis, reflecting only the number of pupils receiving the free entitlement;
- No costs are funded through both the EYSFF and through the schools formula.

### **Profit**

There may be a temptation for private sector providers not to declare profit or for LAs to 'disallow' it for the purposes of calculating funding levels. However, in the context of a mixed market with significant provision from the private sector it is entirely legitimate for providers of all kinds to generate surpluses, either to provide a return on their own investment or for future investment and this must be included when building a TCM.

### **Caveats to Using the Activity Cost Model Approach**

This approach does have two particular caveats in relation to affordability:

- Whether to use 'real' or 'aspirational' costs e.g. should the model include the actual staff costs, or a higher rate deemed necessary to attract and maintain staff of the appropriate level of qualification and quality? Affordability constraints are likely to limit the level of aspirational cost that can be included;
- Whether to apply a cost to 'free resource' such as volunteer staff? LAs should consider attributing a cost to resource of this kind, as not to do so could mean that funding would be insufficient in the event that the free resource becomes unavailable. Known affordability constraints may also limit this approach.

### APPENDIX 3: Deprivation<sup>13</sup>

In implementing the EYSFF for the free entitlement for early years, it will be a requirement to allocate a proportion of funding based on deprivation – this will be a mandatory element of whatever funding formula authorities develop in line with regulations. The purposes of the deprivation element of the funding formula are:

- To target under-achievement among children from socially deprived backgrounds (as identified by LAs assessments of foundation stage outcomes for example);
- To allocate additional funding to settings which support children from socially deprived backgrounds, to enable them to provide the additional support required so as to *'promote their opportunity to achieve at equivalent levels to other children'*;<sup>14</sup>
- To support settings' efforts to target deprivation appropriately e.g. through specialist skills and training, additional staff and increased resources.

LAs are free to determine:

- How deprivation will be specified and measured;
- How much funding will be allocated to deprivation within their early years formula;
- What proportion of children in their authority will benefit from deprivation funding;
- How funding will be provided for particular children; and
- The criteria by which settings will access deprivation funding.

At all times LAs will need to consider what sort of support the funding is intended to provide and therefore will need to make an assessment of how much is required to enable that support to be properly funded.

It is in making these choices that considerable variation has been seen amongst the pilot authorities:

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<sup>13</sup> An expanded version of this note was circulated as part of the local authority update in June and is available on the ECM website under the Captured Learning section at <http://www.dcsf.gov.uk/everychildmatters/earlyyears/localauthorities/lapractice/entitlement/sffundingresources/sffresources/>

<sup>14</sup> Implementation of a single funding formula for early years – Interim guidance for local authorities, DCSF, July 2008.asdss

- Shropshire looked to use its deprivation funding to support the needs of the most deprived children in the LA, and also to provide settings with some stability in their funding. The LA top-sliced 5% of its early years budget to support deprivation, and used a weighting system based on the IMD to ensure the children from the most deprived areas received a higher proportion of funding. Settings receive a lump sum which reflects the number of children from deprived areas, their hours of participation and the level of deprivation – this is then fixed for three years and settings are then able to make longer term budget decisions to better meet the needs of the children;
- North Yorkshire chose to top-slice 3.5% of its early years budget (consistent with the amount allocated through the schools formula) to support its deprivation funding. Children at each setting are linked to an IMD score by their postcode and the average IMD percentage across all children is calculated for each setting. The average percentage is then applied to the total number of funded hours for the setting i.e. all settings will receive some funding for deprivation but those with the highest cumulative levels of deprivation across all their pupils will receive the highest levels of funding. In addition to the universal support, settings that are located in the top quartile of deprived areas using the IMD receive an additional allocation again calculated using IMD scores and hours of participation. The allocations are based on children in the setting in the January census;
- Derby decided to mirror its practices in the schools formula for its EYSFF, using the IMD to identify children living in the 40% most deprived super output areas (SOAs). This enabled it to draw on existing expertise and data processing techniques from the schools funding team, as well as giving a consistent methodology for early years and schools. An hourly supplement is allocated to each child and there are also supplements for English as an additional language (EAL), vulnerable children and SEN. The supplements are subsequently added to the base rate that each setting receives for each child attracting the supplement.

