

# **Dudley MBC**

## **Directorate of Children's Service**

### **Early Years Funding Reform:**

Analysing the cost of delivering the free entitlement to nursery education in the maintained and PVI sector.

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### **Introduction**

#### **Historical background**

Before 1996, 3 and 4 year olds were only able to access free part time nursery education places in maintained nurseries. If children attended other provision their parents were required to pay childcare fees. Nursery Vouchers were introduced by the Conservative Government in 1996. Parents with 4 year old children of eligible age received vouchers which they could use in a range of provision. This enabled private and voluntary sector providers, which met a set of national requirements, including an additional OFSTED inspection, to access additional funding to provide free part time places for 4 year olds.

In 1997 Nursery Vouchers were withdrawn and a new system was introduced where local education authorities were required to administer funding to private, voluntary and independent sector providers (PVI) in their locality. The LEA was required to maintain a register of providers and also received separate grant funding to provide development support and training for these settings in order to support quality. LA central funding was also increased in order to ensure that capacity existed to provide the required SEN and qualified teacher advisory support to these settings.

From 1998 funding was received by the LEA for some 3 year olds to access the free entitlement in PVI provision and by 2004 all 3 year olds were able to access this.

Maintained nurseries have always offered a free entitlement across 38 weeks, in line with the school year. Until 2006, children attending PVI settings were only able to access their free entitlement over 33 weeks. There is now equity across sectors and all children can access 38 weeks of provision regardless of the type of provider. From 2004 childminders were also able to provide free nursery education as long as they were part of an accredited network.

All children are now eligible to access 5 X 2½ hour sessions over 38 weeks of the year from the beginning of the term after a child's 3<sup>rd</sup> birthday. This entitlement is the same across maintained and non-maintained sectors. The entitlement covers the period until a child reaches statutory school age at the age of 5. Therefore some children access their free entitlement into their reception year.

There is a statutory requirement of the LA to ensure that there are sufficient nursery education places for 3 and 4 year olds within the Borough.

#### **Summary of LA nursery education funding administration process**

The LA maintains a register of nursery education providers called the Directory of Nursery Education providers. This Directory includes all providers which meet specified requirements. New providers must be added to the Directory on request, as long as they meet conditions set by the LA. Providers may also be removed from the Directory if they request this, or if they fail to meet conditions set by the LA.

PVI providers are required to submit termly data to the LA of eligible children. Settings are then funded according to how many eligible children are attending in that term. Parents are able to take up their child's entitlement in more than one setting. In such a case the funding is pro-rated according to the child's attendance. Signed Parent Carer statements are required from all PVI settings to mitigate against double

## Appendix 1

funding. Children moving settings during a term are able to take up a free place at another provider if there is space.

There are agreements between LAs to fund all eligible children attending settings within their boundaries regardless of where they live. This decision was reached following analysis which demonstrated that number of children taking up their entitlement across borders was negligible and was generally equitable between LAs.

### **Recent developments**

LAs are now required to encourage providers across sectors to enable children to access their entitlement more flexibly. Dudley revised its Code of Practice in 2005 in order to support this. A pilot is also underway with a small cross-section of settings, to support the development of further guidance for providers about how they could do this.

There will be an extension to the 12 ½ hours a week free entitlement for the most disadvantaged children in the Borough from September 2009. By 2010 all eligible children will be able to access 15 hours a week. This should be delivered flexibly, for example allowing children to access their entitlement over 3 days rather than 5, where this is feasible.

The Early Years Foundation Stage is a new statutory stage for children aged 0 – 5. This brings together childcare and early education regulations and requires providers across maintained and non-maintained sectors to meet these requirements from September 2008. There are some potentially significant implications of this as all providers of childcare for children under 5 must meet the requirements. At present this is a greater number of providers than those currently included on the Directory of Nursery Education Providers. We are awaiting further guidance, but this could potentially result in an increase in providers who are able to offer free nursery education and consequently an increase in take up and therefore demand for funding. The new statutory framework will introduce more consistent standards across all types of provider.

The Government have announced, in the Children's Plan 2007, that funding will also be available to fund a free entitlement for 2 year olds in the most disadvantaged communities in the future.

