

# **Single Funding Formula for Early Years Settings (EYSFF)**

## **Draft Consultation Document**

October 2009

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## Background

1. The Department for Children, Schools and Families (DCSF) requires all local authorities (LAs) to use a single local funding formula (EYSFF) for all providers of the free early years entitlement from April 2010. The purpose of the EYSFF formula is to address inconsistencies in how the free entitlement for 3 and 4 year olds is currently funded across maintained (nursery and lower schools) and private, voluntary and independent (PVI) providers. It will also support the extension and increased flexibility of the free entitlement (FFEE) to 15 hours per week based on children's participation (uptake of hours).
2. The DCSF has been working with eleven pilot LAs who agreed to implement the early years single funding formula (EYSFF) a year early (in April 2009) in order to identify the issues and provide good practice guidance for other LAs. The introduction of an EYSFF is intended to ensure consistency and fairness in the way that all providers of free nursery education and care are funded. It does not necessarily mean that providers will all be funded at the same level, but that the same factors should be taken into account when deciding on the level of funding.
3. The work of the pilot LAs informed the interim guidance provided by the DCSF and the core principles outlined in that document have now been updated. The interim guidance is available at [www.dcsf.gov.uk/everychildmatters/earlyyears](http://www.dcsf.gov.uk/everychildmatters/earlyyears) . The development of an EYSFF should:
  - Support effective and efficient distribution of resources at a 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
  - Provide incentives to improve the quality of provision and recognise ongoing costs associated with quality
  - Support the narrowing of achievement gaps and recognise additional costs associated with children from deprived backgrounds
  - Be clear and transparent.
4. 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 differences between sectors should be justifiable and demonstrable
  - The levels 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 including schools should be funded on the basis of uptake of provision (hours attended), not places. Participation must be counted on a termly basis, at the least, and this will be required in regulation

- 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 that final decisions on structure and operation of the formula should be made only after widespread consultation.
5. The EYSFF will operate within the terms of reference set out in the current national “Code of Practice on the Provision of Free Nursery Education Places for Three-and-Four-Year Olds”. The Code is currently being revised and a new draft will be consulted on during the Autumn 2009 prior to implementation in September 2010.
  6. The EYSFF **does** apply to:
    - All eligible three and four year olds attending PVI settings
    - All eligible three and four year olds attending nursery schools
    - 3+ and 3+ headcount children in lower school nursery units and classes
  7. The EYSFF does **NOT** apply to children that have been admitted to the main part of a lower school in the Reception Year (4+ headcount and 4+ statutory children).
  8. A key finding of the pilot project is the crucial importance of effective partnership working and establishing a local team from the outset that includes representatives from maintained nursery and lower schools, PVI representatives, local authority early years policy leads and schools finance personnel.
  9. The Early Years Reference Group which has representation from all these partners will be the key consultative and advisory group for the EYSFF. The Early Years Reference Group is a Sub Group of the Schools Forum the decision making body on financial matters relating to the early years entitlement, schools and post 16 funding.

### **Initial Consultation**

10. An initial consultation on the EYSFF was undertaken during the Summer Term 2009. The purpose of the consultation was to inform schools and settings of the issues, elements and funding factors associated with an EYSFF and to use the outcomes to inform the development of the EYSFF and the full consultation during the Autumn 2009.
11. Thirty six schools and settings responded to an Initial Consultation on the elements to be included in the EYSFF, the outcomes are outlined in Appendix A.

## The Funding “Pot” for the EYSFF

12. A total indicative funding “pot” of nearly £7 million has been identified for distribution to settings through the EYSFF in the 2010-11 financial year. The single funding “pot” is made up from the following elements:
- Early years funding for the Private, Voluntary and Independent sector (PVI)
  - Nursery schools budget
  - Lower schools budget:
    - Age Weighted Pupil Unit (AWPU) 3+ children
    - AWPU 3+ headcount children
    - Social deprivation element for 3+ and 3+ headcount children
  - Additional Summer term funding for lower schools for 3+ and 3+ headcount children
  - Insurance funding for 3+ and 3+ headcount children.
13. A notional Special Education Needs (SEN) budget for PVI settings based on 40% of Bedfordshire County Council’s 2009-10 SEN budget for the PVI sector has not been included in the above total for distribution through the EYSFF as supported by the responses to the Initial Consultation.
14. Funding factors in lower schools which are unaffected by the EYSFF include:
- School meals as this is based on statutory aged children and above
  - Infant Class Size as this is based on children aged 4+ headcount to 6+
  - Small Schools Protection as it is based on 4+ headcount to 8+ children
  - Personalisation / HILLN as this is based on children aged 5+ to 8+.

