

DARLINGTON SCHOOLS FORUM

11th June 2013

ITEM NO 3

EARLY YEARS SINGLE FUNDING FORMULA 2013/14

Purpose of Report

1. To seek approval from the Schools Forum regarding the rates payable within the Early Years Single Funding Formula (EYSFF) for schools and Private, Voluntary and Independent (PVI) settings.

Background

2. Schools Forum agreed in February 2013 to increase the rates paid per hour for 3&4 year old nursery funding and 2 year old nursery funding by eight pence per hour. It was also agreed that an exercise would be undertaken during the spring to review the rates, with a report returning to Forum at this meeting.
3. The rates currently paid (i.e. introduced from 1st April 2013) are as follows,
 - a) 3 & 4 years old in a Private, Voluntary & Independent setting, £3.50 per hour
 - b) 3 & 4 years old in a school setting, £3.40 per hour
 - c) 2 years old, £4.93 per hour
4. In addition to the above for 3 & 4 year old children deprivation payments are made at £25, £50, and £100 per term for children living within the top 10%, 20% and 30% most deprived post codes respectively.
5. A lump sum payment of £92,000 is made for stand alone nurseries.
6. Forum allocated £50,000 as a contingency for nursery rates in 2013/14.

Review

PVI SECTOR

7. As part of the review of the nursery rates, all PVI providers were issued with a questionnaire, that requested financial data regarding the running costs of providing nursery education to both 2 year old children and 3 & 4 year old children.
8. Of the 35 questionnaires that were sent out, 14 questionnaires were returned. These returns were used to analyse the cost of provision across the two age ranges. The following table gives a summary of the results.

2 Year Old Children

	Minimum (£)	Maximum (£)	Average (£)
A. Cost per hour - Using annual cost divided by average actual weekly hours provided	1.39	6.36	3.48
B. Cost per hour – Using annual cost divided by budgeted children/weeks/hours open	0.80	4.20	2.00
C. Cost per Child – Using annual cost divided by budgeted children	1,056	10,166	4,687
D. Cost per hour – Using annual cost divided by average number of hours per child (based on 38 weeks, 5 days per week)	1.31	5.63	3.44

3 & 4 Year Old Children

	Minimum (£)	Maximum (£)	Average (£)
A. Cost per hour - Using annual cost divided by average actual weekly hours provided	1.19	5.88	3.34
B. Cost per hour – Using annual cost divided by budgeted children/weeks/hours open	0.80	3.66	1.79
C. Cost per Child – Using annual cost divided by budgeted children	1,056	5,673	3,072
D. Cost per hour – Using annual cost divided by average number of hours per child (based on 38 weeks, 5 days per week)	1.60	5.73	2.95

9. As can be seen from the above tables there was a wide spread of results from the providers. For 2 year old providers, only one provider had a per hour cost at more than the £4.93 that is currently paid (on calculation A & D). The average rate per hour was also well short of the £4.93 that is currently paid.
10. For 3 & 4 year of children, only two providers had a higher cost per hour, on calculation A and one provider on calculation B & D, than the current rate per hour of £3.50. The average rate per hour was well short of the £3.50 currently paid.
11. The results of the exercise were inconclusive, with some providers having a much higher cost than another provider for a similar number of children and vice-versa. There was no correlation between the providers in terms of the private providers having similar results or the voluntary sector having like results. It appears that each provider is unique and has a differing cost base.
12. Although at a high level it would appear (from the results) that the current rates cover the cost of provision of nursery education, the results must be treated with some caution. The sample used was only small and also provided limited information. It is the case that some providers will have completed the questionnaire differently, with some including costs and some not. Also no cross checks were made with the providers accounts to look at the detail of their costs. It has become apparent therefore, that to review the cost of provision more

accurately, extensive work would need to be done with each individual provider, something which there is no capacity to do within the Local Authority.

13. The questionnaires provided an analysis of the breakdown of cost by category for the providers. These are shown below.

2 Year Old Children

Employees 65%
 Utilities 2%
 Other costs 33%

3 & 4 Year Old Children

Employees 60%
 Utilities 2%
 Other costs 38%

14. The above split of costs is as expected, in that by far the biggest cost to the providers is employee costs, which have been increasing over the last few years.

