

MEETING:	HEREFORDSHIRE SCHOOLS FORUM
DATE:	20 JANUARY 2012
TITLE OF REPORT:	INFORMATION REPORT ON NURSERY ENTITLEMENT FUNDING (NEF) IN HEREFORDSHIRE
REPORT BY:	Head of Commissioning (Sufficiency & Capital)

CLASSIFICATION: Open

Wards Affected

Countywide

Purpose

To inform Schools Forum of the background to and present funding of Nursery Entitlement Funding (NEF) and the associated Single Funding Formula (SFF).

Recommendations

THAT:

- (a) Schools Forum note the on going challenges faced by the Foundation Years' sector;
- (b) Schools Forum note how NEF and the associated SFF contribute to the Local Authority (LA) meeting its statutory duty to commission provision in the Foundation Years' sector; and:
- (c) Schools Forum use the information as supporting evidence for their proposal not to cut NEF for 2012/13 and that the information forms the basis of further work to inform Schools Forum budget proposals for 2013/14.

Key Points Summary

- The duty to secure NEF early education places rests with the LA.
- NEF provides for the statutory free entitlement that every 3 and 4 year old child may access at a Foundation Years' provider (including Maintained Nursery Classes).
- Approximately 80% of NEF is claimed by the private, voluntary and independent (PVI) sector, predominantly comprising of local small businesses.
- There is no statutory requirement for private, voluntary and independent providers to offer NEF places at their settings.

- The rate of payment by the LA via the SFF has reduced to a level which providers confirm, via costs analysis, affects business sustainability
- In 2008 the NEF funding budget (prior to the SFF) was frozen and reduced annually since 2009, The SFF has been tailored to fit the budget
- The Childcare Act 2006 requires the LA to use external providers to deliver NEF and childcare except in exceptional circumstances, when maintained provision may be considered as a last resort.
- It is the responsibility of local authorities to administer the NEF scheme

Alternative Options

1. There are no alternative options

Reasons for Recommendations

2. The recommendations seek to ensure informed decisions by Schools Forum regarding NEF and SFF.

Introduction and Background

3. Nursery Entitlement Funding provides the statutory free entitlement each 3 and 4 year old child may access at a provider (including Maintained Nursery Classes). It is paid direct to the providers by the Local Authority, based on termly estimates of take-up of places and adjusted retrospectively, according to actual take-up.

4. The funding is passed to providers via a Single Funding Formula, a statutory mechanism which reflects costs within the sector locally. The value of this funding therefore differs from authority to authority but it must contain a mechanism which gears more funding for settings with disadvantaged children.

5. Every Local Authority must conduct a Childcare Sufficiency Assessment every 3 years. This maps the supply of childcare, in its broadest terms, to the demand of parents to highlight gaps in the market. The Childcare Act 2006 requires Local Authorities to secure enough 3 and 4 year old funded places for all children whose parents require it. Take-up of places in Herefordshire is constant at approximately 96%.

The report considers four areas

- Nursery Entitlement Funding
- The Single Funding Formula
- Costs within the Sector
- Consequences of changes

Key Considerations

Nursery Entitlement Funding (NEF)

6. The national universal offer is that all 3 and 4 year olds and 20% of 2 year olds (by Sept 2013) are entitled to 15 hours free early education and childcare over 38 weeks of the year. A Code of

Practice for Local Authorities governs the delivery of the entitlement and the manner in which payment is passed to providers.

7. Therefore a child can be funded for 6 terms of the entitlement if the parents do not take up a place at school until a child reaches statutory school age.

8. The duty is upon the Local Authority to secure sufficient places for all 3 and 4 year olds to access. Where there is a gap in the provision of places, highlighted via the statutory Childcare Sufficiency Assessment, the authority must attempt to fill the gap by commissioning additional places. It can only deliver the entitlement itself as a last resort.

9. In Herefordshire 80% of 3 year olds access the offer in the PVI sector, 20% in the maintained sector.

10. Approximately 80% of 4 year olds are admitted to Reception classes in schools, the other 20% access the remainder of their entitlement in the PVI sector at the same providers who deliver to 3 year olds and will access schooling later, sometimes until statutory school age (the term after the 5th birthday).

11. The PVI sector delivers the Early Years Foundation Stage curriculum to the same requirements as schools.

12. There is no requirement placed upon the PVI sector to participate in NEF, indeed some settings in Herefordshire (of which there are 103) have, in the past, opted out of NEF delivery.

13. Therefore the LA has a statutory duty that it cannot deliver without this partnership with the PVI sector.

The Single funding formula

14. Schools Forum has participated in the consultation and commitment to the SFF and in Feb 2010 endorsed the formula which was implemented in April 2010.

15. By April 2011 all Local Authorities were funding NEF providers via a locally derived SFF mechanism.

16. Based on a set budget and via a 3 year transition period Herefordshire moved from funding the PVI sector at an hourly rate per child and the maintained sector for the number of places available, to a Single Funding Formula incorporating a fixed weekly rate per setting, a subsidy for each disadvantaged child and an hourly sum per child, reflecting local costs.

17. In 2008 the NEF budget (prior to the SFF) was frozen and reduced annually since 2009, The SFF has been tailored to fit the budget.

18. Cost analysis work carried out by the Local Authority in 2008/9 to inform the SFF is now outdated in the current financial climate.

