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**Manchester City Council  
Report for Resolution**

**Report to:** Children and Young People Overview and Scrutiny Committee -  
14 December 2010  
Executive - 22 December 2010

**Subject:** Early Years Single Funding Formula

**Report of:** Director of Children's Services

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### Summary

In 2007 the Government announced proposals to increase the free entitlement for 3 and 4 year old provision from 12.5 hours to 15 hours per week and to reform funding arrangements to develop an Early Years Single funding formula (EYSFF).

Manchester's (EYSFF) has previously been completed and consulted upon although it stopped short of going to Executive earlier this year when the previous Government postponed the formula implementation. The new Government has recently confirmed that the new formula should be implemented in April 2011. The statutory framework underpinning the EYSFF is the Schools Finance Regulations, which will be updated to require that by April 2011 all Local Authorities have met the following requirements:

- A consistent formula across all early years providers for the free entitlement.
- Funding on the basis of take-up of actual hours, rather than sessions or places.
- Funding based on a termly census, rather than an annual census.
- Place led funding provided only on a consistent policy across all sectors specifically to meet special education needs and support for children in need.

The EYSFF means funding for the maintained and private, voluntary and independent (PVI) sectors needs to be transparent and based on the same factors. Funding levels and funding methodologies do not have to be exactly the same for all providers but any differences must be justifiable and demonstrable. It is intended that this will help Authorities to demonstrate that there is a level playing field between maintained and PVI providers.

The purpose of this report is to:

- Explain the current arrangements for funding the free entitlement in each of the sectors.
- Recap on the proposed EYSFF which was consulted on during 2009.
- Provide a review of the outcome of the impact assessment and consultation responses.
- Recommend the proposed EYSFF to be implemented with effect from 1<sup>st</sup> April 2011 for approval by the Executive.
- Recommend transitional protection arrangements for providers losing out under the proposed EYSFF for approval by the Executive

- Set out the outstanding issues to be considered following implementation of the EYSFF in April 2011.
- Set out the planned next steps towards implementing a revised EYSFF on 1<sup>st</sup> April 2011.

### **Summary of major issues**

The proposed formula consulted on during 2009 has been revised and updated to take account of the consultation responses and an updated assessment of the impact on each early years provider, including the schools.

The changes made to the proposed formula following consultation are the increase of the hourly base rate for each type of provider and removal of the proposed supplement to promote flexibility in provision. This is because it is unlikely to have any significant impact, given how flexible most provision currently is. The hourly rates proposed mean that all providers in areas of higher deprivation will receive in excess of the current hourly rate, provided the Council's quality standard is maintained. Some providers in areas with lower levels of deprivation areas will receive slightly less than the currently hourly rate.

The impact assessment for maintained primary schools and nurseries is particularly important because it models the effect of moving away from funding on an annual amount per place to an hourly rate of funding based only on actual take up each term. The PVI sector providers are already funded on this basis. Schools with empty places and/or with fluctuating pupil numbers each term may be adversely affected by the formula compared to current funding levels. The result of the modelling of the impact of the proposed formula is a potential reduction in funding compared to 2010/11 for both Nursery Schools and around half of the primary schools. Around half of the potential reductions are less than £10k for each provider. Most providers in the PVI sector have a potential increase in funding compared to the current funding formula, in particular day care settings.

Protection arrangements already included in the existing schools funding formula are recommended to provide transitional protection for schools. The minimum funding guarantee provides a consistent level of funding between years where pupil numbers remain constant, also schools are protected for a loss in pupil numbers of up to 90% of the previous year's budget. While this is usually applied at total school level it is proposed that these protection arrangements are focused on the nursery funding during the transitional phasing in the EYSFF, for a one year period. The outcome of this is that around half of the primary schools attract protection and the maximum reduction identified in the modelling is £16k. For the nursery schools the potential reduction before protection is £108k and £80k, which after protection reduces to £52k and £37k respectively. Schools that are consistently full throughout the year and do not have empty places will gain from the revised formula.

The modelling of the proposed formula plus protection has confirmed that the proposals are affordable within the available budget for Early Years of £22m.

The revised proposed EYSFF was consulted on with Schools Forum in November and there were no objections to the proposals made. During the November the

proposed EYSFF, indicative impact assessments and briefings will be provided to all providers across all sectors, with opportunity to give feedback. The outcome of this will be notified to Executive Members at the meeting.

### Recommendations

The Executive is recommended to:

- Approve the proposed Early Years Single funding formula for implementation from the 1<sup>st</sup> April 2011.
- Approve transitional protection arrangements for one year for maintained providers.
- Approve an amendment to the Local Management of Schools funding formula to remove the current arrangements for nursery class funding in maintained primary schools and maintained nursery school funding and replace with the approved EYSFF with effect from 1<sup>st</sup> April 2011.