The experience of the pilot authorities demonstrates that there is not one fixed approach which should be followed, nor a single method which should be seen as best practice. Instead, LAs should take account of the following points:

- Ensure they have detailed information relating to existing levels of deprivation and the impact deprivation has on outcomes and achievement;
- Review the methodology currently used in the schools formula, and work with knowledge holders to determine whether it could and should be translated to the EYSFF;

- Work with knowledge-holders on deprivation measures to agree which indicators will be used to measure deprivation, particularly if they plan to use measures which are not currently being used e.g. in their schools funding formula;
- Develop a methodology which balances ease of administration for the LA and settings, with a need to target funding where it is most needed;
- Consider carefully whether allocations will be based on pupil counts, or hours of participation, or some combination of the two to ensure that funding is targeted appropriately;
- Take into account any stability issues in year-on-year funding levels which may result from the methodology, for example by applying rolling averages rather than single year calculations;
- Be aware that patterns of deprivation can change, and therefore ensure that the data is capable of being reviewed regularly and is reviewed regularly as new information becomes available; and
- Ensure there is a clear and justifiable basis for any differences in the value of deprivation supplements across the sectors and also for differences in the processes used to allocate the supplements.

## **APPENDIX 4: Quality Checklist**

***Be clear about the inter face with the Graduate Leader Fund (GLF)*** – Schemes that recognise staff development or training, or workforce qualifications can overlap with the Graduate Leader Fund, which is designed to help secure more graduates to lead practice in full daycare settings in the PVI sector. The GLF can be aligned with the EYSFF, to support a supplement payable on the training of, or recruitment of, graduates. LAs therefore need to think through how this interface will work.

***Be clear about the inter face with standards set out in the local agreement (or ‘delegated conditions’)*** – Delegated conditions have the potential to be used as an additional measure to drive up standards by clarifying responsibilities and setting clear expectations. LAs must make sure that any delegated conditions they have in relation to quality are linked into their basis for a quality supplement and that both are based on a clear rationale.

***Ensure quality assurance schemes are widely known and trusted*** – LAs should also be mindful of the impact of using a specific local QA scheme on large providers who may be operating across many authority areas. We suggest that you consider acceptance of any QA schemes which meet the principles developed by the National Quality Improvement Network (NQIN), available at [www.ncb.org.uk](http://www.ncb.org.uk).

***Ensure you have a scheme that will reflect improvements in quality on an annual basis*** – Since the introduction of the Early Years Foundation Stage (EYFS) framework for inspection in September 2008, Ofsted inspectors have put a strong emphasis on judging the quality of early education and childcare provision, and do so using a four point scale: outstanding, good, satisfactory or inadequate. LA's may therefore wish to consider this as the basis for any quality supplement. However, given that the current inspection cycle is not due to be completed until July 2012, use of the Ofsted rating is unlikely to be applicable without combination with another measure. LAs should also ensure that quality incentives and rewards keep pace with settings' quality improvements.

***Ensure that your scheme does not impose additional burdens on providers*** – Many providers complain about additional burdens imposed by LAs. LAs therefore need to bear in mind that the majority of providers are small businesses, and that quality or other compliance processes and paperwork should be kept to a minimum.



### **Key Points for Consideration**

1. Do you want to implement a quality supplement?
2. If no, how are you going to make sure that your formula both supports and incentivises quality?
3. If yes, what measure are you going to use to incentivise improvement – how does this fit with your base rate?
4. What aspects of quality do you want to recognise, and how will you ensure the data you collect to measure these aspects is easy to collect and readily understandable to providers?
5. How are you going to prevent major cliff-edges and ensure predictable levels of funding?
6. Are you clear about how the quality supplement fits with other tools for ensuring quality in the free entitlement?
7. How will the supplement be applied, e.g. lump sum, additional hourly rate?
8. What are the administration arrangements and are you clear about the extent of the burden they impose on providers?
9. What mechanisms are required for ensuring the supplement is spent on improving quality?

## **APPENDIX 5: Relationship with the Schools Funding Formula**

LAs will need to ensure that they understand the relationship between their EYSFF and their schools funding formula fully, and ensure they identify all funding currently allocated to maintained settings for their nursery classes, either directly or indirectly. Without this process, there is the potential for double funding, particularly if schools receive funding through the EYSFF for activities or costs which continue to be funded through the schools funding formula.

There are two broad options available for LAs in implementing the EYSFF:

- Option one: to disaggregate only the pupil-led elements of the of schools funding formula for maintained nursery classes, and to leave the other elements within the schools funding formula;
- Option two: to disaggregate all nursery-related funding, or to abate the relevant elements of the funding to take account of the nursery class element.

