



House of Commons
Education Committee

**The Early Years Single
Funding Formula:
Government Response
to the Seventh Report
from the Children,
Schools and Families
Committee,
Session 2009–10**

**Second Special Report of
Session 2010–11**

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The Education Committee

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Second Special Report

On 24 March 2010, the Children, Schools and Families Committee published its Seventh Report of Session 2009–10, *The Early Years Single Funding Formula*.¹ Shortly before the 2010 General Election, the previous Government published a response to the Committee's Report.² That response addressed only three of the former Committee's 27 conclusions and recommendations in any detail. We therefore asked the new Government for a full response. This was supplied on 17 September 2010, and we publish it now as an Appendix to this Report.

Appendix

SELECT COMMITTEE REPORT ON THE EARLY YEARS SINGLE FUNDING FORMULA (EYSFF): THE GOVERNMENT'S RESPONSE

The Select Committee's recommendations are in bold text.

The Government's response is in plain text.

Some of the recommendations and responses have been grouped.

Introduction

The Government wishes to thank the Select Committee for their interest in the Early Years Single Funding Formula (EYSFF). The Government welcomes the Select Committee report which has been of considerable value in taking the policy objectives of the EYSFF forward. The Committee will be aware that the Government has recently taken the decision that all local authorities will be required to introduce an EYSFF by April 2011. For too long, Early Years funding has been inconsistent and patchy across the country—with too many children, particularly from disadvantaged families, not accessing any or all of their free nursery education hours. As the Committee recognises the EYSFF is undeniably a more transparent method of funding early years providers and is now operating in 71 local authorities. The Government looks forward to working with all local authorities across the country as they further develop their EYSFF in partnership with providers and move towards successful implementation.

The importance of cost analysis—recommendations 1, 2 and 21

1. Early years single funding formulae which are based upon inaccurate information on the costs of providing early years education and care will not command the confidence of providers in either the maintained sector or the private, voluntary and independent (PVI) sector. However, criticisms of local authorities for basing their funding formulae on incomplete cost data are not necessarily justified: many early years providers in the private, voluntary and independent sector failed to share key

1 Education Committee, Seventh Report of Session 2009–10, *The Early Years Single Funding Formula*, HC 131

2 Department for Children, Schools and Families, *Government Response to the Children, Schools and Families Committee report on Early Years Single Funding Formula (April 2010)*, Cm 7871

information. The reluctance of some PVI providers to offer cost information to local authorities—perhaps because of a perception that they were in competition for children to fill places—is understandable but ultimately short sighted. (Paragraph 50)

2. Accurate data on costs to providers must be obtained: this may require the use of a consultancy or other third party to secure information which private, voluntary and independent providers deem to be commercially confidential. Representative bodies for businesses in the private, voluntary and independent sector should encourage their members to participate in cost surveys, guide them through survey forms, and provide advice. Local authorities have a similar role in relation to maintained settings. (Paragraph 51)

21. Whatever the reasons why many providers did not become engaged with the Single Funding Formula—and it may be that in many settings staff did not feel confident or able to spare the time to engage—we do not believe that local authorities should bear sole responsibility for that failure. (Paragraph 108)

The Government agrees that it is fundamental to the EYSFF that it should be based on a detailed understanding of providers' costs in both the maintained and Private Voluntary and Independent (PVI) sectors. Local authorities cannot take full account of the costs across different types of provision if these costs are not shared with local authorities. This requires local authorities to build their EYSFF in close consultation with all providers. Through this, local authorities can build an accurate and detailed cost analysis. Through the development of their cost analysis local authorities will want to consider what a reasonable rate of return for all providers is under a new formula to ensure they remain sustainable and can deliver high quality provision. In determining rates, local authorities should be able to explain and justify any differences in funding between providers under the new formula.