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### Wards Affected:

All

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Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	Funding for pupil related services is essential to support maintained schools and independent education settings to maximise the potential and life chances of the children in Manchester and so contribute to all the elements of the community strategy spine.
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

**Full details are in the body of the report, along with any implications for:**

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

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### Financial Consequences – Revenue

The modelling of the proposed formula plus protection has confirmed that the proposals are affordable within the available budget for Early Years of £22m.

### Financial Consequences – Capital

None.

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**Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

## 1.0 Introduction

- 1.1 Manchester's Early Years Single funding formula (EYSFF) has previously been completed and consulted upon in 2009/10 although it stopped short of going to Executive earlier this year when the previous Government postponed the formula implementation. The new Government has recently confirmed that the new formula should be implemented in April 2011.
- 1.2 The purpose of this report is to:
- Explain the current arrangements for funding the free entitlement in each of the sectors.
  - Recap on the proposed EYSFF which was consulted on during 2009.
  - Provide a review of the outcome of the impact assessment and consultation responses.
  - Recommend revisions to the proposed EYSFF in light of the above review.
  - Recommend transitional protection arrangements for providers losing out under the proposed EYSFF.
  - Set out the outstanding issues to be considered following implementation of the EYSFF in April 2011.
  - Set out the planned next steps towards implementing a revised EYSFF on 1<sup>st</sup> April 2011.
- 1.3 The modelling of the proposed formula plus protection has confirmed that the proposals are affordable within the available budget for Early Years of £22m. This budget is funded from the Dedicated Schools Grant (DSG) and is categorised as delegated funding to schools and PVI providers.
- 1.4 In addition to the £22m there is £3.4m Standards Fund grant funding to extend the free entitlement from 12.5 hours to 15 hours. However as the Council already provides 25 hours in the maintained sector from the DSG, the additional grant is not required to fund the increase. This is new money and has not been included in the overall Early Years funding envelope. It is expected that any continuation of this funding will be included in the Council' DSG allocation for 2012/13. For 2012/13, if confirmed, a proportion of this funding will be set aside for a contingency for growth in participation.
- 1.5 For this year the additional Standards Fund grant of £3.4m has released DSG to meet the cost of teaching and accommodation for an additional 600 reception places in primary schools, due to a surge number of four year olds requesting a school place. There is a one year time lag in the Council receiving funding for the growth in reception numbers. In the absence of this additional funding, an overspend on the DSG would have occurred which would have needed to be carried forward at the end of the financial year to offset against the 2011/12 DSG.
- 1.6 The revised proposed EYSFF was consulted on with Schools Forum in November and there were no objections to the proposals made. During the November the proposed EYSFF, indicative impact assessments and briefings

will be provided to all providers across all sectors, with opportunity to give feedback. The outcome of this will be notified to Executive Members at the meeting.

## **2.0 Background**

- 2.1 In 2007 the Government announced proposals to increase the free entitlement for 3 and 4 year old provision from 12.5 hours to 15 hours per week and to reform funding arrangements to develop an EYSFF.
- 2.2 The statutory framework underpinning the EYSFF is the Schools Finance Regulations, which will be updated to require that by April 2011 all Local Authorities have met the following requirements:
- A consistent formula across all early years providers for the free entitlement.
  - Funding on the basis of take-up of actual hours, rather than sessions or places.
  - Funding based on a termly census, rather than an annual census.
  - Place led funding provided only on a consistent policy across all sectors specifically to meet special education needs and support for children in need.
- 2.3 The EYSFF means funding for the maintained and private, voluntary and independent (PVI) sectors needs to be transparent and based on the same factors. Funding levels and funding methodologies do not have to be exactly the same for all providers but any differences must be justifiable and demonstrable. It is intended that this will help Authorities to demonstrate that there is a level playing field between maintained and PVI providers.
- 2.4 A Schools Forum Early Years sub group was formed to discuss and plan methodology to meet these developments. This group included representation from the PVI and maintained settings.

## **3.0 CURRENT ARRANGEMENTS**

### **Maintained Schools**

- 3.1 Funding for nursery classes in maintained primary schools and nursery schools is delegated as part of the funding formula for schools. The most significant factor driving funding in primary schools is the pupil count data from January census proceeding the financial year in which the budget relates. Primary schools also currently receive ghost funding for unfilled nursery class places based on the January census. Nursery schools are funded on place level basis. Like Primary schools they also receive a lump sum, site specific, additional education needs and free school meal funding. Nursery schools and nursery classes in primary schools are funded for up to 25 hours provision, which is beyond the legally required provision of 12.5 up to August 2010 and 15 hours from September 2010.

### Private, Voluntary and Independent Settings (PVI)

3.2 The PVI sector is funded on a flat hourly rate of £3.30 on the basis of actual take-up of places (i.e. number of sessions). Prior to September 2010 all providers were funding funded up to a maximum of 12.5 hours with the exception of 20% of settings based in the most deprived areas which received 15 hours as part of a pilot project to extend the free entitlement. Additional grant funding was received to extend this pilot. From 1<sup>st</sup> September all PVI providers will be funded for up to 15 hours per week. It has not been confirmed what additional grant funding will be received for this beyond the end of this financial year.

