

## DARLINGTON SCHOOL FORUM

7<sup>th</sup> October 2014

ITEM NO 8

---

### FREE FUNDED EDUCATION (FFE) – 2, 3&4 YEAR OLDS DISCUSSION PAPER

---

**PROVIDED BY: ELEANOR MARSHALL, SCHOOL FORUM, MONITORING AND SUPPORT  
OFFICER**

**Other Input – Chris Archer, Head of Early Years, Darlington Borough Council  
PVI Providers – Lindsay Long, PVI Rep (Play Hut)**

---

#### **SUMMARY REPORT**

##### **Purpose of the Report**

1. Schools Forum received two papers – 14<sup>th</sup> January 2014 and 29<sup>th</sup> April 2014 from PVI providers which requested an increase in the hourly rate for the delivery of Funded places for 2, 3 and 4-year old children.
2. This paper asks the School Forum to consider current government policy, regional benchmarks and local issues in relation to the argument for increase of FFE payments.
3. This paper presents options for an increase in funding in all settings which include:  
  
An increase to hourly rates  
Payments to reward quality providers
4. A summary of the background research and analysis is provided at Appendix 3.

##### **Summary**

5. The schools@onedarlington arrangements mean that both public and private sectors have agreed to work together to ensure the children and young people of Darlington receive a consistent and high standard of education.
6. The objective of any increase in funding for early years provision would be to:  
  
sustain the highest quality to ensure children are 'school ready';  
ensure retention and attraction of higher qualified staff.
7. Increasing access to free early education to the most disadvantaged families has in reality meant that children arrive with a variety of needs which require additional time, and resources. This has increased the pressure on providers.
8. As recognised by OFSTED, the early years sector is complex, opaque and of variable quality. Out of 53 settings (excluding childminders), 8 are 'outstanding', 34 are 'good', 10

'require improvement'. The desire across all sectors is that settings meet a minimum of 'good' as standard.

9. Being independent, funding often restricts being able to appoint at a higher level of qualification. A further issue for the PVI sector is retention of higher qualified staff.

## **Background**

### **Funding - National Policy and Future Arrangements**

10. In September 2010 all 3- and 4-year-olds became entitled to 15 hours a week (570 hours per year), of free early education (FEE). From September 2013, the entitlement was extended to 15 hours per week for eligible 2 year old children<sup>1</sup>. From September 2014 this has been extended further.
11. The government consultation<sup>2</sup> on 'Early Years Pupil Premium' has recently closed. From September 2015 an additional £300 (ie £0.53p per hour) per eligible child taking up the full entitlement per year will be provided and implement a change to the way 2 year old funding is allocated<sup>3</sup>.

### **Funding in Darlington**

12. The current rate received from the LA is per child per hour.
13. The LA currently 'passports' the current national rate for funding for 2 year olds (£4.85) with an addition of 13p, this is possible due to underspend of 2 year-old funding. The current funding per place for 2 year olds in Darlington is £4.98 for schools and PVI's alike.
14. The current funding per place for 3, 4 year olds in Darlington is £3.45 in Schools, and £3.55 in PVI settings.
15. A deprivation supplement (for 3,4 year olds only), is applied based on the child's home address postcode. In 2013/2014, DBC paid approximately £125,000 deprivation supplement. (£90,000 to schools and £35,000 to PVIs).
16. The funding model of deprivation is historic and there are some inequality issues, for example, where families who qualify are in rented accommodation not in a 'deprivation' supplement postcode area.

### **Funding - Benchmarking**

17. National research conducted by the Pre-School Learning Alliance has identified that the average shortfall in funding per child, per hour, in private settings under the 2-year old offer is 11%. For 3, 4-year olds, the shortfall is 23% per hour.
18. A comparison with other authorities however show that DBC pay higher rates for 2-year olds, DBC are on an average 'par' or slightly behind the 3, 4-year old rates. However, some

---

<sup>1</sup> for all looked-after 2-year-olds and 2-year-olds from families who meet the [criteria for free school meals](#).