For the pilot authorities, the predominant choice has been option 1. The main exceptions to this are Derby and Rochdale, which have both selected option 2, and have included a form of abatement within their schools formula for schools with nursery classes. Most of the pilot authorities, however, have used the cost data and a similar approach that is inherent in their schools funding formula to help shape their EYSFF. Specific examples include:

- Derby chose to ensure that, as far as was possible, all elements of nursery education would be funded through their EYSFF rather than their schools formula. This included identifying all elements of the schools funding formula which allocated funding to nursery provision and ‘scaled back’ the funding accordingly. For example, premises-related funding which was allocated on space data was scaled back on a proportionate basis, using the number of nursery pupils as a proportion of total pupils;
- For settings in Greenwich, the basic PVI hourly rate is higher than the rate for maintained settings, because all maintained sector premises-related costs and some administration costs have been retained within the schools formula. However, Greenwich has translated the premises-related costs for maintained settings into an equivalent hourly rate for purposes of illustration, to demonstrate that their approach is transparent, and that cost differences can be understood by all settings. The LA intends to undertake additional work to disaggregate premises costs from the schools formula during the transitional phase for the EYSFF;
- North Somerset decided to transfer the directly related nursery funding elements in the main schools formula to the EYSFF, and made no further attempt to disaggregate other elements such as lump sums, other than

funding for social deprivation. A sum equivalent to the funding required to meet the cost of social deprivation in maintained nursery classes was transferred from the mainstream formula to the EYSFF budget;

- In Rochdale, the base rate for all sectors for the EYSFF includes an element of expenditure previously funded through the main formula for primary schools. Rochdale has therefore included an 'Early Years Abatement Factor' within its schools formula for schools with nursery classes. This is similar to the sixth form abatement used to avoid double-funding of sixth-form education for secondary schools. The 'Early Years Abatement Factor' will eliminate the double-funding inherent in some areas of funding e.g. management, small schools, floor area, grounds area, rates etc. In practice, this will mean that a proportion of the total funding allocated to each school with a nursery class through the schools funding formula will be deducted, but replaced by the EYSFF allocation to that school.

Whichever method is chosen, LAs need to make it clear and very transparent exactly what funding is being allocated to early years provision and that double funding is not occurring and ensure that:

- Personnel with expertise in the structure of the schools funding formula are involved in the development of the EYSFF;
- Administration and information requirements are considered both as a cost for settings in supplying additional information, and as a burden on the LA itself;
- Maintained settings do not receive additional funding through 'hidden' elements of the schools funding formula;
- Their approach balances simplicity with equity i.e. no settings benefit or are penalised unfairly;
- Their approach is transparent and can be replicated from year-to-year;
- No costs are either unfunded or double-funded;
- Particular attention is paid to maintained settings which also host Children's Centres, or which are the lead agency for Children's Centres;
- Particular attention is paid to maintained settings which receive income from PVI settings for use of space – it will be important to ensure that the process does not penalise / reward either setting unfairly;
- Existing and unjustifiable funding differences between maintained and PVI settings are not simply replicated;

- There is an opportunity to review the impact of their choices during the transitional period for the EYSFF;
- Implications for MFG protection within the schools funding formula are considered, and that there is clarity and transparency about how the MFG will work with the EYSFF. However, it will be important to remember that the future of the MFG is currently under consideration as part of the wider DSG Review that is taking place over the course of 2009/10. Whilst LAs should consider how the MFG will impact on the implementation of the EYSFF, they will need to bear in mind that its future in its current format is not guaranteed.

## APPENDIX 6: Nursery Schools

For those LAs that have separate nursery schools, incorporating them into EYSFF has presented particular challenges. These challenges are generally as a result of historic differences in funding. Maintained nursery schools also tend to have higher management, administration and premises costs than maintained nursery classes, principally because these costs are not shared across the higher number of pupils that are found in typical infant/primary schools. The experience of the pilot authorities can be summarised as follows:

- The nursery school 'context' in each LA played a significant role in determining how the EYSFF was calculated and applied. The LAs needed to consider the role of the schools, for example, if they were deliberately located in areas of high deprivation and were meeting a particular need in those areas. If that were the case, higher levels of funding should be driven by a combination of basic entitlement and deprivation factors;
- Most of the pilot authorities found that nursery schools needed to be funded at a higher rate due to their higher costs and unavoidable costs such as the legal requirement to have a Headteacher;
- The pilot authorities are still generally funding nursery schools at a higher rate than other settings, either directly through an enhanced hourly rate, or through lump sums and/or sector-related supplements, although this is not universally the case;
- The pilot authorities have taken time to work with their nursery schools on an individual basis to help them prepare for the new funding arrangements;
- The pilot authorities have considered other options for reducing costs (management costs in particular) as part of the development of the EYSFF and other developments in Early Years Education e.g. co-location with Children's Centres, and/or mergers or federations with other maintained schools.