### 3.3 Current budget

In 2010/11 the planned budget for the 3 and 4 years old free entitlement across all sectors is £21.979m shown in the table below.

Sector	Number of providers	Budget 2010/11 £
Nursery School Allocation*	2	884,414
Nursery Classes Allocation*	127	17,361,913
PVI Providers Budget	149	3,732,740
<b>Total</b>		<b>21,979,067</b>

\* Does not include funding for Early Years Free School Meals

### 4.0 NEW FORMULA

4.1 The EYSFF is required to provide greater stability and an increased transparency of funding. Formula funding is designed to bring about an equitable allocation of resource between settings. The following factors are required to feature in the new formula:

- Hourly base entitlement
- Hourly supplements for additional factors related to need or incentive
- Number of hours of participation – method of counting must be consistent across sectors

4.2 Base Rates - The PVI cost analysis and actual cost base information from the maintained sector has been applied to the funding model to establish a basic rate per child hour for each sector.

4.3 There are different base rates used to represent the different types of settings within Manchester as follows:

**Council maintained schools**

- Nursery Schools
- Nursery Class in maintained primary school

**Private, voluntary, independent providers**

- Childminders
- Day Care
- Playgroups

- 4.4 Additional supplements to the base rates allow local authorities to reflect the needs of individual children and to prioritise funding for deprivation, quality and flexibility.
- 4.5 Deprivation - It is required to include deprivation as an additional factor or supplement. The data source proposed to measure deprivation is the Income Deprivation Affecting Children Index (IDACI). Funding will be allocated to settings based in the 50% most deprived areas, as measured under IDACI. Settings in more deprived areas receive a higher supplement. The formula uses band of rates referenced to the index by each provider's postcode. The bands consulted upon are below:
- 1% – 6% most deprived areas
  - 7% – 15% most deprived areas
  - 16% – 30% most deprived areas
  - 31% - 50% most deprived areas
- 4.6 Quality - The proposed formula includes a significant quality rate to reflect the Council's commitment to maintaining and improving high standards within early year's childcare. Providers who satisfy the Council's quality standards will receive the Quality Supplement.
- 4.7 It is proposed that initially all providers will receive the Quality supplement after which their performance will be assessed against the Council's Quality Assessment Framework, on a rolling basis. Providers that do not meet the Council's standard will be given sufficient time to improve, likely to be one year, taking into account progress and improvements over a period of time.
- 4.8 Flexibility – This supplement is to incentivise settings to offer the free entitlement in a flexible manner, whereby the more flexible the offer the higher the funding.
- 4.8 Participation - Under EYSFF all providers must be funded on the basis the number of hours of participation rather than sessions or places. The hours collated for funding purposes must be based on a count on a specific date in each term which is consistent across all sectors. All providers are required to be given indicative budgets prior to the start of the new financial year and those budgets will need to be adjusted throughout or at the end of the year for actual levels of participation. Funding will be paid to providers on an hourly rate per child basis.

4.9 To summarise the hourly rates consulted on are shown in the table below:

<b>EYSFF PROPOSED IN CONSULTATION</b>					
<b>Base Rate</b>	<b>Nursery</b>	<b>Nursery</b>	<b>Day</b>	<b>Play-</b>	<b>Child-</b>
Hourly Rate	<b>School</b>	<b>Class</b>	<b>Care</b>	<b>Group</b>	<b>minder</b>
	£3.10	£2.00	£2.05	£1.60	£1.15
<b>Quality</b>					
Hourly Rate	£1.15				
<b>Deprivation</b>	<b>IDACI level of deprivation (provider postcode)</b>				
	<b>1%-6%</b>	<b>7%-15%</b>	<b>16%-30%</b>	<b>31%-50%</b>	
Hourly Rate	£0.25	£0.18	£0.12	£0.05	
<b>Flexibility</b>	<b>Number of flexibility options offered</b>				
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	
Hourly Rate	£0.00	£0.30	£0.60	£1.00	

## 5.0 REVIEW OF IMPACT ASSESSMENT AND CONSULTATION RESPONSES

5.1 The consultation responses on the above formula have been considered, Appendix 3 provides the consultation responses. A revised impact assessment has been carried out to include a termly count for the maintained sector. In conjunction with the impact assessment, consultation responses and feedback from the pathfinder authorities, proposed changes to the EYSFF consulted on are set out in the paragraphs below:

### Removal of the flexibility supplement

5.2 The 2009 consultation did not model the financial impact of the flexibility supplement in the impact analysis. With the exception of playgroups most providers currently deliver three of the four scenarios (see 3.8) and that is reflected in their current cost base. From the results of the consultation it became evident that playgroups would find it difficult to provide additional hours and schools would not extend beyond the school day without exceeding the 25 hours. Therefore a flexibility supplement would not incentivise anything other than current delivery. It is proposed to remove the flexibility supplement and increase the base rates. As the flexibility supplement was not modelled as part of the consultation all the base rate changes reflect an increase in funding levels for all sectors.