The Government also agrees that local authorities should not bear sole responsibility for the lack of engagement by some providers with the EYSFF. Some local authorities have had more success than others in engaging their providers to participate in cost surveys. Local authorities with high response rates have consistently involved providers throughout the process and kept them informed of their aims and motivations. Ultimately though it is in the interests of PVI providers to be transparent with their costs. The Government will continue to work with key stakeholders such as National Day Nurseries Association, Pre-School Learning Alliance and Federation of Small Businesses to emphasise the importance of PVI providers involving themselves fully in this process.

3. Although we believe that only a minority of private, voluntary and independent providers—chiefly those with highly qualified staff—will actually lose out through introduction of the Single Funding Formula, it will not provide the significant boost to the stability of private, voluntary and independent sector enterprises which some had anticipated. This was not, however, the purpose of the Single Funding Formula. (Paragraph 54)

The Committee is correct that the EYSFF was not introduced to boost the funding of one sector of the market over another. Rather, the EYSFF is intended to improve the fairness and transparency of funding free nursery education. It is correct that some PVI settings

have received an increase in funding to better reflect the costs of delivery. It is also true, that, overall, PVI settings are likely to see greater stability in their funding as they will have an indicative budget at the start of the year for the first time, but will continue to be adjusted to reflect participation during the year.

EYSFF and the maintained sector—recommendations 4 and 8

4. We welcome the Minister’s clear signal, in her letter of 28 October 2009 to local authority directors of children’s services, that good quality nursery schools should not be forced into closure by the Single Funding Formula. We believe that it was no accident that her letter was prepared just as the Committee was announcing that it would take oral evidence on the effects of the Formula. Although the letter may have come too late to influence local authorities implementing the Formula in April 2010, we encourage local authorities aiming for implementation in 2011 to reassess their formulae in the light of the Minister’s letter and to find ways of improving prospects for the sustainability of their maintained nursery schools. (Paragraph 61)

8. Evidence from Ofsted, academic research and local authorities is overwhelming: the quality of early years education and care offered by maintained nursery schools is almost invariably very high indeed. The standards set are there for others to follow, and they should not be put at risk by implementation of the Single Funding Formula. (Paragraph 71)

The coalition Government is clear that free nursery education should be delivered by a diverse range of providers. High quality provision is not to be found in only one part of the market and we want parents to be able to choose the type of setting that is best for them and their child.

The Government agrees with the Committee that many maintained nursery schools offer an exemplary standard of early education and it is true that children make more progress in settings where staff have higher qualifications particularly if the manager is highly qualified.

Maintained settings often have more highly qualified staff and should continue to be funded accordingly under the EYSFF. Local authorities should also ensure their EYSFF takes account of unavoidable costs—such as those of a Headteacher. We expect local authorities to put in appropriate transitional support to manage maintained provision moving to the EYSFF. However, the Government expects the maintained sector to ensure that it is offering value for money. As part of this, we want to enable more children to access places in nursery schools where these have been left empty but still paid for, and we want to encourage schools, through outreach campaigns, to move towards achieving their capacity. As the majority of maintained nursery schools are part of Children’s Centres we are also encouraging a more integrated approach whereby, for example, resources and governance structures might be shared if appropriate to ensure better value for money. In addition, the presumption against the closure of maintained nursery schools remains in place.

Flexibility—recommendations 5, 6, 7 and 16

5. Although the picture remains unclear, there is little evidence so far that the Single Funding Formula has encouraged greater flexibility in provision of the free entitlement to early years education and care. (Paragraph 64)

6. We accept that flexible care may suit parents; however, it risks serving the interests of the parent but not of the child. (Paragraph 68)

7. We approve of steps taken by local authorities to ensure that take-up of the free entitlement to early years education and care is spread reasonably over the week. We believe this to be the ideal for most children, and the design of any flexibility supplement should favour such a pattern. (Paragraph 68)

16. It is in local authorities' interests to ensure that provision under the free entitlement continues to be offered by a wide range of private and independent providers, who may offer the greatest degree of flexibility. Otherwise, local authorities will risk being unable to discharge their statutory duty to secure sufficient childcare for working parents. (Paragraph 94)

The Code of Practice which came into force on 1 September 2010 has national minimum standards of flexibility. The Government recognises that this is quite prescriptive and it will be important to understand the impact and review these requirements. The Government intends to streamline early years and childcare guidance next year which will allow us to recognise where changes might need to be made.