<sup>2</sup> The government is currently consulting on an [Early Years Pupil premium](#) (EYPP) to be applied from September 2015. It's aim is to close the gap at ages 3 and 4 between the additional support disadvantaged children get at age 2.

<sup>3</sup> As part of the EYPP consultation, funding to be allocated from April 2015 based on the January census (upon the actual number of two year old places as opposed to an estimated number of eligible children currently being funded).

LAs use other quality and flexibility supplement payments to top up the basic rate and these models could be considered.

<b>Authority</b>	<b>2 YO ph</b>	<b>3 &amp; 4 YO ph</b>	<b>Notes</b>
Hartlepool	£4.85	£3.53 - £3.70	Info not provided
North Tyneside	£4.85	Teacher Led - £3.11 Non-Teacher Led £2.96	Supplements apply based upon deprivation (10p-40p p/hr) and flexibility (10p-40p p/hr)
Stockton	£4.77	£3.40	Supplements apply based upon deprivation (£152 per unit); flexibility (10p-15p p/hr); sustainability (£1.15)  Quality-Led hourly rate (10p per hour); Quality lump sum £2,007.71 (payable to setting graduate led not available to child minders)
Newcastle	£4.85	£3.75	Top up disadvantage subsidy £740 average setting based on 2012/13 headcount
<i>Darlington</i>	<i>£4.98</i>	<i>£3.45</i>	<i>Schools</i>
		<i>£3.55</i>	<i>PVI</i>

## Issues in Darlington

### Funding

19. Appendix 1 provides a breakdown of a PVI setting's operational costs apportioned to early years provision. This analysis shows that if this particular PVI were to deliver free funded education alone, at full capacity, there would be a shortfall per hour of:
  - £2.56 for 2 year olds (51%)
  - £1.35 for 3,4 year olds (38%)
20. To address this shortfall (in this settings' case) the hourly rates would need to increase to:
  - £7.54 for 2 year olds
  - £4.90 for 3,4 year olds
21. This comparison does not look at the whole-business and to do this would be a different exercise.
22. Appendix 2 provides a comparison of the income and expenditure between a school nursery provision, maintained nursery school provision and a second comparison between two private settings. The situation is similar across all settings/sectors to different degrees.
23. The PVI sector does not have the same backing as state-funded schools, or maintained nursery schools, however, it is also true that in the case of a maintained nursery school, and school with a nursery, similar calculations based upon full occupancy indicate that neither would be able to run at a profit per child (3,4 year olds), per hour without additional support.
24. For 2 year olds, the comparison between school settings is not possible, as this is untested territory. However, the calculations based on LA salary structures indicate that there are

optimum numbers of two year olds to enable the school to meet staffing costs alone.

## Staffing

25. PVI settings need to employ more lower qualified staff than schools. The higher level the qualification, the lower the ratio of staff:children is required.
26. For three and four year olds, the ratio is 1:8 in PVI settings or 1:13 in schools if a QTS teacher is present. The ratio for two year olds for all settings is 1:4.
27. Early Years 'Teachers' in the PVI sector may not have qualified-teacher status (QTS), like those in primary schools<sup>4</sup>. Each nursery school has a head teacher and largely employ graduate staff supplemented by specially-trained nursery nurses. Pre-school staff nationally earn on average £17,000 a year, and primary school staff on average £33,000.
28. The minimum qualifications required are for the PVI manager to hold a relevant level 3<sup>5</sup> qualification and at least half of all other staff to hold at least a full and relevant level 2<sup>6</sup> qualification.
29. In Darlington, three PVI settings only meet these minimum requirements and thirteen out of the 19 PVI settings have BA Honors (level 6) early years qualifications, but these are without qualified teacher status (QTS), three other settings have a mix of qualifications.