### Change to base rates

5.3 Government guidance states that in determining funding for nursery schools under the EYSFF, local authorities must act to ensure that the change in funding is not the reason for the closure of provision. The initial base rate proposed of £3.10 did not cover the running costs for Nursery schools and would have led to providers requiring a lump sum allocation to remain operational or very quickly becoming unsustainable.

- 5.4 It is proposed that nursery schools base rates are increased to reflect their operation costs in order to ensure sustainability from £3.10 per hour to £6.10 per hour. This will prevent the need for a lump sum budget allocation which would be against the requirements of the formula to have transparency and consistency and provide little incentive for participation to be increased in these settings.
- 5.5 The maintained nursery class hourly base rate was re-visited in order to better reflect that schools operate with qualified teachers, management support from a head teacher and teaching assistants. To ensure sustainability of current provision following analysis of the impact assessment, it is proposed to increase that base rate from £2.00 to £2.35 per hour.
- 5.6 Feedback from the PVI sector showed great concern over the initial proposed bases rates on the playgroups and particularly childminders as it was argued that the rate would lead to these settings becoming unsustainable. The base rate was reviewed and it is proposed that the base rate for this type of setting is increased from £1.60 per hour to £2.05 per hour for playgroups and from £1.15 per hour to £2.00 per hour for childminders. The Day Care base rate has been increased from £2.05 to £2.30 to reflect the removal of the flexibility supplement.
- 5.7 The table below sets out the revised maximum hourly rates per type of setting:

<b>Setting</b>	<b>Proposed Base Rate</b>	<b>Quality</b>	<b>Deprivation</b>	<b>Total</b>
Nursery School	£6.10	£1.15	£0.25	£7.50
Nursery Class	£2.35	£1.15	£0.25	£3.75
Childminders	£2.00	£1.15	£0.25	£3.40
Playgroup	£2.05	£1.15	£0.25	£3.45
Day Care	£2.30	£1.15	£0.25	£3.70

- 5.8 The table below sets out the revised minimum hourly rates per type of setting, with the assumption that all settings would qualify for the quality supplement:

<b>Setting</b>	<b>Proposed Base Rate</b>	<b>Quality</b>	<b>Total</b>
Nursery School	£6.10	£1.15	£7.25
Nursery Class	£2.35	£1.15	£3.50
Childminders	£2.00	£1.15	£3.15
Playgroup	£2.05	£1.15	£3.20
Day Care	£2.30	£1.15	£3.45

- 5.9 The current hourly rate for the PVI sector is £3.30. Appendix 1 provides further information.

## **6.0 UPDATED IMPACT ASSESSMENT**

### **Introduction**

- 6.1 The impact assessment has been remodelled to include actual termly participation and the proposed changes above.

### **Maintained Sector – before any transitional protection**

- 6.2 The EYSFF is modelled based on actual termly census information for Summer 2009, Autumn 2009 and Spring 2010 using the proposed hourly rates in section 5.7. This has been compared to the current formula which is based on January (Spring) 2010 census only plus 70% protection for empty places. Therefore schools will have the impact of the new formula compounded by the effect of losing funding for empty places.

### Nursery Schools

- 6.3 Even after applying an hourly rate of £6.10 plus supplements there is a significant impact on the 2 nursery schools, with a potential reduction in funding of £186k based on the latest census information. This is due to nursery schools currently being funded on a place number basis and removal of the nursery lump sum.

### Nursery Classes

- 6.4 There is potential increase in funding of £179k overall across the sector. However there are some significant potential reductions in funding at individual school level. When analysed it was concluded that most of this arose due to the removal empty place funding. Another reason for some of the reductions was due to significant changes in the termly pupil counts compared to the single pupil count date of January 2010.

### **PVI Sector**

- 6.5 Overall there is a potential increase in funding to the PVI sector of £241k. In the PVI sector providers are already funded on the basis of termly participation. The current hourly rate is £3.30 and the majority of providers have the opportunity to attract more than this through the revised formula

### Day Care

- 6.6 Overall the day care sector could potential increase funding by £234k. The current hourly rate is £3.30 and all settings would receive £3.45 per hour before deprivation supplements are added provided the quality supplements is maintained.

### Playgroup and Childminders

- 6.7 Childminders and Playgroups overall are not affected significantly by the

revised formula, although there is a small impact at provider level depending upon whether or not the setting is located in an area of deprivation or not. Childminders and Playgroups located in an area which will not attract the deprivation supplements would only receive up to £3.15 and £3.20 per hour respectively, compared to those in the most deprived areas which would receive £3.40 and £3.45 per hour.