Parents should be able to choose when they take up free early education for their child to fit in with their daily lives. However, for some providers, the move to more flexible patterns of delivery presents some real practical, and in some cases financial barriers. The flexibility supplement of the EYSFF is designed to support providers by recognising the costs associated with delivering different patterns of provision and incentivising providers to move away from sessional provision to help them to deliver the extension to 15 hours from September 2010.

The Committee may wish to note that from an analysis of section 251 financial returns 24 pathfinder authorities have included a flexibility supplement within their EYSFF. Some local authorities have built a flexibility payment into their base rate and others will be using Standards Fund money to incentivise flexibility as part of the extension of the free entitlement from 12.5 to 15 hours.

Improving quality through the EYSFF—recommendations 9, 10, 11 and 12

9. Whatever the stated purposes of the Early Years Single Funding Formula, it is unacceptable for a local authority not to use it to try to stimulate improvement in quality of early years education and care. (Paragraph 80)

10. Every local authority should include a quality supplement in its single funding formula, and the level of that supplement should be credible and not minimal. We recommend that the Department specify in future guidance to local authorities that a quality supplement is mandatory. At the very least, local authorities which have decided

that a quality supplement is unnecessary should be challenged by the Department. (Paragraph 80)

11. We believe that a quality supplement should normally be payable to settings not on an aspirational basis but rather to those which demonstrate that a standard has been or is on the way to being achieved. Local authorities should be using funding from other sources, such as the Outcomes, Quality and Inclusion element of the Sure Start, Early Years and Childcare Grant, to improve quality in settings needing intensive or targeted support. In order to continue stimulating the recruitment and retention of graduate level staff in early years settings, the Government should not allow the Graduate Leader Fund to peter out after 2011. (Paragraph 83)

12. Early Years Quality Improvement and Support Programme (EYQISP) ratings of early years settings are reached following a consistent process across local authorities. We believe that they would serve as good indicators of quality for the purposes of allocating a quality supplement under the Single Funding Formula. (Paragraph 84)

The Government is committed to giving children the best start in life, and recognise that high quality nursery education plays a key role in reducing inequalities for those most at risk of falling behind their peers. Raising the qualification levels of staff in early years settings is one way of meeting this aim, and we will be looking at all spending which is focused on supporting high quality early years provision as part of the Spending Review process. We will be talking to local authorities and sector representatives about how best to ensure funding has the most impact on the children who would otherwise be at the greatest risk of experiencing inequalities.

The Committee is, of course, correct that high quality nursery education is of paramount importance to improve the life chances and readiness for school of children, especially the most disadvantaged who stand to benefit the most. It rightly follows that local authorities are encouraged to use the EYSFF to support and promote quality and foster a culture of continuous improvement in the quality of provision.

A quality supplement is used in around half of the pathfinder local authorities, but many others have included an uplift in their base rates to recognise quality—for example by including multiple base rates for different types of provision. The Government agrees that the EYSFF should form part of local authorities' strategies for driving up the quality of early years provision and supporting continuous improvement. Local authorities will want to use their quality supplement to address issues of market failure and where children's outcomes are at risk through low quality provision.

The most common indicators used to measure quality have been workforce qualifications and Ofsted inspection ratings. Providers are rewarded immediately on the qualifications of their staff but are also incentivised to recruit a higher quality of staff. Likewise, settings are incentivised to work towards achieving—or retaining—a good inspection judgement. The Government agrees with the Committee that the Early Years Quality Improvement and Support Programme (EYQISP) should be used to serve as a good indicator of quality. Local authorities should, through the EYQISP assessment process make judgements about the quality of provision in their area.

