

**Consultation on the Early Years Single Funding
Formula
(EYSFF)**

**The Funding System for the Entitlement to Early
Years Education for all 3 & 4 Year Old Children**

January 2014

CONSULTATION ON EARLY YEARS SINGLE FUNDING FORMULA (EYSFF)

1. Introduction

- 1.1. All providers of the free entitlement to early years' education for three and four year old children in the Sunderland area are funded by the local authority using the Early Years Single Funding Formula (EYSFF). The statutory and regulatory requirements that determine the factors included in each authority's local formula and how they may be applied are set out in the Schools and Early Years Finance Regulations 2013 which apply for the financial year 2014/2015.
- 1.2. The DfE also published statutory guidance in September 2013 in relation to Local Authorities duties under sections 6,7,11 and 13 Childcare Act 2006, which includes a section on funding early years places and sets out the following requirements regarding the EYSFF, which must;
 - be composed of either a single base rate, or a number of base rates differentiated by type of provider according to unavoidable costs differences but the number of rates must be kept to a minimum
 - include a deprivation supplement for 3 & 4 year olds
 - be based on a count of children attending the provision conducted at least three times a year
- 1.3. A change in the way early years funding is provided to local authorities as part of the wider School Funding Reforms and the guidance on Early Education and Childcare means that a review of the local EYSFF is necessary to ensure that it continues to meet all statutory and regulatory requirements and that it provides a sustainable and affordable funding system for future years. This consultation focuses on the funding system for the three and four year old free entitlement only.
- 1.4. The changes in the schools and early years funding system make it impossible for local authorities to continue to use the formula to build in financial protection for providers based on historical factors, events and funding streams that no longer have any relevance in providing early years education. Therefore change is inevitable and there will be schools, academies and providers that will benefit from the proposed changes and those that will not.
- 1.5. In order to ensure that any final proposed change in the funding system gives all providers and the local authority adequate time to plan for the impact of those changes we are proposing that the new formula is implemented in April 2015. More detailed information on the options for transition are set out in section 7. This consultation paper is set out over 7 sections as follows:
 - Sections 1 & 2 – Introduction & Background and Local Context
 - Section 3 – The Dedicated Schools Grant and Early Years Funding
 - Section 4 – Executive Summary
 - Section 5 – EYSFF Overview and Distribution
 - Section 6 – Review of Individual Factors
 - Section 7 – Transitional Arrangements

2. Background & Local Context

- 2.1. It is a challenge for the local authority to produce a funding formula that is fair, transparent and simple to understand given the diverse range of provision across the city. In Sunderland there are 100 providers of Early Years Education for children aged three and four. There are in total 9 nursery schools, 61 schools and academies with nursery classes and 30 voluntary, private and independent providers.
- 2.2. The average number of full time equivalent (FTE) children attending provisions ranges from the smallest at just three children to the largest delivering to 100 children. The range in take up across different types of provider also impacts on determining appropriate funding arrangements which as far as possible reflect the varied cost of provision across the city.
- 2.3. When the EYSFF was introduced in April 2010, early years funding was provided to the local authority based on the January early years census that preceded the start of the financial year each April. This allowed local authorities to know how much funding they had available to allocate for the whole year and it was therefore possible to include within the formula supplements based on lump sums or on fixed January data that did not change with the levels of participation.
- 2.4. Funding for the free entitlement to early years education is funded via a specific early years block within the Dedicated Schools Grant allocated to local authorities. The final Early Years Block (EYB) allocation confirmed earlier this term by the Education Funding Agency is £15.909m, which is £0.349m less than what was originally estimated by the Department for Education (DfE). The projected out-turn for 2013/2014 for the EYSFF is currently an over spend of £0.201m.
- 2.5. It is difficult to rely on past data at this stage in order to know what take up is likely to be in January 2014 as it has fluctuated both up and down in the last three years. The change in the funding system means there is now uncertainty in determining the level of early years funding for subsequent financial years.
- 2.6. The local authority therefore needs to review the existing local EYSFF to ensure that as much funding as possible is driven by participation to enable us to operate a system that is affordable and will deliver increases and decreases in the funding allocated to providers based on changes in the number of children taking up their entitlement.

3. Dedicated Schools Grant (DSG) and Early Years Funding Block

- 3.1. The DSG is an earmarked grant provided to local authorities which includes all funding for the free entitlement to education for eligible 2, 3 and 4 year old children. From the 1st April 2013 the DSG was divided into three funding blocks categorised as the schools, high needs (HNB) and early years' blocks (EYB). The schools and early years' blocks are based on the October schools census and January early years census respectively.
- 3.2. The HNB and EYB can also be used together to support the child-care needs of children aged 0-2 that are deemed vulnerable, that may have significant special educational needs and those children looked after by the local authority.
- 3.3. The initial amount of funding allocated via the EYB for 2013/2014 is £16.258m and is based on the January 2012 early years census. The final allocation for 2013/2014 is confirmed by the DfE usually in the summer term following the start of the new financial year, once the DfE has published the January 2013 early years census.
- 3.4. This means that the final allocation can increase or decrease in line with the change in the number of children accessing their entitlement between each January census. The early years block for 2013/2014 represents 8.1% of the DSG and is distributed as follows;