Dudley LA has reviewed the Maintained Nursery Admissions Policy and the Primary School Admissions Policies. A decision has been made to change reception class admissions to schools in Dudley from two points of entry in September and January to one point of entry in September. This will have a potential impact on the sustainability of both maintained and PVI nursery provision as it will impact on the number of 3 and 4 year olds taking up their entitlement in nursery settings.

### **New future funding requirements**

The Department for Children, Schools and Families (DCSF) have announced there will be a staged approach to the reform of early years funding – the aim is to support better outcomes for children at age five and the extension of the free entitlement by September 2010.

## Appendix 1

- During the Autumn Term 2007, Ministers instructed local authorities to carry out an analysis of the costs of Private, Voluntary and Independent (PVI) providers in their area and to present it to their Schools Forum and relevant sub-group to inform the budget setting process for 2008-11.
- Authorities that do not currently have representatives of the PVI sector on their Schools Forum were strongly encouraged to do so. The DCSF have changed the regulations to allow extra non-schools representatives and are looking to legislate to make such representatives compulsory.
- From 2009-10 all local authorities will be required by regulations to change how children are counted in the maintained sector so that there is a consistent approach to pupil counting across maintained and PVI providers.
- From 2010-11 local authorities will be required to use a single local formula for funding early years provision in the maintained and PVI sectors. Local authorities will be encouraged to introduce the formula from April 2009 wherever possible.

The purpose of this report is to feedback the findings of the analysis of the costs of the PVI providers in Dudley.

### **Consultation Process**

Schools Forum, on the 2<sup>nd</sup> October 2007, agreed a plan and process for the local authority to undertake the PVI cost analysis. Since that meeting the following has taken place.

- i) PVI Cost Analysis Questionnaires (Appendix A) were distributed to all PVI settings currently registered with the local authority to provide nursery education, with a return date of 17<sup>th</sup> December 2007.
- ii) We have also consulted with the PVI Nursery Manager's Forum. The purpose of this session was to highlight to providers the importance of obtaining the required information, as it will affect the future funding of nursery provision and to clarify the information required.
- iii) An Early Years Reference Group has been established and met for the first time on Thursday 1<sup>st</sup> November 2007 to discuss the findings of the PVI costs analysis. The group has since met on 14<sup>th</sup> November 2007 and a further meeting is planned in the near future.

### **PVI Settings in Dudley**

Currently the context in Dudley is that of a mixed economy of PVI and maintained nursery settings. There are **89** PVI sector settings providing funded Nursery Education. Dudley has no independent providers registered on the Directory.

## Appendix 1

There are some PVI settings which provide registered childcare for 3 and 4 year olds which are not registered on the Directory. The majority of these are childminders.

PVI settings can provide childcare for children under 5 and must register with OFSTED to do so. Parents must pay for any childcare they take up which is not covered by the free entitlement. Providers are registered for a specific maximum number of places by OFSTED, however the number of children taking up childcare provision varies enormously across the day and throughout the year. The number of children taking up free part time nursery education varies from term to term depending on demand.

The providers registered on the Directory are broken down as follows:

- **41** of these are full daycare settings, which are typically open from 7.30am to 6pm, 5 days a week throughout the year. These include Neighbourhood Nurseries and some Children's Centre nurseries.
- Approximately **40** providers are pre-school playgroups, which are usually open on a sessional basis for a few hours in the mornings or afternoons.
- Currently we have **8** childminders claiming funding in respect of eligible children in their settings. Childminders are the most flexible form of childcare and are usually open between the hours of 7am and 7pm depending on the users of their service.

Children access the free 12½ hours free entitlement to nursery education either as 5 sessions of 2 ½ hours or parents may access the free entitlement as part of an extended day, for which they pay for any additional childcare.

Some PVI sector providers, specifically day nurseries are open for longer hours than a maintained nursery or sessional pre-school. If a parent pays for additional childcare above the free 2 ½ hours entitlement session the unit cost to the provider is less.

In Dudley 97.5% of children aged 3 and 4yrs are accessing NEF places across both the maintained and PVI sector.

