

**SCHOOLS FORUM****Early Years Single Funding Formula****21 February 2013****Purpose of Report**

1. The purpose of this paper is to set out the proposed changes to the Early Years Single Funding Formula (EYSFF). Changes are required in respect of the deprivation element which is mandatory as a result of school funding reform and for quality to reflect the views of providers.
2. The current EYSFF was approved by the Schools (Funding) Forum on 27<sup>th</sup> January 2011. Schools Forums remain responsible for approving changes to the formula.

**Recommendation**

3. That Schools Forum approves the implementation of Option 2 as set out in the report for funding three and four year olds.
4. That Schools Forum note the single rate to be paid in to providers for the two year old offer.

**Introduction**

5. Local authorities have a duty to review their EYSFF annually, for childcare providers in receipt of the Free Early Education Entitlement (FEEE – formerly known as Nursery Education Funding), ensuring it reflects changes in Government initiatives and remains relevant to the childcare sector. This report outlines mandatory changes to the deprivation supplement and some possible changes to the quality supplement.

**Background**

6. Leicestershire first implemented its EYSFF in April 2011, as part of a Government initiative to align the distribution of funding between the Private, Voluntary and Independent (PVI) sector with that of the maintained sector, moving away from place led to participation led funding. It also acknowledged the costs associated with operating a quality provision in a mixed market. Leicestershire currently has 380 PVI providers and one maintained, within the childcare sector.
7. The current formula gives a base rate for all PVI settings of £3.46 per child hour and a rate of £6.52 for its one maintained setting. Whilst, as for schools, the formula can differentiate between types of provider, all like providers must be funded in the same manner. The variation on these two rates, was required to ensure that for the maintained setting the rate reflected the differences in cost bases i.e a maintained setting must have a Headteacher that isn't required within a PVI setting.

The formula currently includes a mandatory Deprivation Supplement, using data from the Income Deprivation Affecting Children Index (IDACI) based on the

provider's address, School Funding Reform affects this requirement as the formula for 2013/14 must be based upon the child rather than the setting at which they receive their entitlement. The formula also includes a non-mandatory Quality Supplement implemented to ensure that quality provision was incentivised.

### **Current position**

8. For PVI providers, the formula is made up as follows:
- |                         |   |
|-------------------------|---|
| Base Rate:              | <b>£3.46 per hour</b>                             |
| Deprivation Supplement: | <b>between 0.01 and 0.10 pence per child hour</b> |
| Quality Supplement:     | between 0.00 to 0.06 pence per child hour         |

### **Proposals**

9. The School Funding Reform, requires local authorities to continue a deprivation factor within the formula but that it should be based upon data pertinent to the child rather than the setting at which they attend.
10. The Early Learning and Childcare Service (ELCS) consulted with childcare providers as part of its annual EYSFF review, to ensure that the quality supplement continued to reward quality in the most appropriate way. This resulted in option two (see Appendix 1). This option was seen by providers as a positive move to promoting and incentivising quality in early years provision.

### **Options**

11. **Option 1**  
The only change would be based on changing the deprivation factor to the child's postcode as required by school funding reform.
- |                         |   |
|-------------------------|---|
| Base Rate:              | <b>£3.46 per hour</b>                             |
| Deprivation Supplement: | <b>between 0.01 and 0.10 pence per child hour</b> |
| Quality Supplement:     | <b>between 0.00 to 0.06 pence per child hour</b>  |
12. 13 (3.4%) of Leicestershire's early years providers have closed or find themselves in significant financial difficulty during the period 2012-2013. By not reinvesting the proportion of the budget saved on deprivation, this situation is unlikely to improve. This evidenced through work undertaken by the ELCS Business Development Advisors and early years providers, where it has become apparent that there are an increasing number of provisions using reserve monies to support the day to day running of their business.
13. **Option 2**  
(with the quality supplement refocused – see appendix one)
- |                         |  |
|-------------------------|--|
| Base Rate:              | <b>£3.46 per hour</b>                            |
| Deprivation Supplement: | <b>between 0.01 to 0.10 pence per child hour</b> |
| Quality Supplement:     | <b>between 0.00 to 0.07 pence per child hour</b> |
14. Option 2 allows the local authority to support Leicestershire's early years sector by re-directing as much funding as possible to those providers who are making significant quality improvements. This option is cost neutral

15. The remodelling of the EYSFF has been completed within the current budget envelope. Should participation levels increase then additional cost arising from these changes will be offset against other savings within the overall ELCS budgets.
16. Option 2 appropriately reflects the changes mandatory requirement in respect of deprivation as required under school funding reform, it also reflects the comments of providers made within the formula review in relation to incentivising quality.

#### **Funding 20% Most Deprived 2 Year Olds**

17. Local authorities are required to offer free early learning to the 20% most deprived pupils from September 2013 and funding has been transferred from the early Intervention Grant (EIG) to DSG to meet the costs. Local authorities are able to adopt a formula to fund this provision, however given that this funding is targeted specifically at deprived children it is not appropriate to use the formula for funding three and four year olds given this has an element to reflect deprivation across the wider provider group. As such a single rate of £4.85 per child per hour will be paid.