The following examples from the pilot authorities illustrate some of these experiences:

- North Yorkshire has just three nursery schools, all of which are linked to Children's Centres. Funding was previously on a place-led basis, so the transition to a participation-based EYSFF has presented particular challenges. For the three nursery schools, the average hourly rate is approximately 36% higher than the rate for maintained nursery classes and independent schools, and 50% higher than the rate for PVI day nurseries. The nursery schools also receive funding for their Children's Centre functions, some of which will cover shared costs e.g. management roles and premises. To support the schools which are losing funding under the EYSFF, the LA has introduced a three-year transitional arrangement, which moves settings from the current funding to the new funding in equal step-changes by 2011/12;

- Derby had recently reviewed places in nursery schools and also moved away from place-funding in maintained settings. It was therefore relatively straightforward to develop an hourly rate for nursery schools. The hourly rate reflects premises, teaching and management costs, and also takes into account other income received by maintained settings. For maintained nursery schools, the hourly rate was 75% higher than the rate for maintained nursery classes, and 50% higher than the rate for full day care settings.

In determining funding for nursery schools and/or Children's Centres under the EYSFF, LAs should:

- Ensure that the costs of maintained nursery schools have been examined fully as part of the cost analysis;
- Identify any existing differences in funding between individual nursery schools prior to the development of the EYSFF;
- Ensure that all links with the schools funding formula are properly understood, and that all relevant funding sources are reflected in the EYSFF;
- Review places and participation across the maintained sector – it may be necessary to address surplus place issues as part of the development of the EYSFF;
- Ensure, in all cases where the outcome of the EYSFF is a higher rate for nursery schools than other forms of provision, that there is a clear rationale for doing so;
- Avoid large lump sum supplements where possible, particularly if they are not cost-reflective, and simply perpetuate existing funding differences;
- Work closely with any setting that will see substantial reductions in their funding.

Consider a range of possible solutions to mitigate the impact of reducing funding and ensure the presumption against closure of nursery schools is fully supported e.g. shared management costs, measures to increase participation levels, co-location with Children's Centres and/or other services.

## **APPENDIX 7: Impact, Transition and Review – including Learning from the Pilots**

The introduction of the EYSFF may create some turbulence in providers' funding levels. For those LAs which previously funded their maintained provision on places, the impact of the change to participation-led funding alone is likely to be significant. Other fundamental changes, including bringing all settings within a single funding mechanism, and the introduction of specific supplements such as deprivation funding, are also likely to have an impact on settings' funding levels.

LAs must therefore undertake an impact assessment of the effect of the EYSFF for every setting. This assessment could take different forms, depending on the degree of turbulence expected, and could extend beyond the immediate early years arena if there are changes to other DSG-funded activities at the same time (such as a change to the formula for allocating school budget shares). Authorities should model the impact of each specific change that they make, distinguishing for example between the impact of the formula change, the impact of the introduction of fifteen hours of free entitlement, and the impact of any other change that may be considered. The overall aims of the assessment should include:

- Giving assurance that the overwhelming majority of settings will be able to cope with changes caused by the new arrangements;
- Identification of which settings may be affected adversely by the changes, and to consider whether or not additional support may need to be provided;
- Consideration of whether any settings will benefit to an unreasonable extent from the changes, and to consider whether such benefit should be limited; and
- Consideration of the effect on capacity and parental choice.

All the implementing authorities in the study have undertaken impact assessments in implementing their EYSFF, and have shared the outcome with their providers through the consultation process. In a number of cases, the outcome of the impact assessment and subsequent consultation has led to changes in the proposed EYSFF and a review of the impact assessment, which was again shared with providers before implementation.

Where there have been significant shifts in funding, pilot authorities have put in place appropriate transition measures – which are covered in more detail below – to ensure that a setting does not see a sudden fall in funding levels, but that the transition is carefully managed to ensure their continued viability and sustainability.