15. The rates paid for nursery education to the PVI sector in Darlington over the last few years have been as follows (per hour)

2 Year Old Children

Period	Rate £	Change on Year	Change on April 10
2013/14	4.93	1.6%	1.6%
2012/13	4.85	0%	0%
2011/12	4.85	0%	0%
2010/11	4.85	0%	0%

3 & 4 Year Old Children

Period	Rate £	Change on Year	Change on April 10
2013/14	3.50	2.3%	2.3%
2012/13	3.42	0%	0%
2011/12	3.42	0%	0%
2010/11	3.42	0%	0%

16. As can be seen from the above tables the rates paid to the PVI sector have been frozen for a number of years. The 8 pence per hour increase from April 2013 being an increase of 2.3% (for 3 & 4 year old children).

17. Historically payment to providers was made on a per session basis. This was inflated over the years in line with various factors. When the EYSFF was introduced this per session basis was converted to give a per hour rate, which has formed the basis of the rates ever since.

18. A similar exercise was undertaken in 2007 to that which has just taken place, to look at the cost of provision with information being collected from the providers. At that time, a similar result was found as to now, in that the cost to providers varied considerably.
19. The PVI providers have raised the point, that over the four year period the rates have only increased once, in a period of time when costs have been increasing considerably. It is the case that a large proportion of the running costs of the service are made up from employee costs that have been rising. An indicator of this being the increases in national minimum wage. In addition other costs such as utilities have increased in this time backing up the point that the rates are not covering current costs.
20. The following tables show how costs in the economy at large have changed in the same period of time.

National Minimum Wage Aged 21 and over

Period	Rate £	Change on Year	Change on October 09
October 2013	6.31	1.9%	8.8%
October 2012	6.19	1.8%	6.7%
October 2011	6.08	2.5%	4.8%
October 2010	5.93	2.2%	2.2%
October 2009	5.80		

National Minimum Wage Aged 18 to 20

Period	Rate £	Change on Year	Change on October 09
October 2013	5.03	1.0%	4.1%
October 2012	4.98	0.0%	3.1%
October 2011	4.98	1.2%	3.1%
October 2010	4.92	1.9%	1.9%
October 2009	4.83		

National Minimum Wage Aged under 18

Period	Rate £	Change on Year	Change on October 09
October 2013	3.72	1.1%	4.2%
October 2012	3.68	0.0%	3.1%
October 2011	3.68	1.1%	3.1%
October 2010	3.64	2.0%	2.0%
October 2009	3.57		

National Minimum Wage Average all age groups

Period	Rate £	Change on Year	Change on October 09
October 2013	5.02	1.4%	6.1%
October 2012	4.95	0.8%	4.7%
October 2011	4.91	1.6%	3.8%
October 2010	4.83	2.1%	2.1%
October 2009	4.73		

Utilities (from the ONS)

Period	Rate	Change on Year	Change on March 10
March 2013	149.1	4%	15%
March 2012	142.7	6%	10%
March 2011	134.4	3%	3%
March 2010	129.9		

Other (RPIx)

Period	Rate	Change on Year	Change on March 10
March 2013	248.0	3%	13%
March 2012	240.2	4%	9%
March 2011	231.7	5%	5%
March 2010	219.9		

21. As can be seen from the above tables the cost of the national minimum wage at all levels has increased considerably over the period to April 2013. On average by 4.7% from October 2009. In the same period utilities costs have also increased by 15% and other general inflation by 13%. All of these are more than the 2.3% increase in rates that was agreed for 3 & 4 year old children from April 2013.

Comparison of the April 2013 rate, to the 2012/13 rate

22. The following two tables apply the relevant inflation for the last year, to the rate that was paid for both two year old funding and for 3 & 4 year old funding. This has been undertaken by splitting the payment rate into the three 'categories' of expenditure (on the basis of the results of the provider questionnaire) and applying inflation.