#### 6.8 Funding allocation for EYSFF compared to 2010/11

Sector	Impact based on existing formula £	Impact of proposed EYSFF £	Difference Increase/(decrease) £
<b>Maintained Sector</b>			
Nursery Schools	884,414	698,531	(185,883)
Nursery Classes	17,361,913	17,540,778	178,865
<b>PVI</b>			
Childminder	15,104	15,516	412
Day Care	2,726,001	2,960,406	234,405
Playgroup	384,866	391,261	6,395
<b>Total</b>	<b>21,372,298</b>	<b>21,606,492</b>	<b>234,194</b>

### 7.0 TRANSITIONAL PROTECTION

7.1 EYSFF guidance states that transition from the current funding mechanism will be planned, with transitional arrangements to smooth out the move to the new funding formula. The impact assessment has shown that the turbulence would be in the maintained sector. It is proposed that the minimum funding guarantee (MFG) mechanism is used to provide some protection for the loss in funding for empty places.

7.2 Nursery and primary schools are currently guaranteed year on year per pupil protection through the MFG. This provides a guarantee that schools would receive at least the same average amount per pupil received in the last financial year. To use the MFG to provide the necessary protection would require a change to the existing calculation mechanism. The comparison between the two years would need to identify the average amount per pupil (rather than per place) for that school in 2010/11 and compare this with the average amount per pupil for 2011/12 under the new formula.

7.3 The example below illustrates how the new formula will impact on a school moving to termly counts and the removal of place protection funding, showing how the MFG will provide some protection.

#### Example

7.4 In 2010/11 School A has a place number of 60 and January 2010 census of 30 pupils. Therefore the school is funded for the 30 pupils plus 70% funding for 30 empty places which is the equivalent of 21 full time equivalent (fte)

pupils. This gives funding of £149,627 which averaged out to £4,988 per pupil (£149,627 / 30). However if the nursery were full the average funding per place would be £2,934 per pupil (£149,627 / 51).

- 7.5 Under EYSFF the school is attracting per pupil funding of £3,562.50 (£2.35+£1.15+£0.25=£3.75 x 25 hours x 38 weeks). The school had 30 pupils in summer 2009, 23 in autumn 2009 and 30 in spring 2010 which is a full year average of 27.61 fte pupils. Therefore the funding under the EYSFF would be 27.61 x £3,562.50 = £98,374.43.
- 7.6 This is a reduction in funding of £51,252.57 for the school. Most of this is because the school is not receiving the 70% protection for empty places and a smaller amount is because the number of pupils for the year has dropped from 30 to 27.42 by moving to termly counts. The MFG will provide protection for this school at £4,987.55 per pupil. This will make the schools funding up to £137,706 which is protection of £39,333. This calculated as follows; £4,987.55 x 27.61 = £137,707 less funding calculated through the formula of £98,374.43 = £39,333
- 7.7 The MFG will not protect against the drop in pupil numbers from 30 to 27.42. In order to protect schools for the movement to a termly count the current school funding formula provides protection for schools where the budget falls by more than 10% of the cash value of the previous years budget share. In the above example the school would not receive any protection under this as the 90% of £149,627 is £134,664 and the MFG protection is already providing £136,771 in total funding.
- 7.8 It is proposed that the MFG and 90% cash protection mechanisms are used in the EYSFF as transitional protection for schools. This protection would be focused on the early years element of the budget and provide protection for one year. Beyond one year the mechanism would revert back to only being applied to the school budget overall.
- 7.9 Appendix 2 shows the impact for four schools in a range of different circumstances, which is summarised below:
- School A is estimated to get £39k of MFG funding to protect against reduction in place funding. However the school still has a potential funding reduction of £12k compared to 2010/11, unless empty places can be filled.
  - School B is estimated to receive £15k of pupil reduction protection as the termly pupil count is having a negative impact due to pupil number reductions in the summer and autumn terms. Overall the school still has a potential reduction £15k compared to 2010/11, unless the nursery class numbers are increased consistently throughout the year.
  - School C has a potential reduction as it will lose a small amount of place funding, so is protected through the MFG. In this modelling

overall the school is gaining £6k because it has a small increase in pupil numbers but is protected at the existing funding levels.

- School D has a potential increase of £38k through the formula because it is benefiting from the additional deprivation funding and has been consistently full so there is no reduction from a loss in place funding or pupil numbers as a result of moving to a termly census.

7.10 The table shows the estimated impact of the formula following inclusion of transitional protection.

Sector	Impact based on existing formula £	Impact of proposed EYSFF £	Difference Increase/(decrease) £
<b>Maintained Sector</b>			
Nursery Schools	884,414	795,973	(88,441)
Nursery Classes	17,361,913	17,777,222	415,310
<b>PVI</b>			
Childminder	15,104	15,516	412
Day Care	2,726,001	2,960,406	234,405
Playgroup	384,866	391,261	6,395
<b>Total</b>	<b>21,372,298</b>	<b>21,940,378</b>	<b>568,081</b>

7.11 The comparison above shows an increase of £568k for the proposed formula compared to the existing formula. This includes transitional protection as set out above estimated to cost around £334k which is made up of £202k MFG protection and £132k pupil number protection with more than a 10% impact on funding.