Present Costs in the Sector

19. Initial cost analysis was carried out in 2008/9 and the formula devised with both this and the set budget in mind. In the past 30 months the financial climate has altered and, along with the Forum's advice and the authority's decision that NEF payments should be in parity with surrounding authorities and therefore reduced, the "value" of NEF payments has decreased.

Increases in costs have led to increased pressure on finances in the sector such as:

- 3 increases in the national minimum wage – an issue which does not affect the maintained sector; LA pay rates being above this standard
- Rates, rent and utilities increases
- CPD training costs to the sector increase as the LA can no longer afford to subsidise training nor offer discretionary support

20. The DfE confirm in the Code of Practice for Local Authority that a profit element is a legitimate cost for the SFF to incorporate and both businesses and charity/voluntary bodies require an element of such to succeed. In fact running at a loss for a period of time may be possible for a small business, but it is not legally acceptable for voluntary or charitable bodies. A 2011 consultation regarding costs gave the following results based on a simple annual “Cost vs Hours open” basis:

- | | Cost per child hour |
|----------------------|----------------------------|
| • Private bodies | £ 3.37 |
| • Voluntary bodies | £ 3.72 |
| • Independent bodies | £ sample too small |
| • Maintained sector | £ not available |
|
 | |
| • AVERAGE | £ 3.66 |

21. The NEF payment rates under the SFF would give the following income for 20 place and 60 place settings in the scenarios listed

	WEEKLY INCOME				If actual average cost per child hour used
Places No.	Income if all users are from paying families (15 hours weekly) – based on average charge of £3.43	Income if all users are taking up NEF places (15 hours weekly) No disadvantage subsidy	Income if all are NEF and 25% from a disadvantaged area	Income if 50% disadvantage and inc. weekly disadvantage flat rate	
20 places	£1029	999	1014	1023	£1188
60 places	3087	2919	2939	2961	£3564

It can be seen that disadvantaged subsidy makes little overall increase.

There is therefore a difference of at least 3% between income from paying clients and NEF clients and a minimum of 10% difference between NEF and the amount needed to cover actual costs.

Community Impact

22. Direct impact would be seen on local communities if such businesses were to fold via loss of jobs and loss of care/education leading to parents unable to access childcare/education and therefore work. The effect on the children not receiving early EYFS support would be felt in schools; the effect of early education in the development of 0-5 year olds is well documented, the Effective Provision of Pre-School Education (EPPE) project, for instance, has shown that high-quality, pre-school provision enhances children's all round cognitive, language and social development and more recently findings contained in "Families in the Foundation Years" (DfE) study support this.

23. During 2011 (April – Dec) 3 settings have closed and one opened (not inc Childminders). Owners have sited overall costs and diminishing NEF return as a contributing factor. Approximately 50% of local settings are now restricting the hours they are able to offer to the LA to support NEF, allowing larger periods during which they are able to charge parents. This compares to virtually total flexibility for parents on when they used their 15 hours during the week in 2010/11. This has led to a large increase in parental contact querying the legitimacy of this restriction. Of course, it is legitimate. These are often small businesses with no statutory obligation to offer NEF places, let alone flexibly. The impact of this shift in overall flexibility in the market is that parents may not access the care/education they require to allow them to participate in training or continue in work or look for work, thus ultimately affecting the local economy.

Financial Implications

24. NEF for 3 and 4 year olds is claimed from the DfE direct, based on actual take-up of places locally. Funding for 2 year olds is funded through the Early Intervention Grant currently.

Legal Implications

25. The Authority's duty under the Childcare Act 2006 is to secure sufficient places for all 3 and 4 year olds to access the entitlement and for childcare universally for parents in work, looking for work or in training or looking for training opportunities and children with a disability. Failure to do so will be acknowledged within Ofsted Assessments of the Local Authority in coming years and via the Childcare Sufficiency Assessment Reviews.

Risk Management

26. The present cost analysis supports the contention by managers and owners of providers that present NEF rates do not cover costs. It would appear however that neither do the rates providers charge parents for time in the setting. The use of reserves to make up the short fall or failure by owners to take a wage or profit is another mechanism used. This situation cannot continue for long. Settings are loath to increase costs as they believe parents cannot afford the levels required. Many of these businesses were started based on local demand (including for the owners own family) once this need has dissipated the rationale alters.

Voluntary settings also confirm they are returning to fund-raising activity to make up any shortfall

RISK	OUTCOME	POSSIBLE MITIGATION
<p>Owners debt increases – leading to closure</p> <p>Voluntary or Charitable business collapses</p>	<p>Bankruptcy</p> <p>Loss of provision</p> <p>Gap in delivery of childcare</p>	<p>Establishment of a fund to offer discretionary grants to support settings in short term.</p> <p>Increase in NEF, based on inflation rate or freeze NEF at present level</p> <p>Commission places to compensate</p>
<p>Gap in delivery locally</p>	<p>LA fails to delivery its statutory duty</p>	<p>As above</p> <p>Consider transport support</p>
<p>Parents unable to access a child's entitlement</p>	<p>Appeal and possible complaint to Local government Ombudsman</p>	<p>Brokerage via Family Information Service</p>
<p>Failure of Local Authority to commission a range and diversity of provision.</p>	<p>Lack of choice for parents</p>	<p>Commission places</p>

Consultees

27. The providers of childcare in the county

Appendices

28. None

Background Papers

29. a)The Single Funding Formula

b)The Code of Practice for the delivery of the Free entitlement by Local Authorities