2 Year Old Children

	Rate 2012/13	Inflation increase %	£
Employees 65%	3.15	0.8	3.18
Utilities 2%	0.10	4.0	0.10
Other 33%	1.60	3.0	1.65
Total	4.85		4.93
		Actual Rate 2013/14	4.93
		Difference	0.00

3 & 4 years old Children

	Rate 2012/13	Inflation increase %	£
Employees 60%	2.05	0.8	2.07
Utilities 2%	0.07	4.0	0.07
Other 38%	1.30	3.0	1.34
Total	3.42		3.48
		Actual Rate 2013/14	3.50
		Difference	0.02 over

23. As can be seen from the above tables when inflation (for the last year) is applied to the 2012/13 rates (on the split as per the questionnaire results), the rate that is calculated for 2 years old funding is £4.93 which is the same as the current rate paid.
24. The result for 3 & 4 year old children is a rate of £3.48 which is 2 pence per hour less than the £3.50 that was agreed from April 2013.
25. Looking at the figures in the above tables, the payment rates that have been calculated for both 2 year old and 3 & 4 year old nursery funding (using the 2012/13 rate and applying inflation) are at a similar value to what was agreed from April 2013 (in fact 3 & 4 year olds is 2 pence too much). It would therefore appear that the new rates that were agreed from April 2013 are correct and do not need to be increased. However, while it may appear that the rates that were set in April are correct, this is only true on the basis that the 2012/13 rates on which they are based were correct also. It is clear, that over the period 2009 to 2012 the inflationary factors in the economy have resulted in increased costs to providers over a period of time that the rates were frozen. There is therefore a clear argument that the rates prior to April 2013 did not cover the full cost of providing the nursery places.

SCHOOLS

26. School rates increased by eight pence from the 1st April 2013, this was the first increase in rates since 2011/12. The following table shows the changes to the value of the payment rates over the last few years.

Period	Rate £	Change on Year	Change on April 10
2013/14	3.40	2.4%	3.0%
2012/13	3.32	0%	0.6%
2011/12	3.32	0.6%	0.6%
2010/11	3.30	0%	0%

27. As was the case with the PVI sector, when the rates were agreed by Forum in February it was agreed that a review of the rates paid to schools would also be undertaken during the spring.
28. On a similar basis to the PVI providers, schools were also sent a questionnaire regarding the cost of nursery provision. Of the 18 questionnaires sent, 8 were returned.
29. The results of the questionnaire, were again inconclusive in that there was a wide spread of costs between schools with no apparent pattern. The following table shows the results in summary

	Minimum (£)	Maximum (£)	Average (£)
Cost per hour - Annual cost divided by estimated pupil numbers, 38 weeks, 15 hours	3.34	6.87	4.48
Cost per child – Annual cost divided by estimated children	1,903.16	3,917.72	2,551.34

30. From the above table it can be seen that the average cost of running nursery provision within a school setting is £4.48 which is substantially more than the current payment rate of £3.40 per hour. This average, however, should be treated with some caution as there are a number of factors that need to be considered when looking at the raw figures.
31. The average unit cost has been calculated by dividing the annual running cost of the nursery (as provided from the questionnaire) by the estimated number of pupils. This estimate of pupils is therefore subject to change and therefore the unit cost could be different dependent on the actual number of children present. Further work would be needed to examine the actual capacity of the nurseries, with more detailed analysis of the running costs, to ascertain whether the costs presented are based on the capacity of the unit, the estimated number of children, or a combination of both.
32. When looking at the total cost of running a nursery provision within a school, the allocation of the budget needs to be considered further. For example some of budget figures provided are a pro-rata cost of the whole schools costs. This is an acceptable method of allocating costs, however it may not actually truly reflect the cost of the service.
33. In addition there are some cross overs of funding between what a school receives within its budget share and the per hour nursery funding. In an ideal world, the two budgets would stand alone, however it is the case that historically the budget share has funded some elements of school costs in total that cover both the school and the nursery. These costs would need to be removed from the cost of running the nursery or else they are double funded. An example of this would be the funding for premises. In the budget share (pre April 13) schools received funding within their budget share for the whole of the school building including the nursery areas. This means that the nursery is partly being funded by school budget share and therefore this element should be removed from the per hour rate. In the new school budget share (from April 13) this factor has disappeared, however as the Forum agreed a no winner no loser model for 2013/14 the school still received the same funding as they received in 12/13 i.e. including the premises elements. It would therefore still be appropriate to remove this element from the per hour rate.
34. This double funding also works both ways, in that some elements of the school costs e.g. head teacher, admin etc. cover both the school and the nursery. In this case the school is subsidising the nursery if these costs are all picked up from the school budget share.
35. In summary it is clear that in order to ascertain a true cost of nursery provision within a school further work would need to be undertaken. This would require an analysis of each school to examine in detail the running costs and pupil numbers. Again this is something that there is no capacity to undertake within the Local Authority.