The PVI sector has been delivering Nursery Education to all 4 yr olds for more than 12 years and since 1997 the funding has been administered by local education authorities (LEAs). A proportion of 3 year olds were entitled to access the free entitlement from 1998, a universal entitlement was available for 3 year olds by 2004. The LEA administered funding through Nursery Education Grant (NEG) and subsequently Nursery Education Funding (NEF). In order to draw down funding, providers must sign up and adhere to a set of conditions for receiving funding, and submit to an additional early education inspection by Ofsted.

**Consultation Responses**

Detailed below in Table 1 is the number of responses received from PVI providers analysed by type of setting.

**Table 1 – Responses to Consultation**

	Private	Voluntary	Childminder	Total
Total Number of Providers	67	14	8	89
Number of Responses	25	12	7	44
% Responded	37%	86%	88%	49%
<u>Of Total Responses:</u>				
Partially Complete/ Received late	14	0	3	19
Fully Complete	11	12	4	27
% of All Providers Complete	16%	86%	50%	30%

The number of responses returned is **44**, of which **27** have been suitable for analysis and received.

**Analysis of Consultation**

The results of the analysis of the 27 complete returns have been represented in a graph (Appendix B), from which it can be seen that the average cost per annum of the free entitlement for 3 and 4 year olds across all settings is **£1,126**. The average costs for each type of provider are as follows:

Private	<b>£1,236</b>
Voluntary	<b>£1,104</b>
Childminder	<b>£ 891</b>

This compares favourably to the Nursery Education Funding (NEF) that PVIs receive from the Local Authority of **£1,493** per annum.

Further analysis of the results shows that **3** of the **27** settings (11%) appear to have costs greater than NEF received. However, some of the 3 have significantly higher costs and so the returns for these settings are being scrutinised further to ensure the data provided is reliable. Similarly, an exercise is ongoing to ensure that the data supplied by settings whose costs are significantly lower than NEF is also accurate, as this could be artificially lowering the average cost of provision for the whole group.

## Appendix 1

If the results are broken down further into types of settings (Appendices C, D and E), it demonstrates that:

- Private – 1 of the 11 settings has costs greater than NEF (Appendix C)
- Voluntary – 2 of the 12 settings providing data have costs greater than NEF (Appendix D)
- Childminders – all 4 appear to have their costs met by NEF, although the number of settings that provided a response is quite small (Appendix E).

However, the questionnaires include a number of anomalies which require further investigation and analysis before an overall conclusion can be reached, and due to the low number of questionnaires that provided sufficient data to be used (30% of those issued) may not be representative of all providers.

### **Other Activities**

In addition to the Autumn Consultation with PVI providers, the following activities are planned for 2008 / 9:

- Delivery of NEF roadshow's in each township area
- Ongoing network meetings with NEF provider managers/owners
- Introduction of a Business Toolkit and workshops delivered in each township
- Access to ongoing Business Health Checks for PVI providers.

### **Additional findings from the PVI sector**

Comments and additional issues have been received and raised that might not be considered (or might not be apparent) on the paper questionnaire; Key themes emerging were.

- 1) Future implications of changes to Pension Laws, Minimum Wage and employment and taxation rules in general always have a significant impact on small businesses. These are largely unknown until they happen and should be taken into account for future funding rates.
- 2) Differences in the amount of staff pay between the maintained and PVI Sector; PVI's generally pay minimum wage in order to try to keep their costs low enough to charge a reasonable fee. If staff were paid the equivalent of LA rates, the hourly rates would have to increase significantly
- 3) Some PVI providers failing to compete with maintained provision with regards to accommodation, resources and facilities
- 4) General concerns around single point of entry – impact on sector i.e. may need to consider taking 2 yr olds to maintain viability – ratios however reduce to 1:4 so create salary cost implications

It is apparent that some PVI providers do not understand how the new code of practice asks them to reduce their fees by their own rates regardless of the rate

## Appendix 1

provided to them by the LA. This reflects the findings raised by the audit team in a recent audit of NEF; as mentioned previously a series of roadshows are planned for NEF providers as there appears to be a need for more guidance and awareness-raising on how to operate NEF

### **Demographic Changes**

Current birth data predicts slight increase in the number of 3 and 4 year olds within Dudley in 2008/09. It is fair then to estimate that this increase will result in a potential increase in the numbers of children taking up the Nursery Education free entitlement in future years.