## The Formulae

15. Four formulae have been developed for consultation purposes and each of these has a different impact on schools and settings. Appendix B sets out:
- A summary of the impact of each Model A, B, C and D on all settings and the level of protection required for nursery and school lower schools. Appendix B(i) shows the impact on total lower school budgets and Appendix B (ii) the impact on the early years element of their funding. Lower schools are divided into two groups, those with early years children affected (3+ and 3+ headcount) and those without early years children affected (4+ headcount and 4+ statutory). Both sheets set out:
    - 2009-10 actual and 2010-11 indicative budgets
    - 2010-11 indicative recalculated budget using uptake per hour as opposed to the age weighted pupil unit (AWPU)
    - 2010-11 recalculated indicative MFG – shows the amount of support provided by the MFG (see paragraph 30)
    - For each of the models – the total funding allocation is indicated, the total movement of funding with MFG support and the amount of MFG support. (Please note further comments on total movement are shown at the bottom of the spreadsheets).
16. It should be noted that the implementation of the different EYSFF options as set out below may have a potential impact on choice and availability of places due to 3 and 4 year old funding in the maintained sector being adversely affected when compared to the PVI sector.
17. The starting point for the redistribution of the funding “pot” is the use of £3.60 as the base rate. This is the current hourly rate for the PVI sector.

18. The overall impact of the introduction of any of the EYSFF models will be to move funding from the maintained to the PVI sector. The use of a Social Deprivation factor support increases in some PVI settings and the redistribution of funding through Models B and D also has a mainly positive impact. Whilst some lower schools are adversely affected, the main impact is on the nursery schools. If Models C and D are implemented it is difficult seeing the nursery schools continuing to operate in their current format.

19. All modelling has been undertaken on actual uptake of children's hours during 2009-10, see below:

#### Option A

<b>Base rate £3.60 per hour x hours uptake per child</b>	<b>+</b>	<b>Social deprivation supplement x average hours uptake per child</b>	<b>+</b>	<b>Nursery school lump sum</b>	<b>+</b>	<b>Interim nursery and lower school budget protection</b>
A single base rate for all providers		Average hours (12.5 hours) of number of children attending setting in three bands <ul style="list-style-type: none"> <li>• Those living in 0-30% most disadvantaged local super output areas (LSOAs) – 20p</li> <li>• 31-60% LSOAs – 10p</li> <li>• 61-100% LSOAs – 0p.</li> </ul>		An amount to help to cover the specific costs a nursery school incurs		Full protection to nursery and lower schools in financial year 2010-11 provided by MFG, then at similar levels reducing by one-third in each financial year, until there is no transitional protection from the beginning of the 2013-14 financial year

#### Option B

<b>Base rate £3.30 per hour x hours uptake per child</b>	<b>+</b>	<b>Social deprivation supplement x average hours uptake per child</b>	<b>+</b>	<b>Other funding factors:</b>	<b>+</b>	<b>Interim nursery and lower school budget protection</b>
				<ul style="list-style-type: none"> <li>• Lump sum for nursery schools</li> <li>• Lump sum for PVI administration</li> <li>• PVI rent &amp; rates</li> <li>• NS &amp; PVI utility costs</li> </ul>		
As above but lower to accommodate the distribution of funding to other funding factors		As above, Option A		<ul style="list-style-type: none"> <li>• Lump sum for nursery schools as above</li> <li>• A lump sum for PVI administration based on £100 for all settings plus 10p per</li> </ul>		As above, Option A

				hour uptake <ul style="list-style-type: none"> <li>• PVI rent, rates and premises costs at 10p per hour uptake</li> <li>• Nursery school and PVI utility costs at 10p per hour uptake.</li> </ul>	
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**Option C**

<b>Base rate £3.60 per hour x hours uptake per child</b>	+	<b>Social deprivation supplement x average hours uptake per child</b>	+	<b>Interim nursery and lower school budget protection</b>
As above, Option A		As above, Option A		As above, Option A

**Option D**

<b>Base rate £3.30 per hour x hours uptake per child</b>	+	<b>Social deprivation supplement x average hours uptake per child</b>	+	<b>Other funding factors:</b> <ul style="list-style-type: none"> <li>• Lump sum for PVI administration</li> <li>• PVI rent &amp; rates</li> <li>• NS &amp; PVI utility costs</li> </ul>	+	<b>Interim nursery and lower school budget protection</b>
As above, Option B		As above, Option A		As above, Option B without nursery school lump sum		As above, Option A