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**The Current formula:**

The base rate for the current formula is £3.46. This applies to all PVI settings. The base rate for Leicestershire's maintained setting is £6.52.

**Quality Supplement:**

The current quality supplement looks at 4 distinct quality indicators:

- OfSTED Grading
- Level 6 qualified staff employed
- Quality Category (internal review)
- % of staff qualified to level 3

Providers are awarded points on an equal weighting basis for each of the four criterion, i.e. a minimum of 0 and maximum of 10 for each criteria therefore a maximum of 40 in total.

The points accumulated for quality are then converted into a monetary value, as illustrated below:

Score points	£ paid per child hr	Score points	£ paid per child hr
35 to 40	0.06	20 to 24	0.02
30 to 34	0.05	10 to 19	0.01
25 to 29	0.04	9 to 0	0.00

**Deprivation Supplement:**

The current formula has been developed to recognise that Leicestershire has fluctuations across the county in respect of deprivation and awards settings, based on their Income Deprivation Affecting Children Index (IDACI) rating on a sliding scale to represent the additional costs that working in a deprived area may incur:

30% most deprived: £0.10 per child hour

40% mid deprived: £0.05 per child hour

30% least deprived: £0.01 per child hour

Base Rate: **£3.46 per hour**  
 Deprivation Supplement: **between 0.01 and 0.10 pence per child hour**  
 Quality Supplement: **between 0.00 to 0.06 pence per child**

**Mandatory changes to the EYSFF:**

The DfE, have, via Schools Funding Reform required LA's to incorporate a deprivation supplement based on the child's post code. This is a distinct shift for Leicestershire who have previously awarded a sliding scale of funding based on the IDACI scoring of the early year's provider.

Leicestershire will continue to use IDACI data in order to establish each individual child's rating, assigning a monetary value to the individuals IDACI score. A lump sum total for each provision will then be calculated and awarded to the provision on a termly basis based on the headcount information supplied.

The following supplements will be applied to calculate a lump sum payment:

Child falls into the 30% most deprived bracket: £0.10 per child hour

Child falls into the 40% mid deprived: £0.05 per child hour

Child falls into the 30% least deprived: £0.01 per child hour

Information on child postcodes taken from the Summer and Autumn 2012 terms headcount data, show that the local authority could save approximately £90,000 per academic year.

Please note that all of the proposals below are based on implementing the above change to the way in which the deprivation supplement is awarded and the savings associated with doing so.

### **Proposed revisions to the EYSFF**

#### Option 1

Maintain the current formula as described above, the only amendment would be the mandatory requirement to re- focus the deprivation supplement.

No changes would be proposed to the quality supplement, the only rise to the cost of implementation would be where provisions have increased their quality status.

Base Rate:	£3.46 per hour
Deprivation Supplement:	between 0.01 and 0.10 pence per child hour
Quality Supplement:	between 0.00 to 0.06 pence per child

#### Option 2

The ELCS recommends that the current base rate for the EYSFF, remains the same at £3.46 for PVI settings and £6.52 for Leicestershire's one maintained provision, with the following amendments to the way in which the Quality Supplement is formatted.

#### Quality Supplement:

Maintain the current quality supplement indicators with a view to reworking the scoring alignments and the weighting of the scoring in order to further support and incentivise quality in early years provisions

- OfSTED Grading
  - Outstanding = 10 points
  - Good = 5 points
  - Satisfactory / Inadequate = 0 points awarded
- Level 6 qualified staff employed
  - EYP / QTS Key Stage 1 = 10 points
  - Relevant foundation degree achieved / being undertaken and / or EYP status being undertaken = 5 points (all cases this supplement will be awarded to the setting where the relevant member of staff is leading on / influencing the delivery of the EYFS)
  - Where a member of staff may work across multiple settings they will be assigned to a maximum of 2 settings and the supplement will be awarded accordingly

- Quality Category (internal review)
  - QC of 1(Outstanding) = 10 points
  - QC of 2a-2c (Good) = 9-7 points
  - QC of 3a-3c / 4 (Satisfactory / Inadequate) = 0 points
- % of staff qualified to level 3
  - If 50% of staff are qualified to level 3 or higher = 10 points
  - If 49% of staff or lower are qualified to level 3 or above = 0 points
  - Staffing group to include volunteers if this is the predominant make up of staff.
  - Staffing group should not include administration or auxiliary staff

Providers are awarded points on an equal weighting basis for each of the four criterion, i.e. a minimum of 0 and maximum of 10 for each criteria therefore a maximum of 40 in total. The points accumulated for quality are then converted into a monetary value, as follows:

Score points	£ paid per child hr	Score points	£ paid per child hr
35 to 40	0.07	20 to 24	0.03
30 to 34	0.06	10 to 19	0.01
25 to 29	0.05	9 to 0	0.00

#### Recommendation

That Schools Forum are asked to approve the implementation of Option 2. If the above costs of implementing Option 2 are offset against the savings made due to the changes to the deprivation supplement this would still mean an overall saving of approximately £22,000, whilst the local authority would be seen to make significant concessions in the support of the delivery of high quality childcare, and would be seen to support the growing concern over the sustainability of early years providers and the increase in costs for over heads and staffing they all face.