It should also be noted that this estimate is based on take up percentages from the current financial year. Further finding may be needed if the take up increases further as more parents choose to take up a free place following successful marketing campaigns or the impact of children's centres etc. It is worth noting at this point that the free entitlement is due to expand downwards to include 2yr olds in the most disadvantaged areas in future years.

### **Childcare Sufficiency Assessment**

All LA's under a new duty outlined within the Childcare Act 2006 must undertake an assessment of the sufficiency of childcare for parents within it's area, to identify gaps in provision and plan how it intends to meet the needs of parents.

Under the Act local authorities must so far as reasonably practicable provide sufficient childcare for parents which will enable them:

- to take up, or remain in, work
- to undertake education or training, which could reasonably be expected to assist them to obtain work.

LAs must take into account:

- The childcare places for which the 'childcare element of the working tax credit' is payable
- Free nursery places for 3 and 4 year olds
- The needs of disabled children
- The services for children in need, and
- Childcare outside the local authority area

As mentioned previously and from early findings of the draft assessment; 97.5% of children aged 3 and 4yrs are accessing NEF places across both the maintained and PVI sector.

### **Conclusions**

The low number of returns coupled with doubts regarding the reliability / reasonableness of some of the information, means that overall, the data is insufficiently robust to make an absolute judgements regarding the level of funding required to meet the costs of delivering the free entitlement. However, from the data we have received, it would appear that the initial findings suggest that in all but a few cases, the current level of NEF is adequate at this moment in time.

1. In light of the fact that no evidence has emerged to the contrary, NEF should be increased, in 2008/09, by inflation only.
2. Repeat the exercise at some point in the future in order to obtain more robust data, which can be used as the starting point for creating a single formula for Early Years provision in the maintained and PVI sectors by 2010/11.
3. Continue to review the findings in the light of a number of new developments which are planned over the next few years. These include:
  - Introduction nationally of the new statutory Early Years Foundation Stage from September 2008;
  - National requirement to further increased flexibility for parents in how they access the free entitlement. For example parents could take their child's free sessions over 2 full days and a half day;
  - Introduction nationally of an additional 2 ½ hours free entitlement for the most disadvantaged 3 and 4 year olds from September 2009, and all children from September 2010;
  - Introduction nationally of a free entitlement for 2 year olds in disadvantaged areas;
  - Dudley's decision to change admissions into primary school reception classes from two points of entry in September and January, to one point of entry in September for all children who will be five during that year;
  - Dudley's review of the LA Nursery Admissions Policy.

## Early Years Foundation Stage, Childcare & Extended Services Unit

### Single Funding Formula for Nursery Education, One Form of Entry and Flexible Offer

**Dear Provider,**

In guidance received recently from Department for Schools & Families (DCSF), Local Authorities are asked to develop a Single Funding Formula for Nursery Education Funding (NEF) across the Maintained and Private, Voluntary and Independent (PVI) sector and which needs to be in place by 2010. *Please see enclosed briefing paper for further details.*

We therefore need your assistance to ensure that we are able to ascertain the true cost of early education sessions provided for NEF funded children by your sector and ensure that the PVI sector is properly represented and that the process is fair and sensible. We are required to present our findings to the Dudley Schools Forum which is the body that makes decisions about levels of funding, by February 2008. We are also required also to publish these findings on the DMBC website by March 2008.

You may also be aware that in September 2008 the local authority is introducing one form of entry into all its primary schools which includes reception classes; we would also like you to comment on how this may or may not affect your provision in the future.

In addition we are keen to see how the implementation of the flexible offer, which is aimed at increasing flexibility for delivering high quality early years education and care over a minimum of 3 days per week for a period of 38 weeks from 2009, will impact on providers in the PVI Sectors.

The aim of this questionnaire is to therefore ascertain the true costs of providing early year's education for 3 and 4 year olds and the likely impact of single point of entry, as well identifying any issues you may have around the flexible offer and over time, the extended offer of up to 15 hours of early years education available from 2010.

It is imperative that you complete this questionnaire as fully as possible so that you can help us to help you and ensure that Dudley has a fair share of future NRF funding for all it's eligible children and to support ongoing sustainability of the PVI sector.