7.12 The budget in 2010/11 is £21.979m see 3.3 above, therefore £21.940m is affordable leaving a small balance of £39k. As funding will be based on termly counts it is proposed that the balance is held as a contingency for adjustments to the EYSFF. Many pathfinder authorities have commented that due to the increase in the hours of the free entitlement, participation levels have increased. Increased participation would require further budget demand on DSG which will need to be taken into account when planning the DSG budget.

## 8.0 NEXT STEPS

### Funding for places

8.1 Further work is required to identify a consistent basis for funding places in early years setting across all sectors, to be earmarked for SEN and children in need. The formula has so far been modelled on the basis of actual participation. If a policy for place led funding for targeted places could be agreed it would remove the need for transitional protection in some maintained settings that have lost under the formula.

### **Free School Meals**

- 8.2 Manchester funds free school meal (FSM) entitlement in the maintained sector. In 2010/11 3,991 nursery children in maintained schools were eligible for free school meals. This equates to £1.287m in the funding formula. This has not been included in the funding analysis above. PVI settings are not funded for free school meals.
- 8.3 Local authorities are required to provide FSM for children who are registered pupils at a maintained school, who attend free provision both before and after lunch and whose parents are in receipt of specified benefits.
- 8.4 Local authorities are not required to make this funding available to PVI providers. The code of practice for the Free Entitlement states that Local Authorities should use their discretion about whether they provide funding to the setting for lunches for children accessing their free entitlement over the lunch period in PVI settings, whose parents would find the cost of providing a lunch an unacceptable financial barrier to their child accessing the free entitlement.
- 8.5 It is proposed that funding for FSM eligibility in maintained schools sits in the mainstream formula, outside the quantum available for EYSFF.

### **Staggered Intake in Maintained Sector**

- 8.6 Local authorities must ensure that all eligible children can access the free entitlement. At present maintained schools stagger their intake as part of induction into school. Current practice in Manchester has been that the parents/carers are not entitled to claim the nursery education grant in the term the child starts school, as the school has already received the funding for the child for that term. Further work needs to be carried out to ensure that there are no gaps in the availability of the free entitlement.

### **Process for budget notifications**

- 8.8 A process for providing annual indicative budget notifications to providers and then updating this following the termly census information will be agreed with schools and the PVI sector. There is no requirement to have a consistent process across all sectors. The proposal that will be made is to have two distinct processes for each of the maintained and PVI sector.

### **Provide indicative allocations for schools and PVI settings**

- 8.10 During November the proposed EYSFF, indicative impact assessments and briefings will be provided to all providers across all sectors, with opportunity to give feedback. The outcome of this will be notified to Executive Members at the meeting.
- 8.10 The impact assessments for each provider will use the Summer 2009, Autumn

2009 and Spring 2010 pupil census as used for undertaking the impact assessment. This is not intended to give providers certainty about what funding levels for 2011/12 will be, but rather to provide some context for how the revised formula will work and what the possible impact would be for planning purposes.

- 8.11 A calculator will also be made available to schools and PVI settings to enable more accurate estimates of the formula to be undertaken.

## **9.0 RECOMMENDATIONS**

The Executive is recommended to:

- Approve the proposed Early Years Single funding formula for implementation from the 1<sup>st</sup> April 2011.
- Approve an amendment to the Local Management of Schools funding formula to remove the current arrangements for nursery class funding in maintained primary schools and maintained nursery school funding and replace with the approved EYSFF with effect from 1<sup>st</sup> April 2011.

## **10.0 Contributing to the Community Strategy**

### **(a) Performance of the economy of the region and sub region**

### **(b) Reaching full potential in education and employment**

### **(c) Individual and collective self esteem – mutual respect**

### **(d) Neighbourhoods of Choice**

Funding for pupil related services is essential to support maintained schools and independent education settings to maximise the potential and life chances of the children in Manchester and so contribute to all the elements of the community strategy spine.

## **11.0 Key Policies and Considerations**

### **(a) Equal Opportunities**

- 11.1 There are no specific key policies or considerations for equal opportunities.

### **(b) Risk Management**

- 11.2 There are no specific key policies or considerations for risk management.

### **(c) Legal Considerations**

- 11.3 The statutory framework underpinning the Early Years Single funding formula

is the Draft Schools Finance Regulations 2011, which are currently being consulted on by the Department for Education.

**Appendix 1**

**Early Years Single Funding Formula**

**Base Rate**

- An hourly rate
- Most significant part of the EYSFF
- Derived by looking at cost analysis of provision. Legal requirements around staffing have been taken into account when arriving at the rates.

Nursery Schools	£6.10 per hour
Primary Maintained	£2.35 per hour
Day Care	£2.30 per hour
Playgroup	£2.05 per hour
Childminder	£2.00 per hour

**Supplement – Quality**

All providers will receive the Quality supplement after which their performance will be assessed against the Council’s Quality Assessment Framework, on a rolling basis. Providers that do not meet the Council’s standard will be given sufficient time to improve, likely to be one or two years, based on consultation feedback.