## Options Available/For Discussion

30. The previous paragraphs suggest that there is a shortfall in funding of nursery placements, which complement the request from providers for an increase in funding. This is also the case nationally.
31. It is therefore suggested that Forum consider a way forward with regard to agreeing the funding of nursery placements in 2015/16.
32. At this stage, it is felt that a decision cannot be made by Forum on the actual funding rates for 2015/16, as there are still a number of unknowns that will be required to assist in decision making. The following information is outstanding;
  - Pupil Premium for 3&4 year old children consultation results
    - This should confirm when the funding will start
    - What the value will be
    - If the early years funding formula will still require deprivation funding
  - 2 Year old consultation
    - This should confirm the value of the 2015/16 funding
  - DSG Allocations for 2015/16
    - This will confirm the three funding blocks, including the Early Years block
33. It is the case however that at this stage in the budget setting cycle that Forum can discuss the route they wish to take with regard to setting nursery rates for 2015/16. The following paragraphs provide some options that Forum may wish to consider.

---

<sup>4</sup> source: daynurseries.co.uk, an online guide to nurseries

<sup>5</sup> As defined by the National College for Teaching and Leadership.

<sup>6</sup> To count in the ratios at level 3, staff holding an Early Years Educator qualification must also have achieved GCSEs in English and maths at grade C or above.

- Option A  
To leave funding rates as they are now, the only change being pupil premium, and 2 year old funding changes
  - Option B  
Increase funding rates in line with what can be afforded within the budget
  - Option C  
Increase funding rates by more than budget to reflect the suggested shortfall in funding
34. If Forum were to select either option B or C then an additional option available to Forum is to consider either
- Option 1  
Restricting any increase to the hourly rate – i.e. all providers receive the same
  - Option 2  
Increasing the hourly rate but also to introduce incentive payments

The following paragraphs provide some additional information to Forum to help them consider the above options.

35. Based upon evidence including data from Darlington moderation, OFSTED results, benchmarking and other national studies quoted in this paper (see Appendix 3), high quality provision equates to high quality outcomes for children.
36. Darlington currently pays a supplement in addition to the 3 & 4 year old hourly rate for children living in the 30% most deprived areas (at £25, £50 & £100). It is currently a statutory requirement to have a deprivation supplement.
37. In light of the fact that pupil premium is being introduced, the deprivation payment could be viewed as a duplicate funding element, therefore the current supplement could be decreased in value to a minimum level (assuming this remains mandatory) with the saving being added to the hourly rate. It is estimated that this could add 13p per hour to the hourly rate for 3, 4 year olds.
38. Darlington currently pays 13p above the rate at which it is funded by the EFA for 2 year old nursery placements. This has been possible due to underspend in the two year old budget as less children have been in placement than Darlington has been funded for. Although a higher rate has been paid, due to numbers in placement, it is still expected that at the end of 14/15 there will be some underspend in the two year old budget that will be rolled forward and ring fenced for two year old payments in 2015/16.
39. It is possible that this underspend could be used to increase the 2 year old funding rate for 2015/16, however due to a change in funding this may not be advisable if Forum wish to remain in budget. From April 2015 two year old funding will be paid to the Local Authority based on the actual number of children in placement at the national rate. If the national rate remains at £4.85 per hour in Darlington, then there will be a shortfall of 13p per hour for every child placed. Unless the 2 year old funding rate is reduced it is suggested that the underspend be used to bridge this funding shortfall until either the national rate increases or the carry forward funding is exhausted.
40. There are benefits to using quality incentive payments. With maximum funding comes autonomy and responsibility. This model could be implemented with good and outstanding

settings and schools being required to source and fund support for improvement linked to the LA annual quality meeting. Requires improvement settings could be supported by the LA to make rapid improvement. Inadequate settings would be supported to source and fund support for rapid improvement.

### **Recommendation**

41. The School Forum should:

a) discuss options A to C and select an option to drive future budget setting

b) in the event of selecting option B or C, discuss options 1 & 2 and select an option to drive budget setting

42. The selection of the above options will provide a direction of travel for budget setting and will therefore allow the appropriate officer(s) to take forward budget setting and to report back to School Forum in January with detailed funding rates for 2015/16.