**The timescale for completing this questionnaire is very short and we would appreciate if you could return the completed form by:  
17<sup>th</sup> December 2007 to our FREEPOST address.**

**1. Business Details**

Name of Setting: \_\_\_\_\_

Name of the person completing this survey: \_\_\_\_\_

Position held (i.e. Owner/ Manager/Head): \_\_\_\_\_

Address: \_\_\_\_\_

Town: \_\_\_\_\_ Post Code: \_\_\_\_\_

Telephone No: \_\_\_\_\_ Email: \_\_\_\_\_

Type of premises (i.e.; community centre, church hall, purpose built building, home, school site or other?).

\_\_\_\_\_

Please tick which type of setting best describes the one you own/manage/work in?

<b>Setting Type</b>	<b>Maintained</b>	<b>Private</b>	<b>Voluntary</b>	<b>Independent</b>
Children's Centre				
Day Nursery				
Pre-school				
Childminder				

How long have you provided childcare at these premises?

\_\_\_\_\_

## Appendix 1

How many NEF sessions does your setting operate?  
(ie 2 sessions per day 5 day per week or 1 session per day 5 days per week)

Monday	Tuesday	Wednesday	Thursday	Friday	Sessions
					am
					pm

How many places are you registered for overall?

\_\_\_\_\_

Please specify the maximum number places you are registered for each age range.

0 – 2 years	2 – 3 years	3 and 4 years

Please provide details of average hours of care per week for children attending by age band. This should be calculated based on your current numbers.

*Example 1* – if you are a full daycare provider with 15 children aged 2-3 who, on average, each attend 9 hours per day, 4 days per week, you would enter 540 hours in the appropriate column (i.e.  $15 \times 9 \times 4$ ).

*Example 2* – if you are a morning sessional provider with 10 children aged 3-4 who, on average, each attend for 2.5 hours per day, 5 days per week, you would enter 125 hours in the appropriate column (i.e.  $10 \times 2.5 \times 5$ ).

0 – 2 years	2 – 3 years	3 and 4 years

Please give an indication of your current annual income.

Over £200,000     £150,001 - £200,000     £120,001 - £150,000   
£100,001 - £120,000     £80,001 - £100,000     £60,001 - £80,000   
£40,001 - £60,000     £20,001 - £40,000     £10,001 - £20,000   
£0 - £10,000

## Appendix 1

How many members of staff do you employ?

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Please list separately the current gross annual salary cost and hourly rate for all your full time and your part-time staff.

Levels 4, 3 or 2 ( please indicate)	Annual Salary £	Hourly rate £	Levels 4, 3 or 2 ( please indicate)	Annual Salary cost £	Hourly rate £
1.			11.		
2.			12.		
3.			13.		
4.			14.		
5.			15.		
6.			16.		
7.			17.		
8.			18.		
9.			19.		
10.			20.		

Do you currently have any teachers employed at your setting? If yes, please give the total number of teaching staff, both paid and unpaid?

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How many have Qualified Teacher Status?

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How many teaching staff, both paid and unpaid, do you have who are directly involved with the care of 3 and 4 year old children?

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Of these, how many have Qualified Teacher Status?

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What are your weekly opening/closing times?

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## Appendix 1

How many weeks are you opened for per year? (i.e. 38 weeks, 50 weeks or 51 weeks)

\_\_\_\_\_

Please state your financial year end. i.e April – March or Jan – Dec)

\_\_\_\_\_

What are your annual premises and running costs?

<b>Annual Expenditure</b>	<b>Full Daycare £</b>	<b>Sessional Daycare £</b>
Staffing Costs (including agency staff costs)		
Business Rates and Rent		
Utility Costs		
Insurance		
Heating and Lighting		
Administration Costs		
Toys, Books etc		
Professional Fees		
Transport Costs		
Food		
Other Consumables		
Other Costs		
<b>TOTAL EXPENDITURE</b>		

**2. Moving to One Form of Entry:**

How many children do you expect to have registered in September 2008?

\_\_\_\_\_

What would your usual average loss of children be at each September intake?

\_\_\_\_\_

From your records now, do you know how many places do you anticipate you will lose in September 2008?

\_\_\_\_\_

How much lost revenue do you think this represents?