13. As access to the entitlement to free early years education and care is extended to disadvantaged two-year-olds more widely, and given the possibility that such provision may in time need to be funded from the Dedicated Schools Grant or its equivalent, single funding formulae may need revision to acknowledge the cost of high quality care for two-year-olds. (Paragraph 85)

The future of free early learning for two year olds is subject to the outcomes of the Spending Review. We will consider this recommendation when we are clearer following the Spending Review on future status of the two year old offer—but should the pilot be significantly expanded the Government recognises a formula approach may need to be considered.

14. We draw the Department’s attention to the possibility that the cost to local authorities of early years provision may rise significantly if quality levels rise and parents make more use of high-cost provision under the free entitlement. (Paragraph 86)

Funding for early years provision is not ring fenced through the Dedicated Schools Grant. It will be for Schools Forums to decide locally how best to distribute 3–16 funding across their locality. Local authorities will want to consider the sustainability of their formula when setting rates—particularly for their quality supplement.

15. The free entitlement to early years education and care is available to any parent. We do not support any erosion of that universal availability through allowing providers to charge top-up fees for ‘free’ hours. Nor are we convinced that it is necessarily good economics to regard a constant element of income, such as local authority funding for early education and care under the free entitlement even at or slightly below cost of provision as dispensable if it provides a reliable basis for other, more profitable activity, as long as there is demand. One form of income would sustain the other. If the costs of providing the free entitlement are far exceeding the income received for it, then either providers should be re-examining those costs or they should be making a forceful case to local authorities for those extra costs to be recognised through supplements. This is particularly so for the cost of highly qualified staff. (Paragraph 93)

Current primary legislation requires local authorities to secure fifteen hours of nursery education free of charge for all eligible children in their area. And local authorities are expected to work with providers to ensure that there are no conditions of access to these places.

Local authorities are expected to make every effort to ensure that the EYSFF is designed and implemented in a way that enables providers to continue to offer free nursery places. As such, the sustainability of providers is a key consideration throughout the process. Additional factors, either to support places or cover other cost pressures, can be allocated in exceptional circumstances.

Local authorities should put in place Provider Agreements with all providers delivering free nursery places. As a last resort, local authorities should consider whether to withdraw funding from providers who do not uphold their agreement. However, where there is demand for a setting, or its places are needed to uphold sufficiency of provision in the area,

support should be offered to enable that setting to meet the conditions of the agreement and continue delivering the free places.

Whilst all providers are currently eligible to deliver free nursery education it is optional and in making decisions providers need to consider if their business models are viable.

17. Strict application of participation-led funding is not in a child’s best interest if the effect is to pressure them into early years education and care prematurely. The Department should permit local authorities to fund even if not at a full unit rate places which have been allocated to a child whose entry has been deferred until they reach a suitable stage of development. Such arrangements should apply equally to settings in the maintained and private, voluntary and independent sectors. (Paragraph 98)

The EYSFF requires all local authorities to be transparent about the funding that they are providing for free nursery education for three- and four-year-olds—so that parents and providers are able to hold their local authority to account. It also requires local authorities to fund providers for the children that attend their nursery—rather than allowing funding to be wasted on empty places. This will help to ensure that nurseries are making the best effort to fill their places by attracting and encouraging more families to take up free nursery education—particularly the ‘hardest to reach’ who stand to benefit the most.

The Government believes that settings should be funded on the basis of participation rather than places, except for reasons of sustainability. In recognition of the fact that local authorities have a sufficiency duty, the school finance regulations will permit a factor to be included in the formula for additional funding to support sufficiency and sustainability. Furthermore, the Government is consulting on provisions in these regulations which will allow local authorities to reserve places, for children with special education needs or those children in need. This will allow local authorities to use some discretion over place-led funding.