Distribution of 2013/2014 DSG	£m	% Budget
Funding for the 3 & 4 Year-Olds	10.818	66%
Funding for the 2 Year Old Offer	3.142	19%
Commissioned Childcare	1.595	10%
Childcare Team and Locality Based Working	0.703	5%
Total Early Years Block	16.258	100%

4. Executive Summary

- 4.1. A key principle outlined by the DfE within the latest funding requirements and set out in their latest guidance on early years funding is that as much funding as possible should be based on participation and take up. To this end the DfE has introduced a change in the funding mechanism for the early years block, which adjusts the funding for the differences in take up (FTE pupil numbers) between each January census.
- 4.2. In reviewing the current EYSFF the following proposals are being considered:
 - Amending the method of calculating deprivation funding to be based on actual participation levels each term and to consider the impact on the existing funding rates for each band
 - To consider the existing flexibility factor and determine whether this factor could be modified to reflect actual take up
 - To reduce the proportion of funding distributed via lump sum factors
 - To review the number of PVI and Childminder base rates included within the formula and whether they are all still appropriate and the redetermination of all base rate values as a result of driving more funding based on participation
- 4.3. The original funding set aside of £10.818m included a contingency £0.352 to meet the anticipated decrease in funding when the final DSG was confirmed. The current estimated out-turn for the EYSFF for 2013/2014 is £10.667m, which is £0.201m more than the total funds available in the current financial year. We will not know if this can be contained within the DSG for 2013/2014 until we have completed the January census. If the January census is broadly in line with the numbers for 2013 then we will face a deficit in the EYSFF which will have to be contained within the early years block.
- 4.4. The local authority will carry out a benchmarking exercise when details of all other LA's EYSFF formulas for 2013/2014 are available to establish how the proposals set out in this document compare with our statistical neighbours as well as national and regional funding arrangements.
- 4.5. The deprivation factor is a mandatory factor within the EYSFF. This factor is a significant element of our formula given our local context. Based on the data collected in the current year 64% of children accessing the free entitlement are eligible to receive some level of targeted deprivation funding. We do not currently have available any benchmarking data to enable us to compare the proportion of funding we are distributing via this factor with other local authorities, however 9% is in line with the proportion of funding allocated to maintained schools and academies via the mainstream schools formula.
- 4.6. The impact of allocating deprivation funding using actual participation based on child level data collected termly and using the funding rates that apply in the current formula, will be an increase in the amount of deprivation funding allocated overall. This would increase the proportion of funding distributed via the deprivation factor from 9% to 11% and require an additional £0.238m.
- 4.7. Flexibility funding was originally provided via a specific grant targeted to those settings where there was already demand for access to the free entitlement on a more flexible basis or where the local authority wanted to expand the offer of flexibly for working parents in areas where there was less provision historically.

- 4.8. The funding in the EYSFF allocated to settings for flexibility remained broadly in line with original grant levels and was targeted to all children in those settings deemed to be offering flexibility to parents to encourage take up.
- 4.9. However participation data has indicated that the demand for flexibility has not changed significantly and rests mainly in the PVI sector with only a small demand in the maintained sector. It would therefore seem inappropriate to continue to fund settings where there is no demand for flexibility.
- 4.10. All providers are being asked to consider whether it is still appropriate for the local authority to recognise flexibility by retaining a specific factor to allocate funding in the formula and to consider the elements of cost that should be included in the rate per child per hour if we were to continue with a factor in the future.
- 4.11. Based on the proposals set out in section 6, the impact of changing the flexibility factor to fund individual children based on participation using the existing rate of £0.88 per child is a cost of £0.460m. Adding in the additional element to provide a contribution for meals proposed in paragraph 6.21 will increase the flexibility hourly rate to £1.26 per child per hour. The funding requirement to meet the additional cost is £0.198m which would result in a total allocation for flexibility funding based on identified need of £0.658m.
- 4.12. This is significantly less than the original allocation of £1.353m, however the reduction in the flexibility element allows for growth in the deprivation factor, and enables the authority to produce a revised funding system that is affordable and within the original cash limit set for 2013/2014.
- 4.13. The local authority is only proposing one change to the current base rates in the formula which is to have a single base rate for childminders that reflects adequately the cost of provision. The average cost of a childminder is £3.50 per child per hour. Our current top rate is £3.55 which would provide some additional support to fund training and overheads. Childminders will also attract funding for deprivation for those children that are eligible for additional funding.
- 4.14. It is proposed that any excess funding arising from the removal of the lump sum is redistributed to each based on the level of funding allocated to each sector. Any excess funding arising from the change in the deprivation and flexibility factors would be redistributed equally across all sectors. The revised base rates would be:

Description	Reference	Original Rate	Lump Sum	Excess Funds	Revised Rate
Nursery Class Rate	NCR1	2.69	0.29	£0.05	£3.03
Nursery School Rate	NSR2	3.70	1.54	£0.05	£5.29
PVI Rate 3	PVIR3	2.51	0.45	£0.05	£3.01
PVI Rate 4	PVIR4	2.66	0.45	£0.05	£3.16
PVI Rate 5	PVIR5	2.78	0.45	£0.05	£3.28
PVI Rate 6	PVIR6	3.28	0.45	£0.05	£3.78

- 4.15. The changes outlined in this report will inevitably cause turbulence for individual providers and types of provision. However it is important going forward to have in place a formula that is fair, consistent, affordable and easy to understand and apply.