Financial Considerations

36. When considering any change to the funding rates the affordability of the options must be taken into account. All nurseries per hour funding is paid via the DSG of which there is only a limited resource.
37. Although there may be sufficient funding in the current year, a longer term view must be taken in order to ensure that any changes to funding rates are sustainable over the medium term. There has been no reductions in the DSG over the last few years and it is not expected that there will be reductions in the future, however with the current economic climate this cannot be guaranteed long term. Although DSG is now allocated in separate funding blocks, these are not ring fenced, with the total expenditure on education needing to be balanced across all the funding blocks.
38. It is the case that there has been a number of pressures within special education needs, which must be balanced within the overall budget, therefore meaning that all funding decisions need to make consideration of the whole budget, rather than just single elements.
39. Forum must also consider when making any decision on nursery rate other factors such as the following.
 - Forum agreed a no winner no loser model for 2013/14.
 - Schools have been funded on a minimum funding guarantee of minus 1.5 % over the last three years (although this did not effect schools in 2013/14 due to the no winner no loser model).
 - There has been no increase in government funding
 - In the economy at large there has been freezes in pay levels across both the public and private sector
41. With regard to the cost of implementing any increase, based on the number of hours that were provided within the budget every one pence increase in funding would cost approximately,
 - £4,471 (per full year) for children in PVI based provision
 - £5,423 (per full year) for children in school based provision
42. For two year old pupils, there has been an increase in funding as the Government has given additional resources in order that the number of places available in the area can be increased. In Darlington there is a target of 288 two year old places required by September 2013, with a further increase in target due for 2014/15. It is difficult to quantify the cost of every one pence increase in nursery funding rates for 2 year old provision as the number of children is increasing to meet the new target, however it is loosely estimated that every one pence increase would add £1,642 (per full year) to the budget requirement.

Proposal

43. As detailed within this report it is not possible to say with 100% accuracy whether the unit rates that are currently paid for nursery education are correct or not.

44. Looking at the PVI sector, it would appear that the increase made in April 2013, covers the increase in costs over the last year, however the fact that the rate was frozen for a number of years prior to this raises questions. It is clear that over that period the costs that are involved in running a nursery have increased considerably, in particular with employee costs which make up the majority of the service cost. There does therefore seem to be reasonable grounds for an increase in rates.
45. As a further increase in minimum wage comes into effect in October it is proposed to look at any increase using this as a yard stick. The following tables show the effect of the October minimum wage increase at both the average and maximum increases.

2013/14 Current rate increased for the change in national minimum wage (Average increase)

2 year old children

	Current Rate 2013/14	Inflation increase %	£
Employees 65%	3.20	1.9	3.24
Utilities 2%	0.10	0.0	0.10
Other 33%	1.63	0.0	1.63
Total	4.93		4.97
		Actual Rate 13/14	4.93
		Difference	0.04

3 & 4 year old children

	Current Rate 2013/14	Inflation increase %	£
Employees 60%	2.10	1.9	2.13
Utilities 2%	0.07	0.0	0.07
Other 38%	1.33	0.0	1.33
Total	3.50		3.53
		Actual Rate 13/14	3.50
		Difference	0.03

2013/14 current rate increased for the change in national minimum wage (maximum increase)

2 year old children

	Current Rate 2013/14	Inflation increase %	£
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Employees 65%	3.20	1.9	3.26
Utilities 2%	0.10	0.0	0.10
Other 33%	1.63	0.0	1.63
Total	4.93		4.99
		Actual Rate 13/14	4.93
		Difference	0.06

3 & 4 year old children

	Current Rate 2013/14	Inflation increase %	£
Employees 60%	2.10	1.9	2.14
Utilities 2%	0.07	0.0	0.07
Other 38%	1.33	0.0	1.33
Total	3.50		3.54
		Actual rate 13/14	3.50
		Difference	0.04