**Elements included in the Funding Formulae**

20. All four funding formulae use a fixed base rate with an additional Social Deprivation Supplement. The Social Deprivation Supplement is supported by a clear majority of schools and settings in the Initial Consultation and subsequently the DCSF has made the Social Deprivation Supplement a statutory requirement. The position concerning the implementation of a differentiated base rate is less clear and, therefore, as stated above a common rate of £3.60 per hour has been used as a starting point.
21. The Social Deprivation Supplement uses the Index of Multiple Deprivation (IMD) to identify the postcodes of children living in the 30 % most disadvantaged Local Super Output Areas (LSOAs) and schools / settings they attend in 3 bands as above. The calculation is based on January 2008 numbers.
22. Option A also includes a lump sum for Nursery Schools of £65K. A clear majority of schools and settings supported the inclusion of this lump sum.
23. The base rate for Option B is lower than Option A to take account of the inclusion of other funding factors as follows:
  - A lump sum for nursery schools

- A lump sum for PVI administration based on £100 for all settings plus 10p per hour uptake
- PVI rent, rates and premises costs at 10p per hour uptake
- Nursery school and PVI utility costs at 10p per hour uptake.

24. A lump sum for PVI administration was widely supported in the Initial Consultation. The methodology for calculation used above takes into account an element (£100) for all PVI providers plus 10p per hour uptake of provision. A factor for PVI rent, rates and premises costs was also supported. The uptake methodology has also been used for this factor and likewise for an additional factor for utility costs for nursery schools and PVI settings. Lower schools have not been included in the utility cost element because they will continue to be funded for this through their existing formula.

25. Options C and D are similar to A and B respectively but with the exclusion of the nursery school lump sum element. As stated above the exclusion of the nursery school lump sum would seriously undermine the position of the nursery schools.

### **Elements not included in the Funding Formulae**

26. The following factors have not been included in the EYSFF:

- Qualified teachers and nursery nurses in the maintained sector
- Children with Special Educational Needs (SEN)
- Free schools meals
- Sustainability.

27. Whilst a majority of settings supported a factor for both teachers and nursery nurses in the maintained sector and a quality factor in the non-maintained sector several providers found the latter too complicated and without an accurate information gathering process difficult to implement. The quality factor based on the employed of a graduate offered a compromise which could be more easily supported by the collection of accurate information (see paragraph 26 below). It is suggested that a simplified factor that recognises a quality element will be introduced from April 2011 when further research has been undertaken.

28. A clear majority of providers supported the retention of the current processes for allocating funding for children with SEN and Free Schools Meals. It is also suggested that the current funding process for sustainability is retained.

### **Other Funding Factor Issues**

29. It is suggested that a quality element based on the actual employment or commitment to employ a graduate through the Graduate Leadership Fund is introduced from April 2011 following further research to ensure accurate collection of information. This simplified element for quality would provide for the DCSF's suggestion that it should be included in the EYSFF and would replace the more complicated version for the PVI sector in the Initial Consultation and the element for Qualified Teachers and Nursery Nurses in the Maintained sector. For a quality factor to be introduced the base rate for any of the options would need to be reduced, possibly by 10p. It should be noted that the redistribution of this 10p contingency for quality will result in settings in the PVI sector receiving differentiated amounts related to the employment of a graduate from April 2011.



30. The LA is required to operate the Minimum Funding Guarantee (MFG) for all maintained schools in the financial year 2010-11. The DCSF will decide in the near future whether or not this MFG process will continue into 2011-12 and onwards. The MFG guarantees each maintained school a minimum percentage increase in the funding, per pupil, it receives. For 2010-11 this is 2.1% compared to the funding in 2009-10. Given that this is a legal requirement for the LA to implement, no maintained school can suffer a reduction in the per pupil funding it receives in 2010-11, the first year of operation of the EYSFF. Whichever model, within the consultation document, is finally agreed nursery schools will have significant reductions in their EYSFF allocations compared to their existing school budget allocations. It is suggested that there is transitional protection for nursery and lower schools over the maximum of three years as allowed by DCSF. This will take the form of a factor to provide full protection to nursery and lower schools in financial year 2010-11 (which the MFG process as described above would provide in any event), reducing by one-third in cash terms each financial year, until there is no transitional protection from the beginning of the 2013-14 financial year. It is intended that the amount released year by year from the decrease in transitional protection (up to £580,000 in total by 2013-14 depending on the model chosen) will go back into the total pot for distribution through the base rate, the social deprivation factor and the other funding factors for all settings.
31. The PVI sector will continue to be funded as they are currently, namely, termly on children's uptake of hours. Schools' annual budget for the Early Years will be based on January uptake of children's hours. However, it is proposed that schools will be counted termly and any adjustments due to fluctuation in numbers will be made in the next financial year. A contingency amount has been included in each model to allow for this.