\_\_\_\_\_

**3. Special Needs**

How many children do you have who are on the following:

Early Support Programme: \_\_\_\_\_

Early Years Action: \_\_\_\_\_

Early Years Action Plus: \_\_\_\_\_

Statement: \_\_\_\_\_

Do they require specialist equipment? (Please circle)

YES/NO

If yes, who provides the equipment? (Please circle)

You                      Local Authority                      Health                      Other

If you funded this equipment how much did it cost? (Please circle)

£100 - £500                      £500 - £1,000                      £1,000 - £2,000                      Over £2,000

What is the annual cost of providing the support?

\_\_\_\_\_

## Appendix 1

Have you provided additional staffing? (Please circle)

YES/NO

If yes, at what cost: (Please circle)

£3k – £5K

£5k – £10K

£10k – £20k

If no, who funds the additional staffing? (Please circle)

Local Authority

Health

What percentage of sessions would staff spend liaising with agencies?

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Have you made changes to the building to comply with disability access? (Please circle)

YES/NO

If yes, who funded the changes?

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### 4. O - 3's Childcare Provision

How many rising 3 year olds do you have registered?

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What is the average attendance of rising 3 year olds per week?

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How much do you charge per session?

Monday	Tuesday	Wednesday	Thursday	Friday	Hours
					Am
					Pm

How many places do you generally keep available to accommodate children when they become 3 years old?

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**5. Other Implications (Single Point of Entry, Flexible Offer and Extended Offer)**

Do you anticipate having to make staffing cuts or redundancies?

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Do you think your staff would be prepared to change their current working hours?

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Will you or your staff be willing to adopt flexible working patterns as a result of a single point of entry, flexible offer and extended offer?

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Do you anticipate having to increase/decrease the number of staff to meet the requirements of the Early Years Foundation Stage ratio 1:13?

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Do you anticipate having to increase the number of places for 2 ½ year olds, if so, will you increase the number of staff to meet childcare ratios of 1:4 for 2 -3year olds?

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Please estimate how much the additional staffing costs might be?

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Do you anticipate making any refurbishment or alterations to your premises or incur additional costs resulting from the pending changes, if so please describe?

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Please estimate how much you think this might cost?

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Please use the space below for any additional comments you may have.

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Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Position in organisation: \_\_\_\_\_

We really do appreciate your support and taking the time to complete this questionnaire. You can request a visit from our team who will be able to assist you in completing the questionnaire if necessary. If you do have any queries please do not hesitate to contact me on 01384 81 3727.

Please return questionnaire to the address below or email to:

[Keith.rawlings@dudley.gov.uk](mailto:Keith.rawlings@dudley.gov.uk)