In some cases, this has been achieved through a gradual reduction in their funding levels over a three year period. In some pilot authorities additional funding has been allocated to early years from total DSG levels. Such increases

have both permitted increases in the level of funding for PVI settings to a level nearer to that of maintained settings, and have reduced the need for protection for the maintained sector.

### **Greenwich**

Greenwich has undertaken a detailed assessment of the impact of the EYSFF, and has implemented a two-year transition arrangement designed to ensure that all issues are resolved at the start of the next three year budget cycle.

The impact assessment was made more complicated as a result of the LA's long history of funding additional hours/full-time places for nursery-age children. As a first step to addressing this issue, new criteria for accessing additional hours have been developed, and there will be transition over two years to enable full-time places to be better targeted to specific need.

The impact assessment also demonstrated that maintained nursery classes would see the biggest reductions in their funding, primarily as a result of moving from place-led to participation-led funding. These settings will be protected from the impact of the change through a guarantee of at least 80% of their 2008-09 allocation in 2009-10, and 75% in 2010-11. From 2011-12 they will receive the actual funding level calculated by the EYSFF.

Additional funding of around 1.7% of previous EY funding levels was calculated to be required in the PVI sector to support the new funding levels which was found from headroom in the DSG. No other transitional arrangements were therefore required for this sector.

In very exceptional cases, where the EYSFF impacts on the sustainability provision, it may be necessary to provide further support and Greenwich are considering these cases on a setting-by-setting basis.

### **North Somerset**

The LA based its EYSFF on a needs-based, activity-led approach. The overall model adopted was calculated to cost 8.5% more than the existing funding for the PVI sector, taking into account the new supplement for social deprivation. The Schools Forum supported an increase in the overall early years budget in January 2008, for implementation in April 2009, and the LA was then able to consult with all providers knowing that the overall level of funding would not be an issue. The impact assessment indicated that all PVI settings would receive an increase in funding, assuming the same levels of participation as in the previous year. As a consequence, there was no need for transitional arrangements for the PVI sector.



The impact assessment also demonstrated that the maintained sector nursery classes would lose funding, and this has led to a change in maintained provision:

- The LA removed surplus places in the maintained sector – all of the schools that have nursery classes agreed to reduce the number of places;
- All maintained settings are based on the same multiples of places – 26 – rather than the range of different place levels that existed historically;
- The practice of a lengthy lead-in time for three and four year olds under which it was common for children not to take up the full entitlement until the second term has been ceased; and
- The single point of intake into schools in September of each year has been changed so that nursery classes now admit three and four year olds each term.

### ***North Yorkshire***

The impact assessment highlighted two key issues:

- The maintained sector, and in particular nursery classes, will lose funding under the new arrangements, mainly because of the move away from place-led funding;
- The impact of the enhanced flexible entitlement on the income of certain settings, especially full day nurseries and independent schools generated concern.

The LA originally wanted transition to the EYSFF funding levels over four years, but after discussion with the DCSF, it was agreed to implement a three year transitional arrangement. The transitional funding arrangement works as follows:

- In 2009-10 a setting which loses funding will receive the funding determined by the EYSFF plus 80% of the difference between the funding it would have received under the previous funding mechanism and the EYSFF;
- A setting which gains funding will receive the funding determined by the EYSFF less 80% of the difference between the funding it would have received under the previous funding mechanism and the EYSFF;
- In 2010/11 the principle will be the same, but the percentages will move to 60%;
- In 2011/12 the principle will be the same, but the percentages will move to 40%;
- In 2012/13 the EYSFF will apply in full.

The greatest impact in the pilot LAs has been on the maintained sector, particularly where place-led funding was used, and where occupancy levels have been low. In addition, moving to participation-led funding can add to the funding shortfall where schools have allowed long 'lead-in' times for children.

As a consequence, the pilot LA's have built transitional mechanisms into their formula to allow a staged progression to the new funding levels. The MFG can offer transitional protection to schools, but is presently under review as a part of the wider DSG Review and should not therefore be relied on as a simple solution to the transitional issue. Some pilot LA's have agreed to exclude early years funding from the MFG calculation. However, for the PVI sector which has always been participation-led funded, the impact has generally been positive.

Finally, the introduction of the EYSFF should not be seen as the end of the process. The formula will need to be kept under review as a matter of good practice, but in the first years of the new formula this is especially true. The impact of the formula over the first year should be monitored and if changes are required then these should be recognised in time to consider and consult upon change for 2011. The way that it was envisaged that the formula would work and the way that it actually works could be different and the earlier that changes can be made the better for providers.





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