- 4.16. This consultation focuses on the changes that the local authority believes is necessary to refine our formula further. Until we know the final position on the overall DSG and the final settlement of the Early Years block we will not know if we are in a position to consider any transitional arrangements. However we have asked your view of whether this should be the case and if so how it would be financed.
- 4.17. The remaining sections of this report provide detailed information on the proposals set out in the document and the issues we would like you to consider and provide your comments and views.
- 4.18. In order to ensure there is a sufficient amount of lead in time for settings to consider the proposals for future early years funding for the 3 & 4 year old free entitlement the consultation period runs from 21st January to 28th February 2014.
- 4.19. A further report will be presented to the Schools Forum in March 2014 on the outcomes of the consultation process and any changes to the proposals as a result of consultation and the outcomes of consultation will be reported back to all providers in April and May 2014.
- 4.20. The final EYSFF for 2015/2016 will be agreed at the at the May 2014 meeting of the Schools Forum. All settings will be provided with indicative 2014/2015 allocations by the end October 2014 based on the new formula. This will enable providers to see how the changes in the formula would have affected them if they had been made in 2014/2015. This should enable individual providers to plan for the implementation of the new EYSFF from April 2015.
- 4.21. This is the first major review of this formula and it is important that we receive your feedback to ensure that the funding system we end up with at the end of the process is fit for purpose and enables providers to deliver the high quality education that we know is being provided to the children of Sunderland.

5. EYSFF Formula Review – Overview & Distribution

5.1. The two mandatory factors within the EYSFF are

- Base Rates applied to individual settings
- Funding targeted to deprivation

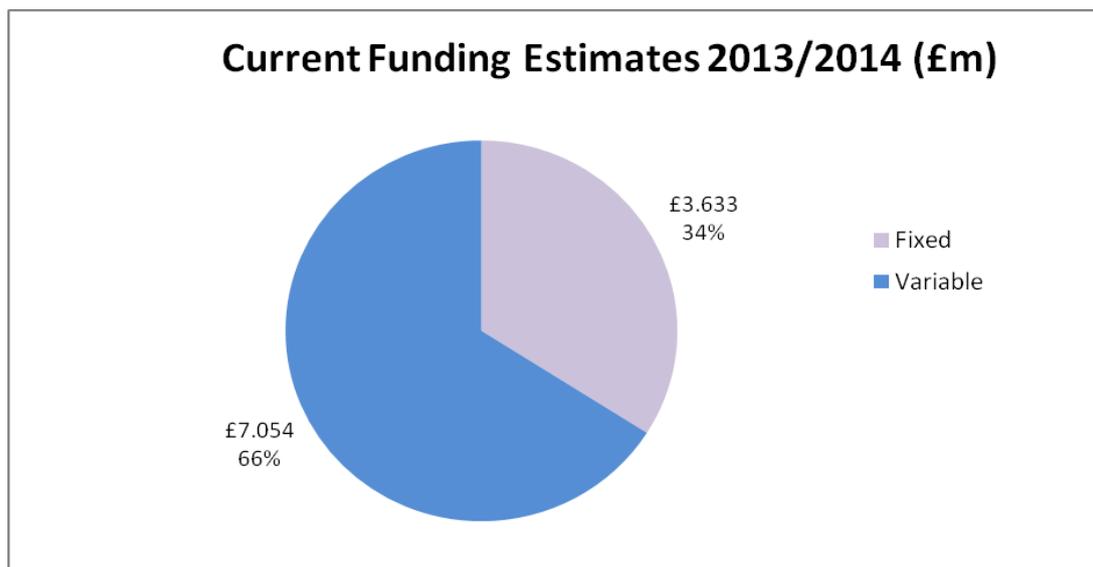
5.2. In addition to these factors additional discretionary factors (supplements) that are available for use in local EYSFF from April 2014 are:

- Incidence of looked after children
- Prior attainment of pupils entering a school or relevant early years provider
- Pupil's for whom English is not their first language (EAL)
- A single lump sum for each school and relevant early years providers which may vary according to type of provider
- Non domestic rates payable in respect of the premises for each provider
- A quality factor
- The degree of flexibility in the hours of attendance that a provider makes available
- The need to secure or sustain a sufficiency of provision within the local-authorities area or a sub area within an electoral division/ward or geographical areas used by the local authority