46. From the above tables it can be seen that based on the current funding rates, the increase in minimum wage will add between four and six pence, or an average of five pence for 2 year old provision. For 3 & 4 year old provision, the increase would be between three and four pence.
47. Using the 2 year old rate as a yard stick it is proposed that the per hour rate for both 2 year old provision and 3 & 4 year old provision be increased by five pence per hour. Although this is a slightly higher increase for 3 & 4 year old rates, it is proposed to have a consistent increase across both age groups.
48. It is proposed that this increase be implemented from the start of the autumn term as the increase in the minimum wage starts in October, and there is no proposal to back date this increase.
49. It is not proposed to change the additional payments made with regard to deprivation within PVI settings.
50. For school based provision again the evidence was unclear, however there would be a suggestion that there is a case for an increase within the rates. The increase in minimum wage does not have the same effect on school provision; however it is proposed that the rate payable to schools increases by the same rate at five pence per hour.
51. Although schools receive a lower rate than the PVI sector it is not proposed at this stage to reduce the gap between the schools rate and the PVI rate. The gap between the two rates will remain at ten pence per hour, as it is clear that some funding through the budget share is relevant to nursery provision, therefore there is a case for maintaining the difference between the provider types. It should be noted however that whilst the gap remains at the same value in money terms, an increase of five pence to schools is a higher percentage change than that to the PVI settings, therefore the percentage gap between the two rates is decreasing.
52. It is not proposed to change the additional payments made with regard to deprivation within school based settings.

53. In order to maintain the no winner no loser model it is not proposed to change the lump sum arrangements paid to stand alone nurseries. It is not possible to remove this funding part way through the financial year as schools will have set budgets based on this payment. In addition within the funding arrangements this would not be possible. As stand alone school nurseries operate as a school, they have additional requirements in terms of staffing and governance that effect their cost base. It is therefore not proposed to change lump sum arrangements in the short term, prior to any national funding formula being introduced.

54. The following table summarises the proposed rates payable

	Current Rate £	Proposed rate from 1 st September 2013	Change £	% Change	% Change Full Year	Approx. additional cost 13/14 £
PVI Settings						
3 & 4 Year old children - Per hour	3.50	3.55	0.05	1.4%	3.3%	15,000
3 & 4 year old children - Deprivation – Top 10% deprived post codes	100.00	100.00	0.00	0	0	0
3 & 4 year old children - Deprivation – Top 20% deprived post codes	50.00	50.00	0.00	0	0	0
3 & 4 year old children - Deprivation – Top 30% deprived post codes	25.00	25.00	0.00	0	0	0
2 Year old children - Per hour	4.93	4.98	0.05	1.0%	2.3%	6,000
School Settings						
3 & 4 Year old children - Per hour	3.40	3.45	0.05	1.5%	3.4%	18,000
3 & 4 year old children - Deprivation – Top 10% deprived post codes	100.00	100.00	0	0	0	0
3 & 4 year old children - Deprivation – Top 20% deprived post codes	50.00	50.00	0	0	0	0
3 & 4 year old children - Deprivation – Top 30% deprived post codes	25.00	25.00	0	0	0	0
Stand Alone Lump Sum	92,000	92,000	0	0	0	0

55. The above proposed changes are estimated to cost £33,000 (excluding 2 year old children), Forum set a budget of £50,000 at the beginning of the year for this potential increase, therefore this increase is affordable within budget.

56. The full year estimated cost of the proposed increases is £49,000 (excluding 2 year old children), again as £50,000 was allocated in the budget (assuming no change in funding for 14/15), this is affordable in future years.
57. The impact of the increase for 2 year old children is £6,000 in 2013/14 and £9,000 in future years (based on current targeted increases in placements). This will be funded from the increased resources provided for 2 year old funding and therefore does not create any budget issues.
58. Forum should note that the above figures are based on the estimated hours in the budget. If there is an increase in hours children are in provision then this cost will increase (and vice versa). In the event of an increase in hours this would potentially give a pressure on the budget, however as Forum members are aware, the Early Years Funding block will be amended for the January census, therefore if there are additional pupils this should be reflected in the final EY block settlement, therefore negating the potential pressure.

Future Years

59. As in previous years any further changes to the nursery rates that are paid for 2014/15 will be agreed as part of the budget setting exercise that commences at the November Forum.

Recommendations

60. That Forum agrees to proposed increase in rates as per the table in paragraph 54 from 1st September 2013.

Brett Nielsen
Finance Manager,
-Resources Department