18. Local authorities may be perfectly justified in deciding that they can no longer afford to fund full-time early years education and care, but they should not portray the cessation of funding as a direct consequence of the Early Years Single Funding Formula. (Paragraph 100)

The Government agrees with this statement. Historically, some local authorities have taken a local decision to fund full-time places—particularly in maintained settings—for some or all children of pre-school age (in excess of the 12.5–15 hour entitlement).

The affordability of free nursery places has been a prime consideration for pathfinder authorities and their Schools’ Forums in developing the EYSFF. Local authorities should be assessing the affordability against an overall funding limit or a locally defined early years budget.

The transparency of the EYSFF has thus led some local authorities to consider the basis on which they fund full time provision, with some introducing formal policies for the first time to introduce a more targeted approach to allocating full-time places for the most disadvantaged children, rather than universally or towards a particular sector.

Should the Government proceed with the Single Funding Formula—recommendations 19, 20 and 22

19. While the Early Years Single Funding Formula may have its faults, it can, if the underlying principles are applied carefully and consistently, be sufficiently versatile to fund all settings sustainably and in a way which respects and rewards the varying provision offered. It is undeniably more transparent than the uncoordinated methods which it replaces. If greater stress is placed in future on using the Single Funding Formula as a way to improve and reward quality of early years provision, it should develop that provision over time in a way which brings substantial long-term benefits for children and parents. We do not believe that the concept of the Single Funding Formula is flawed. (Paragraph 104)

20. A great deal of work has been done by local authorities to prepare single funding formulae: that work should not be abandoned without very good reason. Given the advantage of greater transparency, and the work done so far in gaining a greater understanding of costs and the economics of operating an early years setting, we believe that the Government, local authorities and providers should continue to work towards implementation of the Early Years Single Funding Formula throughout England. (Paragraph 105)

22. Given the difficulties faced by local authorities and early years providers in achieving such a major reform, the Government was correct in deciding not to press ahead with the introduction of the Early Years Single Funding Formula by all local authorities in April 2010. We suspect that the Committee's inquiry helped to focus minds on this decision. The year's delay in full implementation must be used to settle nerves and restore some stability in the sector, and to rework funding formulae where necessary. We welcome the chance for pathfinder local authorities to disseminate good practice. (Paragraph 109)

The Government is grateful for the Select Committee's view that the core principles of the EYSFF—consistency and transparency in allocating funding—are valid and for the first time, will ensure an improved level of fairness in the way early years providers are funded.

However, the Government also acknowledges that it is only through the effective implementation of the EYSFF that all providers across the sector can have confidence in local decisions about funding and the objectives of the EYSFF can be met.

Most childcare groups representing the PVI sector broadly welcome the EYSFF and the greater transparency it promises, and recognise it is a step in the right direction. Where concerns remain about the impact that the EYSFF will have on providers, local authorities are generally trying to manage sympathetically the move to the EYSFF.

The Government agree with the Select Committee's recognition of the hard work undertaken by local authorities and providers to get to the current stage in development of the EYSFF. The large group of pathfinders (almost half of all local authorities) who were ready and willing to implement from April 2010 is indicative of the scale of preparation that had been done prior to this date.

On 26 July, Ministers announced that from April 2011 all local authorities will be required to implement the EYSFF. This provides all authorities with some time to finalise their formula before the regulatory framework is introduced.

The Government now want to use the pathfinder authorities to gather more examples of practice to support those local authorities that have found implementation more difficult. Having a larger number of pathfinders has enabled us better to understand the different challenges being faced by different types of authority.

Funding early years provision—recommendations 23 and 24

23. The prospect of an increase in funding for early years provision being met by a corresponding decrease in funding for primary or secondary school provision is not attractive, although this is largely a matter for local determination. Nevertheless, there is compelling evidence to show that a child's experience in its first years is key to its development, and we believe that the Government should re-iterate to local authorities the primary importance of properly funded early years provision. (Paragraph 115)

24. Constraints on public spending and difficult financial times lie ahead. If the Government's policies lead to greater take-up of the entitlement to free early years education and care, and to full-time rather than part-time funding for four-year-olds, at public expense, the Government should make a commitment to extra long-term core funding to allow for those extra financial demands. (Paragraph 118)