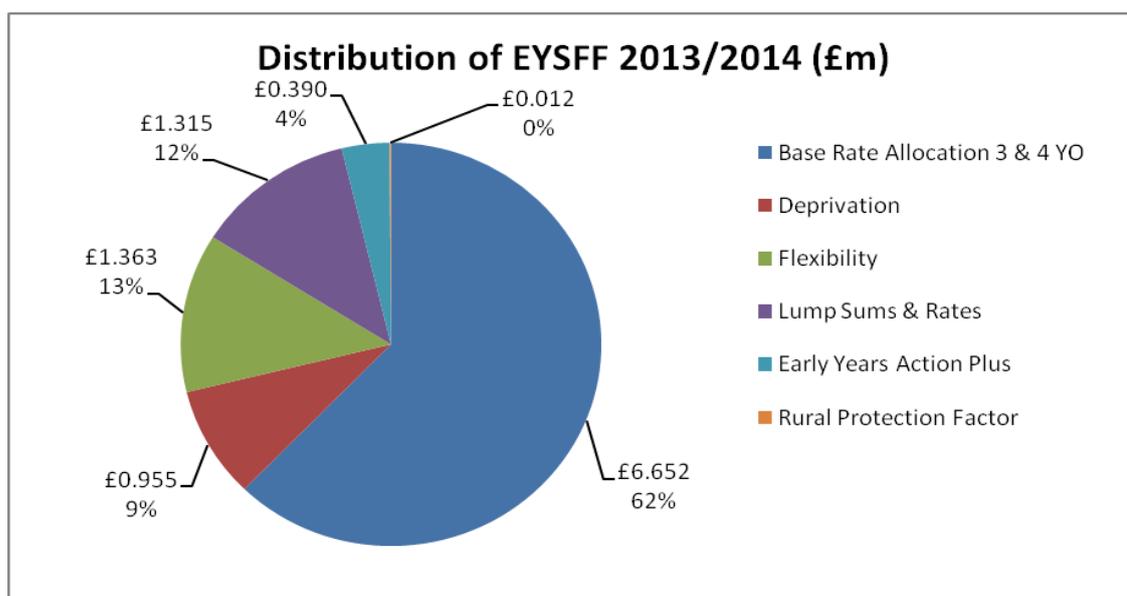
5.3. Appendix 1 sets out the factors and funding rates that apply in the current Sunderland formula. National guidance requires local authorities to develop a simple and transparent funding formula that is responsive to the take up of the free entitlement.

5.4. The local authority also has to strike a balance with regard to the data that is available to them without placing additional burdens on providers whilst maintaining a fair funding system that as much as possible takes into account the characteristics of children within the setting. For this reason the number of factors used in the formula has been kept to a minimum and relies on data that is robust, easy to validate and is fairly easy for settings to provide to the local authority.

5.5. The current EYSFF in Sunderland allocates funding between fixed and variable factors as set out in the Chart 1 below:



- 5.6. The fixed costs in chart 1 above represent those factors that are calculated using either a single data set, with the funding allocation spread across the financial year, or the allocation is based on a fixed lump sum amount. The factors that are deemed fixed currently in the EYSFF formula are deprivation, flexibility, the lump sum contribution to management costs and rates.
- 5.7. The variable factors are those which fluctuate termly in line with each census and are entirely based on participation. The factors deemed variable are the Base Rate allocations for 3 and 4 year-olds, funding for pupils identified at Early Years Action Plus (EYA+) and funding for Rural Schools Protection. The base rate and deprivation factors are mandatory and must be included in the EYSFF. Chart 2 below shows the distribution of funding between all the factors in the EYSFF.



- 5.8. It is a matter for the local authority to decide the proportion of funding distributed via each factor and whether this is determined by initially fixing the amount of funding allocated via the factor and then calculating the funding rate that applies, or whether the factor funding rates are fixed and the change in data drives the proportion of funding being distributed.
- 5.9. In order to ensure that the funding system responds to changes in participation, is affordable within the funding provided and is predictable in its application, a greater percentage of the funding needs to be allocated via participation-led factors.
- 5.10. The use of termly participation-led data represents a change in the original methodology used to set the 2013/2014 to determine each factors funding rates, which were based on the January 2013 data. The number of children accessing provision in the summer term, based on the May census is greater than the number in the spring term derived from the January census. Therefore as part of the review of each factor we will need to consider whether the percentage of funding should be rebased to reflect the change in data. Funding rates set thereafter would be set on the correct basis and would not need to be rebased each year.

6. Review of Individual Factors

- 6.1. The main concern around the current formula is the percentage of funding that is distributed on a fixed basis. Therefore each of those factors need to be considered individually to determine whether they are still required and if so how they can be modified to reflect participation, rather than being allocated on a fixed basis.
- 6.2. The following paragraphs consider each of the existing factors, with the base rate element being considered last given that funding may move from the existing factors into the base rate.

Deprivation

- 6.3. The local authority consulted with all providers on a new deprivation factor based on the use of the Income Deprivation Affecting Children Index (IDACI) data as a proxy indicator of need. A banding system was introduced that allocates funding to providers for children from income deprived families relative to the level of income deprivation. The amount of funding currently allocated via the deprivation factor represents 9% (£0.955m) of the total EYSFF.
- 6.4. The data used currently to determine the number of eligible children funded is based on child level postcode data taken from the January census. The funding rates that apply at each band level, set in Appendix 1, are used to calculate the funding allocation for each provider and then fixed and paid as a lump sum across the financial year.
- 6.5. The main impact of the factor operating in this way is that it does not respond to changes in participation or reflect the cohort of pupils identified each term. This means in effect that the factor is not responsive to need or participation and either locks in funding for settings with decreases in the number of eligible children or does not recognise when the number of eligible children increases in a setting. As with other fixed elements of the formula, there is a risk that the local authority either under or over allocates funding overall when the final early years block allocations are confirmed later in the year.
- 6.6. Table 1 below shows the results of an analysis of the termly child level information available. Overall on average 65% of all 3 & 4 year olds children trigger additional funding for deprivation. Nursery schools and classes in schools and academies have an average of between 65-68% of children that trigger funding and in the PVI sector the average is 55%.