**Driver** – levels of participation measured in hours

**Rate** = £1.15 per hour

**Calculation** = quality rate \* participation levels

**Supplement – Deprivation**

Income Deprivation Affecting Children Index (IDACI). The formula has to a band of rates referenced to the index by the providers’ postcode.

**Driver** – IDACI rating of setting

**Rates =**

IDACI rating	
1 – 6 %	£0.25 per hour
7 – 19 %	£0.18 per hour
20 - 34 %	£0.12 per hour
35 - 50 %	£0.05 per hour

**Calculation** = IDACI deprivation banding \* participation levels

**ILLUSTRATION OF FORMULA IMPACT AND PROTECTION**

App 2

	School A	School B	School C	School D
<b>Current EY funding formula</b>				
January 2010 census	A 30	50.5	23	60
Place number	B 60	52	30	60
2010/11 Budget	C £149,627	£153,142	£82,950	£176,103
Empty Places (B-A)	D 30	1.5	7	0
70% funded (D x 70%)	E 21	1.05	4.9	0
Actual pupils (A)	F 30	50.5	23	60
Total funded places/pupils (E+F)	G 51	51.55	27.9	60
<b>Funding per pupil/place (C / G)</b>	H <b>£2,934</b>	<b>£2,971</b>	<b>£2,973</b>	<b>£2,935</b>
<b>Funding per pupil (C / F)</b>	I <b>£4,988</b>	<b>£3,033</b>	<b>£3,607</b>	<b>£2,935</b>
<b>Proposed EY funding formula</b>				
<b>Termly pupil census</b>				
Summer 2009 (May)	J 30	38	25	60
Autumn 2009 (Oct)	K 23	23.5	26	60
Spring 2010 (Jan)	L 30	50.5	23	60
<b>Full time equivalent (fte) pupils</b>				
Summer 2009 (J / 38 wks x 13 wks)	10.26	13.00	8.55	20.53
Autumn 2009 (K / 38 wks x 13 wks)	7.87	8.04	8.89	20.53
Spring 2010 (L / 38 wks x 12 wks)	9.47	15.95	7.26	18.95
<b>Total fte pupils</b>	M <b>27.61</b>	<b>36.99</b>	<b>24.71</b>	<b>60.00</b>
<b>Hourly Rate</b>				
Base Rate	£2.35	£2.35	£2.35	£2.35
Deprivation Supplement	£0.25	£0.00	£0.00	£0.25
Quality Supplement	£1.15	£1.15	£1.15	£1.15
<b>Total</b>	N <b>£3.75</b>	<b>£3.50</b>	<b>£3.50</b>	<b>£3.75</b>
<b>Funding per fte pupil (N x 25hrs x 38wks)</b>	O <b>£3,563</b>	<b>£3,325</b>	<b>£3,325</b>	<b>£3,563</b>
<b>EY Formula Funding (M x O)</b>	P <b>£98,361</b>	<b>£122,992</b>	<b>£82,161</b>	<b>£213,750</b>
<b>Transitional Protection</b>				
<b>Minimum Funding Guarantee (MFG)</b>				
Protected funding per pupil (I x M)	Q <b>£137,707</b>	<b>£112,173</b>	<b>£89,117</b>	<b>£176,103</b>
<b>Pupil Reduction Protection</b>				
90% of 2010/11 previous years budget (C x 90%)	R <b>£134,664</b>	<b>£137,828</b>	<b>£74,655</b>	<b>£158,493</b>
<b>Annual budget (greater of P,Q or R)</b>	S <b>£137,707</b>	<b>£137,828</b>	<b>£89,117</b>	<b>£213,750</b>
<b>Potential change in funding (S - C)</b>	<b>-£11,920</b>	<b>-£15,314</b>	<b>£6,167</b>	<b>£37,647</b>

## Appendix 3

### December 2009 Consultation

#### 1. Proposed Rates

##### Base rates:

The indicative base rates per child per hour are:

Nursery Maintained	£3.10
Primary Maintained	£2.00
Nursery PVI Sector	£2.05
Playgroup	£1.60
Childminder	£1.15

##### Deprivation supplement

The indicative deprivation rates per child per hour are:

1 – 5 %	£0.25
10 – 15 %	£0.18
20 – 30 %	£0.12
35 – 50 %	£0.05

##### Quality Supplement

It is proposed to introduce a significant Quality rate to reflect the Council's commitment to maintaining and improving high standards within Early Years childcare.

The indicative rate for quality is £1.15 per child per hour.

##### Flexibility Supplement

DCSG guidelines suggest the following packages as meeting the definition of "flexible":

- 3 hours a day over 5 days a week
- 5 hours a day over 3 days a week
- 6 hours + 6 hours + 3 hours over 3 days
- 9 hours + 3 hours + 3 hours over 3 days

Taking into account the DCSF guidelines, the proposed indicative flexibility rates per child per hour are:

If the provider can offer childcare for all 4 scenarios	£1.00
If the provider can offer childcare for 3 out of the 4 scenarios	£0.60

### Appendix 3

If the provider can offer childcare for 2 out of the 4 scenarios £0.30

If the provider can not offer childcare for at least two of these scenarios then no additional supplement would be applicable.