**Keith Rawlings Business Support Manager**

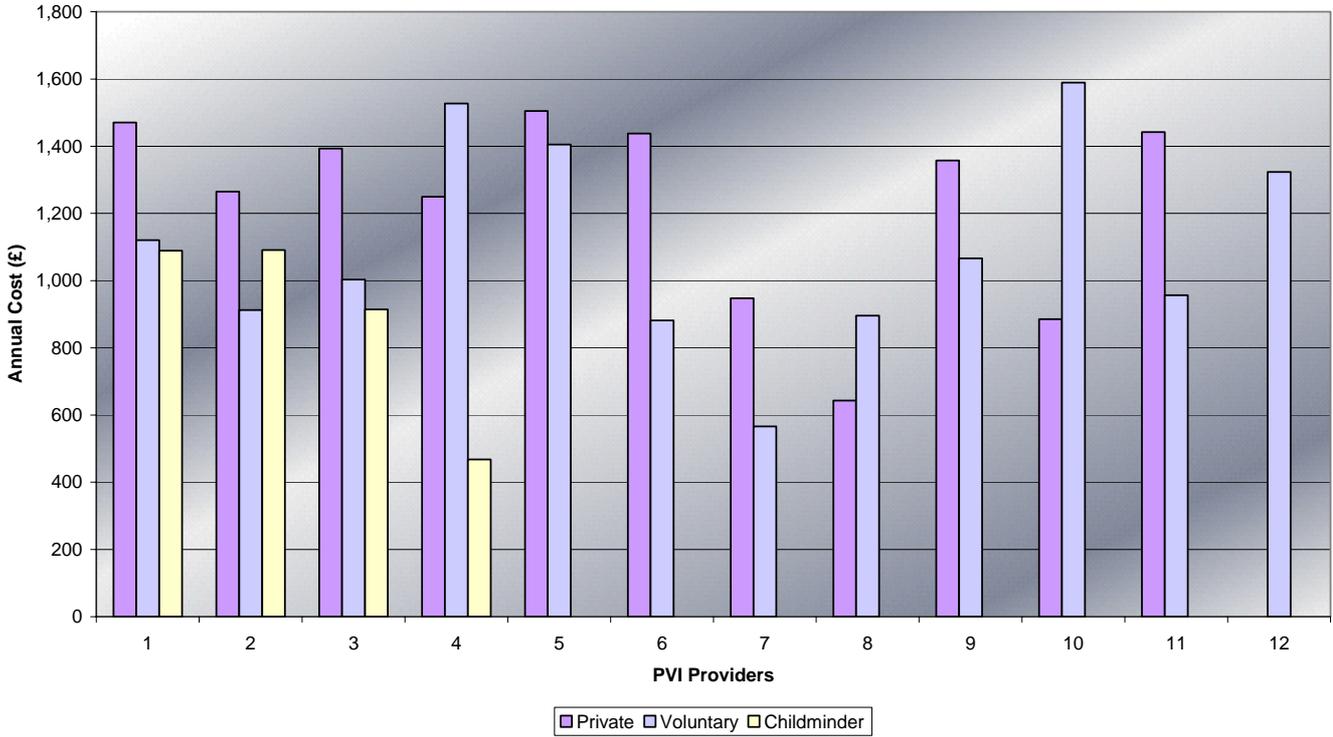
Dudley MBC  
**FREEPOST MID 22812**  
Childcare Strategy Team  
St James House  
Trinity Road  
Dudley, DY1 1JB

Or, if you would like further information about the initiatives mentioned here; please contact:

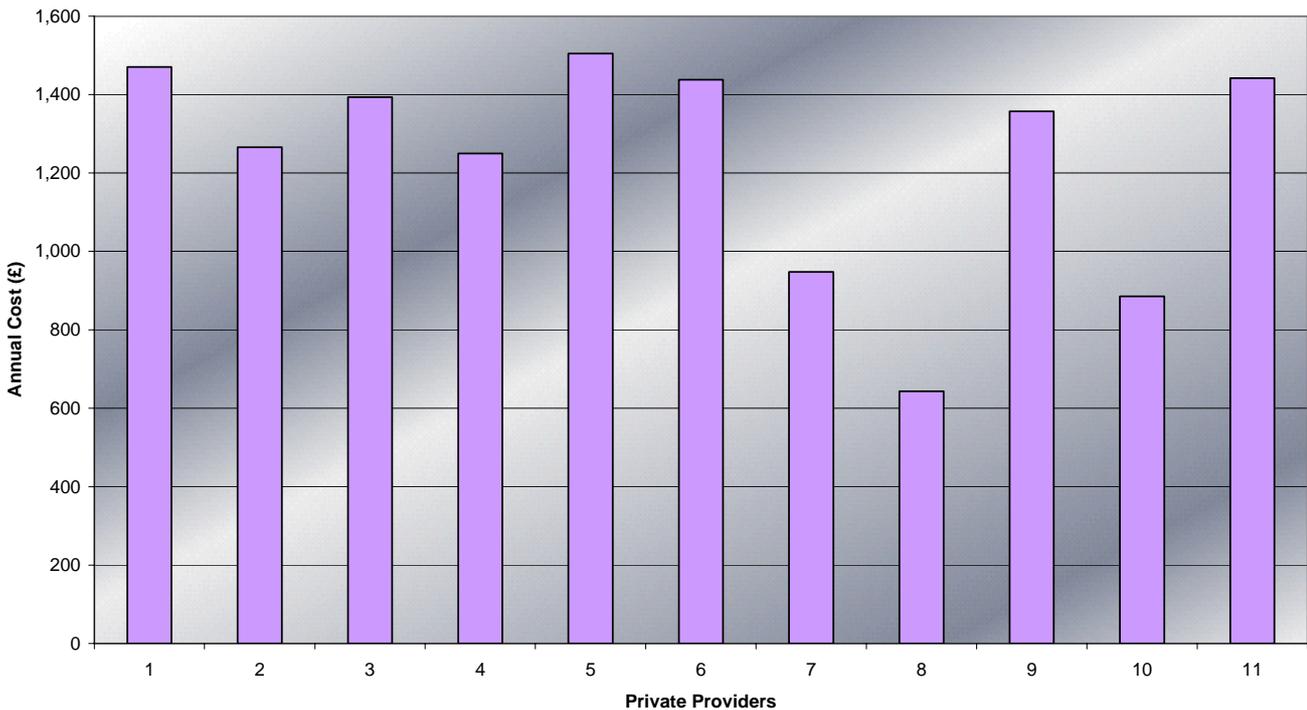
Donna Farnell; Childcare Strategy Manager on: 01384 814373