Sector	Deprivation Funding		Eligible Pupils		
	Current	Based on Participation	Summer Term	Autumn	Spring
Nursery Schools	£179,369	£221,702	547 (68%)	403 (69%)	477 (66%)
Nursery Classes	£642,126	£805,180	1,878 (66%)	1,399 (65%)	1,729 (65%)
PVI Providers	£133,193	£163,409	534 (56%)	294 (56%)	384 (54%)
Total Allocated	£954,688	£1,190,260	2,959 (64%)	2,096 (64%)	2,590 (63%)
% Total Funding	9%	11%			

Table1: Impact of funding deprivation on participation

- 6.7. The participation data obtained from all providers was used to calculate the impact in relation to the allocation of funding at individual setting level compared to the fixed amount used in the formula for 2013/2014. A summary at sector level is set out in Table 1 above. Funding deprivation completely based on actual eligibility each term would result in an increase in the proportion of funding allocated via the factor from 9% to 11%.
- 6.8. Table 2 below sets out the number of eligible children at each band level for each term. The data also shows that the number of eligible children fluctuates termly in line with changes in participation. The actual data would also reflect the turnover in each cohort of children each term:

IDACI Band Descriptor	Band	Summer	Autumn	Spring	Average
Band 1 (IDACI score 0.20 -0.25)	1	432	284	385	367
Band 2 (IDACI score 0.25 -0.30)	2	505	378	444	442
Band 3 (IDACI score 0.30 -0.40)	3	875	641	768	761
Band 4 (IDACI score 0.40 -0.50)	4	822	558	735	705
Band 5 (IDACI score 0.50 -0.60)	5	177	112	145	145
Band 6 (IDACI score > 0.60)	6	148	123	113	128
	Total	2,959	2,096	2,590	2,548

Table 2: Analysis of the number of deprived children in each band across each term

- 6.9. The analysis of the information summarised in both tables 1 & 2 above indicates that whilst the proportion of pupils that attract deprivation funding at both sector and setting level is broadly similar each term, the variation in the total number of children taking up their free entitlement provides a different level of eligibility each term. This would therefore suggest that the application of funding should be variable and not fixed.
- 6.10. The proposal would be that the existing IDACI rates set out in Appendix 1 are maintained based on the number of eligible children derived from the termly IDACI data.

Flexibility

- 6.11. The amount of funding allocated for flexibility for 2013/2014 is £1.363m and represents 10.5% of the total funding allocated via the EYSFF. This factor was included in the EYSFF when grant funding allocated to local authorities to fund the extension of the free offer of early education to support providers in offering those hours more flexibly ended and was included in the DSG.
- 6.12. The authority developed a formula that enabled the targeting of funding for those settings that had extended their opening hours and enabled parents to stretch their free entitlement over more than 38 weeks and to access it over 4 days or less per week. The minimum requirements in relation to flexibility is that all providers must offer a minimum of 5 x 3 hour sessions per week or 3 x 5 hour sessions per week and that parents can access their entitlement during the week from 8am to 6pm.
- 6.13. Many of our providers offer more flexibility than the minimum set out above and offer parents the opportunity to access the 570 hours over more than 38 weeks. The new requirements set the following standards:

- No session longer than 10 hours per day
- No session shorter than 2.5 hours
- Not before 7am or after 7pm

6.14. In Sunderland the number of providers offering flexibility and receiving additional funding is set out in table 4 below:

Type of Provider	Number of Providers	Number Funded as Flexible	% of Total Providers	Funding Allocated	% Funding Allocated
Nursery School	9	9	100.0%	£337,820	25%
Nursery Class	61	29	47.5%	£714,986	53%
PVI Provider	30	26	83.8%	£299,786	22%
Total	100	64	64.0%	£1,352,592	100%

Table 4: Analysis of current flexibility allocations

6.15. The main issues regarding the operation of this factor locally are:

- From the analysis above the distribution of funding does not reflect the incidence of take up across the sectors.
- The allocation of funding for flexibility requires the LA to initially determine whether a setting is flexible before allocating any funding. Formula factors related to supplements are now required to be based on child level eligibility and not on the type of setting. This raises an issue around how we identify those children that are accessing their entitlement on a flexible basis, rather than just considering the status of the setting.
- We currently only collect data from the PVI sector at individual child level in relation to flexibility. The maintained schools census cannot currently be extended to request additional data other than the number of funded hours children are accessing
- The current methodology in applying the formula assumes for those settings deemed flexible that all pupil's attending the setting access their entitlement flexibly, which may not be the case.
- A review was undertaken of those pathfinders that introduced their EYSFF in September 2010 and of the 45 pathfinders, only 24 opted to have a flexibility factor. For those local authorities that opted for a flexibility factor, funding tended to be based on banded additional hourly rates and used the length of opening times as the criterion for funding settings.
- The flexibility factor is fixed at the beginning of the year based on data from the previous year and not on actual participation. This has the potential to lock in a significant amount of funding that must be provided regardless of whether the early years population decreases and does not reflect the actual population of three and four years olds accessing the entitlement flexibly. Table 5 below shows the results of a review of take up of all providers in May 2012 indicated the following with regard to flexibility:

Provider Type	% Children Attending over 4 days or less
Maintained Nursery Schools	18.8%
Maintained Nursery Classes	10.5%
Nursery Classes Academies	7.1%
PVI Providers	77.3%

Table 5: Take up of free entitlement over less than 4 days

- 6.16. A further analysis was undertaken of the last PVI census to determine the most up to date take up of the offer flexibly. There were 558 pupils in the PVI sector taking up a place in the Autumn Term. Of those children, 391 (70%) of those children accessed their entitlement over 4 days or less.
- 6.17. Analysis of the funding per hour allocated to settings for flexibility based on the current method of allocating the funding as a fixed lump amount calculated each year is as set out in table 6 below:

Funding / Hour	Nursery School	Nursery Class	PVI Provider
Minimum	£0.79	£0.68	£0.12
Maximum	£1.00	£1.07	£1.13
Average	£0.89	£0.88	£0.82
Median	£0.90	£0.90	£0.86

Table 6: Analysis of flexibility funding based on an amount per child per hour

- 6.18. The data currently provided by PVI settings on the number of days children access their entitlement could be used to determine the proportion of pupils deemed flexible. This data is not currently collected from maintained schools and academies so each provider would be required to submit a supplementary return at each census setting out the number of days each child accessed their entitlement. Funding would then be based on the total number of pupils accessing their entitlement over 4 days or less.
- 6.19. The current basis for calculating the rate of funding per pupil for flexibility is set out below:

Cost Funding Rate Based on Ratio 1:8	
Based on unqualified Hourly Rate	£6.00
8-9am	0.5
16:00 - 18:00	2.0
Lunch = 1 Hour	1.0
Additional TA Support Required per day	3.5
Additional Staff Costs Term Time	£3,990
Rate / Child / Hour	£0.88

- 6.20. When the original rate of funding for flexibility was determined it did not include an element for the costs of a lunch which maintained providers must make available and the LA has the discretion to determine whether the allocation to PVI providers should include lunch. As funding was based on all children regardless of take up it as deemed there was adequate funding available for providers to offer lunch if they were required to or chose to.

6.21. It is proposed that should we continue to maintain a flexibility factor in the formula that we should fund the cost of a lunch for those children who are specifically using their place flexibly. The current cost of funding for pupil meal in Sunderland is £1.90. The minimum requirement for the flexible offer over 4 days or less per week is 5 sessions over three days. Therefore we are proposing to enhance the flexibility rate of funding by £0.38 per hour. The calculation is based on the annual cost of 3 meals per week over 38 weeks divided by 570 hours.

Lump Sums

6.22. All settings currently receive a lump sum as a contribution towards management costs, which are deemed to be a fixed cost regardless of the number of children in each setting. The current lump sum rates are set out below:

Description	2013/2014 Sector Lump Sums	Amount Allocated 2013/2014	Average Rate Per Child 2013/2014
Nursery School	£64,923	£584,311	£1.54
Nursery Class	£6,995	£426,703	£0.29
PVI Provider	£5,929	£179,994	£0.45
		£1,191,008	

6.23. The total amount of funding allocated via lump sums is £1.191m and represents 11.3% of the total funding allocated via the EYSFF. This is a significant level of funding that remains fixed regardless of participation and it is possible for a setting to receive funding even if they have no pupils in attendance.

6.24. The rationale originally for having a lump sum was to recognise the fixed unavoidable costs all providers have regardless of size. However it is also necessary to ensure that such a factor does not impact on the local market and give one provider or type of provider an unfair advantage above other providers. In the main formula for funding schools and academies the lump sum is used to protect small “necessary” schools.

6.25. It is a legal requirement for nursery schools to be led by a Headteacher and therefore the amount of funding included in the nursery schools lump sum originally reflected the full average cost of employing a nursery Headteacher, which was set at £59,000.

6.26. In a mainstream school or academy with a nursery class, teaching support is supplied by a nursery teacher with a much smaller proportion of the headteachers costs attributed to managing the nursery provision, hence the size of the original lump sum.

6.27. The PVI lump sum was based on a contribution towards management/owner costs reflecting only the 3 & 4 year old places offered with the remainder of the costs financed by income charged for paying places. A PVI setting at the highest level of funding per hour (commensurate with maintained schools and academies) is likely to use a qualified teacher to lead practice and support the management of the provision.

6.28. Therefore it is recommended that in order to determine as the unavoidable cost attributed to the employment of a Headteacher (based on teaching national pay and conditions) that the calculation is based on the difference between the average cost of a nursery Headteacher and the average cost of a nursery teacher leading practice in schools and the PVI sector. This result in a lump sum related to the unavoidable legal cost of having a Headteacher of £21,800.