### Consultation Timetable

32. The timetable for the introduction of the EYSFF is as follows:

Date	Activity
September 2009	Results of initial consultation analysed and presented to Early Years Reference Group and Schools Forum
September 2009	Draft Consultation Document including proposed draft formula and impact assessment to Early Years Reference Group and School Forum
2 to 30 November 2009	Final consultation period for all stakeholders
2, 3, 17 and 18 November 2009	Consultation events for schools and settings
December 2009 – January 2010	Outcomes of Consultation presented to Early Years Reference Group and Schools Forum
April 2010	Implement of EYSFF

### Glossary

33. Please find a glossary of the terms used below:

Term	Meaning	Description
<b>AWPU</b>	Age Weighted Pupil Unit	A factor used in local authority funding formulae to distribute different amounts of funding for pupils of different ages

<b>Code of Practice</b>		Code of Practice on the Provision of Nursery Education Places for Three and Four Year Olds, 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
<b>DCSF</b>	Department for Children, Schools and Families	The Government Department responsible for early years education and schools
<b>Early Years Reference Group</b>		The consultation group for matters relating to the early years entitlement with representation from lower and nursery schools, pre-schools and playgroups, childminders, private and independent providers, and local authority elected members and officers
<b>EYSFF</b>	Early Years Single Funding Formula	The agreed acronym for the new single funding formula
<b>FFEE</b>	Free Flexible Extended Entitlement	The free entitlement is being extended to 15 hours and made available flexibly over a minimum of three days from September 2010 (from September 2009 for the 25% most disadvantaged children)
<b>Impact Assessment</b>		Assessment of change to each individual setting within a local authority, for example, the positive or negative financial or pupil number impact
<b>IMD</b>	Index of Multiple Deprivation	The 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
<b>ISB</b>	Individual Schools Budget	The sum of the delegated budgets of all schools in a local authority
<b>LSOAs</b>	Local Super Output Areas	Local authority wards are divided into smaller areas known as Local Super Output Areas
<b>Maintained providers</b>		All nursery and lower schools providing the early years free entitlement
<b>Non-maintained providers</b>		All private, voluntary and independent settings providing the early years free entitlement including private day nurseries, pre-school, playgroups, childminders and independent schools
<b>Participation</b>		The level of attendance at a setting on which funding of the free entitlement is based
<b>Personalisation / HILLN</b>	High Incidence Low Level Need	This relates to funding for children with special educational needs which are of a high incidence and a low level need
<b>Perverse incentives</b>		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
<b>Reception Year</b>		Those children who have their fifth birthday between the 1 September and 31 August in a school year
<b>SBS</b>	School budget share	The share of the ISB that an individual school receives

<b>Schools Forum</b>		The local authority statutory body which oversees the allocation of funding to early years providers, schools and post 16 education providers
<b>SEN</b>	Special Educational Needs	Children with special educational needs or a disability
<b>Social Deprivation Funding</b>		Funding to support children from socially deprived backgrounds so as to promote their opportunity to achieve at equivalent levels to other children
<b>Statutory aged children</b>		Children become of statutory school age in the term following their fifth birthday
<b>Summer term adjustment</b>		The additional funding lower schools receive based on the net leavers and starters of 3+ and 3+ headcount children