[donna.farnell@dudley.gov.uk](mailto:donna.farnell@dudley.gov.uk)

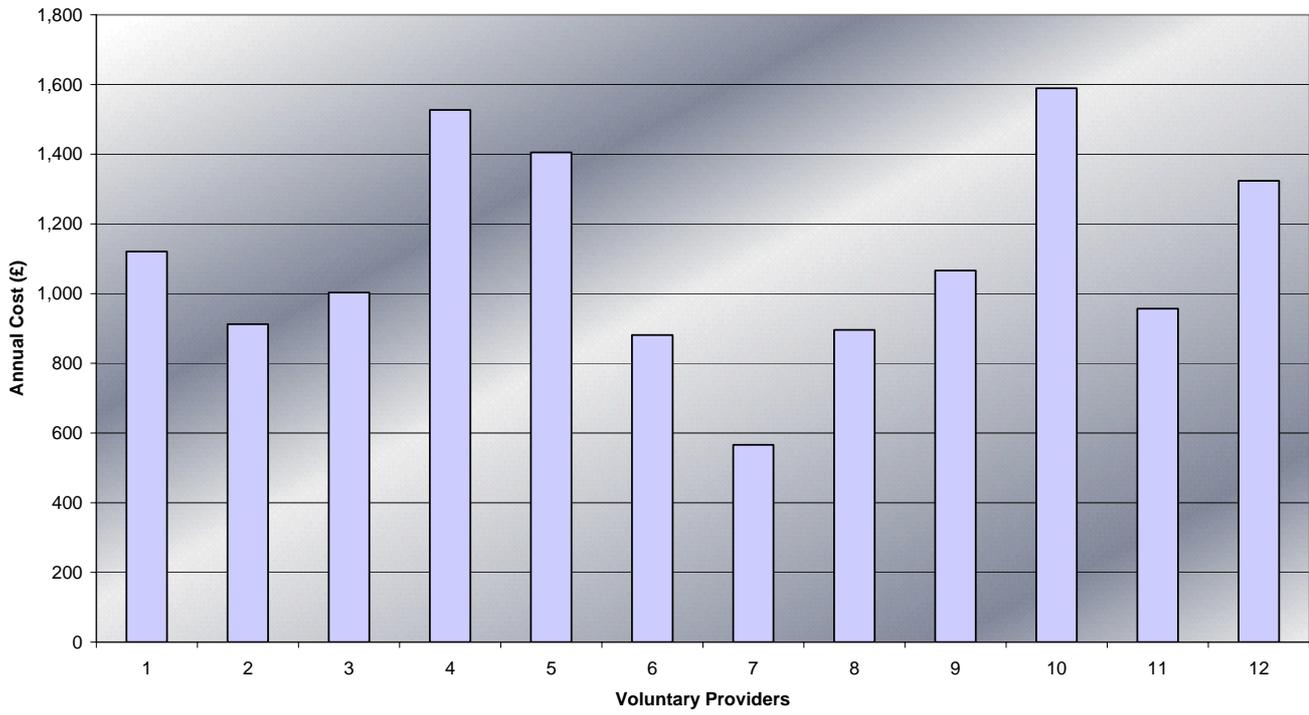
Summary of PVI Nursery Providers



Private Nursery Providers



Voluntary Nursery Providers



Childminder Providers