- 6.29. Within the funding system it is possible for a provider not to have any children registered in a given term and still receive funding based on the lump sum and the other fixed elements in the formula. This in turn does not enable the market to operate properly and provides excessive levels of protection for those settings that would otherwise be financially unviable due to lack of take up. This in turn dilutes the funding available to those settings that are viable and where parents are choosing to send their children.
- 6.30. To remove the lump sums at individual sector level and allocate funding via the base rates equally across all sectors would cause turbulence. Smaller providers would not recover the equivalent value of the lump sum via base rate funding to compensate for the loss in lump sum. As the level of lump sum allocated to each sector reflected the management costs attributed to each sector it would seem appropriate to protect the amount of funding at sector level when recalculating the revised base rates.
- 6.31. The average rate of lump sum per child per hour for each sector has been calculated by aggregating the total amount of lump sum funding in each sector and dividing it by the average number of children taking up their entitlement between May 2012 and October 2013 in each sector.

Rural Protection Factor (Sufficiency)

- 6.32. It is proposed that the Rural Protection Factor be renamed sufficiency funding and that this factor is used to deliver a specific variable lump sum to settings that are deemed by the local authority to be required to ensure sufficiency of provision across the city for settings that would otherwise be deemed unviable due to low take up.

Early Years Action Plus

- 6.33. All providers receive additional support for special educational needs (SEN). The proxy indicator used to distribute funding is based on those children identified at early years' action plus on each census. Each child attracts funding equivalent to the average cost per hour for 7.5 hours additional TA support per term per pupil which equates to £740 for a 12 week term and £870 for a 14 week term.
- 6.34. There are no plans at present to change this factor in the EYSFF. However reforms for children and young people with SEN and Disabilities set out in the newly published SEN Code of Practice alongside a local review of the local offer in relation to children aged 0-5 with special educational needs may result in the need to review these funding arrangements.

Business Rates

- 6.35. The total amount of funding allocated for business rates represents 1% of the total funds allocated through the EYSFF. The rates factor determines the business rate allocation for PVI providers and nursery schools only. Rates for infant and primary schools and academies with nursery classes are funded for business rates as part of their main formula funding allocation.
- 6.36. For private and voluntary providers, the value of the business rates is calculated in order to reflect the provision's proportion of 3 & 4 year old children as the total number of places the setting is registered for. PVI providers will be asked to provide evidence of their business rates and the census data submitted by each provider will be used to apportion the cost of rates.

6.37. The retention of this factor is consistent with the main schools formula and would be likely to be recognised as a separate funding allocation in any national funding formula. Therefore there is no intention to change this factor at the present time.

Base Rates

6.38. The Sunderland EYSFF currently has 6 base rates that apply to all maintained schools, academies, private, voluntary and independent providers (PVI) of early years' education. We also have separate rates that apply to child-minders, which applied from April 2013.

6.39. The rationale for the number and range of base rates used by Sunderland is to reflect the differential costs of delivering nursery education across the different types of provider. The number of rates provides a mechanism which rewards those providers with a higher rate of funding, reflecting the additional costs of improving and maintaining standards by employing qualified teachers and early years practitioners (EYP) or early years teachers (EYT) to lead and deliver early years education.

6.40. A review of the rates that apply to our private, voluntary and independent settings indicate that the lowest funding rate (PVIR3 – Old Rate 1) is no longer applied to any of the settings in Sunderland. This is an encouraging sign that the quality and qualification levels of staff working in PVI provision is improving and that the financial incentive offered by the existing range of rates is working as intended. Therefore it is proposed not to change the number of rates at this stage

6.41. Maintaining the PVIR3 level of funding will also enable the local authority to reduce the rate of a setting that did not maintain the appropriate levels of staff qualification. Funding rates would continue to be determined from the January census data submitted by settings each year.

6.42. The formula initially included three separate base rates for childminders on the basis that individual childminders have varying levels of experience and qualification and this mirrored the rationale for determining the rates for our other providers. Funding rates currently are £3.01, £3.18, and £3.55.

6.43. In order to further simplify the formula and to make funding arrangements clearer for childminders we are proposing to create a single rate for childminders based on the highest of the three rates. This will deliver funding at £3.55 per hour, which is marginally above the average cost of a childminder per hour (£3.50/child/hour). Those children registered with childminders and that are eligible would also attract deprivation funding.

6.44. The base rates have been uplifted to reflect the redistribution of lump sum funding at sector level and the redistribution of any residual funding in order to balance to the cash limit set out in the executive summary.