The Committee will understand that, in advance of the Spending Review, firm commitments cannot be made. However, it should be noted that in the Coalition Agreement, the Government is committed to supporting the provision of free nursery care for pre-school children, and for that support to be provided by a diverse range of providers. Further evidence of commitment to the early years was demonstrated when the Secretary of State for Education announced his intention to extend free nursery education for three- and four-year-olds to 15 hours per week from September 2010. The Government has also pledged to ensure that funding is focused on supporting those children from disadvantaged families who benefit most from nursery education.

Funding for all sectors offering free nursery places is provided through the ring-fenced Dedicated Schools Grant (DSG), which supports the majority of education provision for children aged 3–16. There is no specific ring-fence for early years provision within the DSG and the level of funding made available for education at all ages is defined locally in consultation with a local authority's Schools Forum. The Committee will also be aware that take up is already high with 95% of all three- and four-year-olds accessing some or all of their free nursery education.

25. We recommend that the Government examine whether a unified funding system should be introduced for all children aged from 2 to 11 years old. (Paragraph 119)

The Government is committed to the EYSFF which will fund children of three and four years. The Government has recently launched a public consultation on Schools Funding in general, and on the introduction of the pupil premium. Whilst funding will continue in the same way for the immediate future, the Government has signaled its intention to

review school funding for all schools including academies beyond 2011–12 and details will be announced in due course.

26. Inconsistencies between local authorities' base hourly rates and their approaches to supplements for funding early years settings are not necessarily a bad thing: they may merely show necessary sensitivity to local circumstances and needs. However, there have clearly been some wayward and potentially damaging decisions by local authorities, and Departmental guidance appears to have been interpreted differently in some cases. (Paragraph 124)

The Government agrees that the variability of hourly rates between local authorities is acceptable in response to local circumstances. Local authorities are well positioned to set rates, and should be doing so with the approval of the Schools' Forum, including representatives of all sectors. It should be noted too that some LAs have pursued a strategy of lower base rates with higher supplements. This means direct read across between different local authorities rates may not in many circumstances be possible. Differences in funding rates are in any case a local matter.

The additional year for implementation has benefited many local authorities, enabling them to consider and consult on proposals, arriving at sound, sensible decisions with broad agreement. In addition, the learning of the pathfinders will be shared with other authorities. We will be streamlining childcare guidance next year, in an effort to make it more accessible

27. We recommend that the Government review all early years single funding formulae whether proposed or implemented by the autumn of 2010. In particular, the Government should assess:

- **The use made by local authorities of the quality supplement, with a view to making it mandatory;**
- **The supply of cost information, with a view to requiring private, voluntary and independent settings to supply that information if they are to receive payments for provision under the free entitlement;**
- **The impact on Children's Centres, to inform the development of Phase 3 centres and the evolution of Phase 1 and Phase 2 centres; and**
- **Whether local authorities are setting formulae which assume unrealistic rates of take-up. (Paragraph 125)**

The Select Committee recognised the importance of effective implementation, and recommended that the Government review all formulae by the autumn of this year. The Government supports the principle that underlies this recommendation—that effective implementation is critical and the Government should work to ensure this is achieved. Fundamentally, however, the EYSFF is for local agreement between local authorities and childcare providers, guided by particular local priorities and circumstances. This being the case, the Government does not believe it would be appropriate or practical to review the detail of every local authority's proposed formula. However, it is our intention to call on all local authorities to publish their formulas locally to promote local accountability and

transparency and the Government will make this clear when early years and childcare guidance is streamlined in the future.

The Government does have a role in assisting local authorities to be ready to implement by April 2011. As a result the Department intend on collecting a range of practices and experiences from LAs who have already implemented in order to help simplify the process for others. The Department has also published comparative benchmarking data so those authorities still developing their formulae can see if they are broadly in line with those who have already implemented the EYFFF.