This flexibility supplement would be in addition to the base rate and the other supplements proposed

#### Combined Rates

Providing they meet the relevant criteria, the maximum rates per child, per hour, which each type of provider could receive is as follows:

	Base Rate	Deprivation	Quality	Flexibility	Total
Nursery Maintained	£3.10	£0.25	£1.15	£1.00	£5.50
Primary Maintained	£2.00	£0.25	£1.15	£1.00	£4.40
Nursery PVI Sector	£2.05	£0.25	£1.15	£1.00	£4.45
Playgroup	£1.60	£0.25	£1.15	£1.00	£4.00
Childminder	£1.15	£0.25	£1.15	£1.00	£3.55

## 2. Results of the Consultation

### Results

At the time of collating the data, in total 34 responses to this latest consultation had been received (12.5% of the total population). 12 of these were from maintained sector (9% of the population) and 22 from the PVI sector (16% of the population).

Not all respondents responded to every question.

### Consultation Responses

#### Q 1 Do you think that the proposed hourly base rates are appropriate?

The maintained sector responded 5 Yes, with 7 No.  
The PVI sector responded 6 Yes with 16 No.

This gave totals 11 Yes, with 23 No.

The majority of comments gave indications that even with the supplements added, the total rates were not enough to cover the costs of the providers. Only additional funds being made available would resolve this issue.

#### Q2 Do you think that there should be a Quality supplement as proposed?

### **Appendix 3**

The maintained sector responded 8 Yes, with 4 No.  
The PVI sector responded 11 Yes with 11 No.

This gave totals 19 Yes, with 15 No.

The main comments by those who responded with a 'no' were that this amount should be added to give a higher base rate, with a number of respondents stating that the Ofsted grading should be sufficient.

Although though in favour in principle, one respondent stated that Quality should be graded in the same way as deprivation is graded.

Also more than one respondent said Yes, commented that although they agreed with the supplement, it is perceived that monitoring it will be difficult.

#### **Q3 Do you think that the proposed hourly rate for the Quality Supplement is appropriate?**

The maintained sector responded 7 Yes, with 3 No.  
The PVI sector responded 10 Yes with 8 No.

This gave totals 17 Yes, with 11 No.

Again comments received said that this, either in part or full, should be added to the base rate. The main concerns of respondents were around the index and the monitoring process.

#### **Q4 Do you think that there should be a Deprivation supplement as proposed?**

The maintained sector responded 11 Yes, with 1 No.  
The PVI sector responded 12 Yes with 8 No.

This gave totals 23 Yes, with 9 No.

In line with the results, although most respondents had positive comments in support of this supplement, the main comments against were that in principle all children should be treated equally and one respondent noted that in wealthy areas the overheads are higher but yet would get less.

#### **Q5 Do you think that the proposed hourly rates for the Deprivation Supplement are appropriate?**

The maintained sector responded 11 Yes, with 1 No.  
The PVI sector responded 8 Yes with 8 No.

This gave totals 19 Yes, with 9 No.

The only comments received on this supplement were that two providers thought the rate was too low and one provider stated that deprivation should not always be measured in economic terms.

### **Appendix 3**

#### **Q6 Do you think that the proposed hourly rates for the Flexibility Supplement are appropriate?**

The maintained sector responded 7 Yes, with 5 No.  
The PVI sector responded 10 Yes with 11 No.

This gave totals 17 Yes, with 16 No.

Some providers expressed concern that this was very restricting. The playgroups in particular felt that they would be penalised, as they often work from shared facilities where extending hours is not an option.

#### **Q7 Do you agree that there should be a transitional protection factor?**

The maintained sector responded 12 Yes.  
The PVI sector responded 16 Yes with 2 No.

This gave totals 28 Yes, with 2 No.

Comments on the whole were very positive about this factor saying that there should be some form of protection. On the negative side one provider objected to being eased into accepting less funding.

#### **Q8 What impact will these changes have on your establishment? Do you have any particular concerns specific to your establishment?**

Maintained sector Concerns were expressed that offering flexible scenarios will be difficult to organise and not benefit the children.

PVI sector concerns were mainly around the need to employ more staff in order to offer the flexibility and aspire to the required quality. The base rate on its own would not be sufficient to cover costs.

Whilst one provider felt that the increase to 15 hours per week coupled with flexibility, would affect staffing levels and pockets of time that can not be filled, another stated that the Flexibility supplement will allow them to support vulnerable children and families.

#### **Q9 Do you have any further comments?**

Concerns across both sectors were expressed over the formula which would increase the complexity and volume of administration.

One PVI provider thanked the LA for consulting them.