7. Transitional Arrangements

- 7.1. When the local authority implemented the existing Early Years Single Funding Formula the introduction of the new formula for nursery schools and mainstream primary schools and academies was staggered in order to give those providers an opportunity to plan for the changes that were being implemented the following financial year. As the majority of PVI providers funding improved under the new system it was implemented immediately.
- 7.2. This approach to managing the transition to the new funding system was successful in its initial implementation and those providers detrimentally affected by the introduction of the EYSFF have in the main been able to align their costs with the new arrangements. This would therefore be the local authorities preferred approach which would apply to all providers. Therefore we are proposing in this consultation that the new formula would not be implemented until April 2015.
- 7.3. The benefits of this approach would provide an appropriate amount of time to have a meaningful consultation process with all providers, agree the new formula in the current year and provide funding estimates if the formula had been introduced this year. This would give all providers time to plan for any change in funding arising from 2015 onwards as a result of implementing the new funding system. Another advantage of delaying implementation would be that we would be able to undertake a piece of work to identify a system for forecasting future take up in provision and to review the impact the introduction of the two year old offer may have on the take up of future participation levels for 3 & 4 year olds provision. This would also help with budget planning for the 3 & 4 year old EYSFF and setting of future funding rates.
- 7.4. The disadvantage of this approach is that it would delay the implementation of the new formula and could result in further funding pressures in 2014/2015 that may not be able to be contained as easily within the Early Years Block as has been the case in 2013/2014.
- 7.5. The alternative approach to transition would be to implement the changes in funding earlier from September 2014 and identify a separate protection fund within the 3 & 4 year old formula which would be allocated to those providers losing funding as a result of the changes. The fund would be financed by setting a cap on the level of gains in funding for those providers benefitting from the changes in the funding system. Such a system would have to apply for a single year as the new funding system would need to be able to respond to funding changes in the Early Years Block arising from participation changes in 2015/2016.
- 7.6. The benefits of this approach would be to introduce the new funding system earlier and minimise the potential impact on funding for 2015/2016 and provide some protection for those providers losing funding. Whilst this provides some protection for the change implemented in the current year the local authority would share concerns from providers who may have to make changes in order to reduce align their costs and /or structures to manage within the funding provided from the new formula.

APPENDIX 1 – SUNDERLAND EYSFF FORMULA 2013/2014

Description of Factor	Basis of Allocation	Funding Rates (£m)	% of EYSFF (%)
Base Rate Funding	<p>The funding rate for all providers continues to be dependent on the qualification matrix set out at Appendix 3. The child minder rates 7 to 9 reflect qualification levels set at the starting rate for unqualified child minders (rate 7), a rate for those child minders with a full and relevant level 2 qualification (rate 8) and those with a full and relevant level 3 qualification (rate 9)</p> <p>Funding is calculated each term as follows:</p> <p>No of FTE Children x Rate x 15 x No of Weeks in term. The 38 weeks is split 12 - Summer, 14 -Autumn, 12 - Spring regardless of the number of actual weeks in the term.</p>	<p>NCR1 - £2.69 NSR2 - £3.70 PVIR3 - £2.51 PVIR4 - £2.66 PVIR5 - £2.78 PVIR6 - £3.28 CHMR1 - £3.01 CHMR2 - £3.18 CHMR3 - £3.55</p>	62%
Deprivation	<p>The IDACI indicator is based on a score applied at each local authority super output area which determines the percentage of income deprived families with children in that area. For example a child with a postcode matched to a score of 0.20 has a 20% chance of coming from an income deprived family with children.</p> <p>The scores for each area are matched against the individual postcodes of those children on roll at January 2013 census. These are sorted into the number of children at each band level. The total number of children is multiplied by the funding level per pupil for that band. This is aggregated into the total deprivation allocation for each setting.</p>	<p>IDACI Band 1- £166.70 IDACI Band 2 - £166.70 IDACI Band 3 - £333.40 IDACI Band 4 - £500.10 IDACI Band 5 - £666.80 IDACI Band 6 - £833.50</p>	9%
Flexibility	<p>Flexibility is funded only to those settings that deliver the full free entitlement over four days per week or less. The allocation is based on a fixed level of funding based on the average actual take up in the previous financial year.</p>	£0.88 per child per hour	12%

APPENDIX 1 – SUNDERLAND EYSFF FORMULA 2013/2014

Description of Factor	Basis of Allocation	Funding Rates (£m)	% of EYSFF (%)
Lump Sums	All settings receive a lump sum contribution towards management costs, which are deemed to be a fixed cost regardless of the number of children in each setting.	Nursery School - £64,923 Nursery Class - £6,995 PVI Provider - £ 5,929	12%
Business Rates	<p>The rates factor determines the business rate allocation for PVI providers and nursery schools only. Rates for infant and primary schools and academies with nursery classes are funded or business rates as part of their main formula funding allocation.</p> <p>For private and voluntary providers, the value of the business rates is calculated in order to reflect the provision's proportion of 3 & 4 year old children as the total number of places the setting is registered for. PVI providers will be asked to provide evidence of their business rates and the census data submitted by each provider will be used to apportion the cost of rates.</p>	Based on estimated cost	1%
Early Years Action Plus	All providers will receive additional support for special educational needs for those children identified at early years action plus. Each child will attract funding equivalent to the average cost per hour for 7.5 hours additional TA support per term per pupil.	£740 per child for a 12 week term £870 per child for a 14 week term.	4%
Rural Schools Protection Factor (Sufficiency)	In Sunderland there is a single school that is classified as rural and as a result receives additional funding in order to sustain the provision locally. This only applies where there is no viable alternative provision for parents to access locally.	Funding is based on funding "ghost" pupils, (difference between the number of children at each census point and the minimum number of places required to deliver a sustainable provision in each term)	0.01%