### Early Years Reference Group

34. Members of the Early Years Reference Group are as follows:

Valerie Wang	Kingsmoor Lower School	<a href="mailto:kingsmoorlower@schools.bedfordshire.gov.uk">kingsmoorlower@schools.bedfordshire.gov.uk</a>
Anne Bell	Headteacher, Willow Nursery School	<a href="mailto:willownursery@schools.bedfordshire.gov.uk">willownursery@schools.bedfordshire.gov.uk</a>
Ann Burton	Orchard School	<a href="mailto:ann.burton@orchardschool.org.uk">ann.burton@orchardschool.org.uk</a>
Shirley Crosbie	Headteacher, Glenwood Special School	<a href="mailto:glenwoodschool@schools.bedfordshire.gov.uk">glenwoodschool@schools.bedfordshire.gov.uk</a>
Karen Finney	Early Years Strand Leader	<a href="mailto:karen.finney@central.bedfordshire.gov.uk">karen.finney@central.bedfordshire.gov.uk</a>
Dawn Hill	Schools' Finance Manager	<a href="mailto:dawn.hill@centralbedfordshire.gov.uk">dawn.hill@centralbedfordshire.gov.uk</a>
Sue Howley	Chair of Governors, Greenleas Lower and Fairfield Lower	<a href="mailto:suehowley@talktalk.net">suehowley@talktalk.net</a>
Sharon Ingram	Hadrian Lower School	<a href="mailto:hadrianlower@schools.bedfordshire.gov.uk">hadrianlower@schools.bedfordshire.gov.uk</a>
Heather Knox	Childcare Development Team Leader	<a href="mailto:heather.knox@centralbedfordshire.co.uk">heather.knox@centralbedfordshire.co.uk</a>
Carol Leggatt	Woodentops Pre-school	<a href="mailto:carol.leggatt@tinyworld.co.uk">carol.leggatt@tinyworld.co.uk</a>
Gezim Leka	Senior Schools Finance Adviser	<a href="mailto:gezim.leka@centralbedfordshire.gov.uk">gezim.leka@centralbedfordshire.gov.uk</a>
Cllr Anita Lewis	Portfolio Holder, Children's Services	<a href="mailto:anita.lewis@centralbeds.gov.uk">anita.lewis@centralbeds.gov.uk</a>
Colin Phelps	Headteacher, St Mary's VC Lower School, Stotfold	<a href="mailto:stmarysstotfold@schools.bedfordshire.gov.uk">stmarysstotfold@schools.bedfordshire.gov.uk</a>
Mark Southwood	National Childminding Association	<a href="mailto:mark.southwood@ncma.org.uk">mark.southwood@ncma.org.uk</a>
Clare Stimpson	School Improvement Adviser	<a href="mailto:clare.stimpson@centralbedfordshire.gov.uk">clare.stimpson@centralbedfordshire.gov.uk</a>

Bob Thompson	Early Years Consultant	<a href="mailto:bob.thompson1947@btinternet.com">bob.thompson1947@btinternet.com</a>
Sue Tyler	Head of Early Childhood Intervention and Prevention	<a href="mailto:sue.tyler@centralbedfordshire.gov.uk">sue.tyler@centralbedfordshire.gov.uk</a>

Please detached and return the completed consultation below to Bob Thompson, Early Years Consultant, Princeton Court, Pilgrim Centre, Brickhill Drive, BEDFORD MK41 7PZ or email to [bob.thompson1947@btinternet.com](mailto:bob.thompson1947@btinternet.com) by Monday 30 November 2009.

Thank you for your co-operation.

Please tick the relevant box for formula proposed.

### Formula Options

Formula Options
<b>Option A</b> <ul style="list-style-type: none"> <li>• Base Rate £3.60 per hour x hours uptake of children</li> <li>• Social deprivation supplement x average hours uptake of children</li> <li>• Nursery school lump sum</li> </ul>
<b>Option B</b> <ul style="list-style-type: none"> <li>• Base Rate £3.30 per hour x hours uptake of children</li> <li>• Social deprivation supplement x average hours uptake of children</li> <li>• Other funding factors <ul style="list-style-type: none"> <li>○ Lump sum for nursery school headteachers</li> <li>○ Lump sum for PVI administration £100 plus 10 per hour uptake</li> <li>○ PVI rent, rates and premises at 10p per hour uptake</li> <li>○ Nursery school and PVI utility costs at 10 per hour uptake</li> </ul> </li> </ul>
<b>Option C</b> <ul style="list-style-type: none"> <li>• Base Rate £3.60 per hour x hours uptake of children</li> <li>• Social deprivation supplement x average hours uptake of children</li> </ul>
<b>Option D</b> <ul style="list-style-type: none"> <li>• Base Rate £3.30 per hour x hours uptake of children</li> <li>• Social deprivation supplement x average hours uptake of children</li> <li>• Other funding factors <ul style="list-style-type: none"> <li>○ Lump sum for PVI administration £100 plus 10 per hour uptake</li> <li>○ PVI rent, rates and premises at 10p per hour uptake</li> <li>○ Nursery school and PVI utility costs at 10 per hour uptake</li> </ul> </li> </ul>

Option A

Option B

Option C

Option D

**Comments:**

**Appendices:**

- Appendix A - Outcomes of the Initial EYSFF Consultation
- B (i) - Summary of Providers/Setting Total Budgets per model
- B (ii) - Summary of Early Years Funding Element per model  
(difference only applicable to Lower Schools only)