

EARLY YEARS FUNDING REFORM REPORT

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Analysis of Costs within the Private Voluntary Independent Sector

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Definition

Every child from aged three and a third is entitled to a maximum of six terms of free nursery education. This entitlement is currently based on up to five two and a half sessions per week for up to 38 weeks a year. Parents can take up their free entitlement within the Private, Voluntary and Independent (PVI) childcare sector or through schools within the maintained sector.

Introduction

In March 2007, the Department for Children, Schools and Families (DCSF) launched a consultation regarding changes to the school funding system to be implemented over the coming comprehensive spending review period 2008 - 11. Details of the consultation can be found by accessing the following link, www.teachernet.gov.uk/schoolfunding2008to11/

The main objective of the consultation was to maximise take-up of high quality, free early years provision. Take-up is lower in disadvantaged communities, and the 12.5 hours over 5 days can be a constraint to children benefiting from all their entitlement. In Wakefield take up rates amongst four year olds is 100% and 94.5% amongst three year olds ¹. Of the three year old children who do not take up their offer of a free place 70% are in a disadvantaged ward.

Reform of the free entitlement funding system is designed to support these objectives by:

- Removing barriers in the funding system to the flexible use of the free entitlement, so that children can take up their entitlement at more than one setting, and in different sectors;
- Supporting the sustainability of all settings, giving them stability to plan for the future and improve quality;
- Ensuring that the entitlement is free at the point of delivery for all parents, putting the right incentives in place to increase take-up of the free entitlement.

There will be a staged approach to implementing the reforms of early years funding:

- During the autumn term 2007 the local authority will need to undertake a cost analysis of Private Voluntary Independent Providers within the area and present this to the Schools Forum;
- A representative of the Private Voluntary Independent Sector is strongly recommended to become a member of the Schools Forum;
- From 2009 – 10 consistent pupil counting between the maintained and Private Voluntary Independent sectors;
- From 2010 - 11 the council will be required to use a single local formula for funding early years provision across both the maintained and Private Voluntary Independent Sectors.

The findings of the report will only detail the situation across the Private Voluntary Independent sector.

1. Based on Summer Term 2007 take up

Three and Four Year Old Education in Wakefield

Details of the types of Wakefield Providers can be found at Appendix A.

There are currently 90 Maintained Settings and 63 Private Voluntary Independent settings within the Wakefield district. Whilst this is a 60:40 split in numbers of settings the Private Voluntary Independent sector only provides 20% of the three and four year old places in Wakefield. Only 9% of four year olds take up their entitlement within the Private Voluntary Independent sector this is against 91% take up into the maintained sector.

Children come First (CCF) Childminder Network has been established in Wakefield but has yet to become accredited. In view of this Childminders that form part of the CCF Network are not currently able to access Nursery Education Funding on behalf of their parents so they are not considered as part of this report.

Sector Description

The Maintained sector offers sessional provision during term time for three and four year olds within schools across Wakefield.

The Private sector is generally made up of privately owned day nurseries that offer full day care to children aged 0 to 5 and claim nursery education funding for their three and four year olds. This sector also includes Neighbourhood Nurseries that are privately owned or operated by the local authority.

The Voluntary sector settings are run by a voluntary management committee and in some cases have charitable status. These settings tend to offer sessional care for just the free two and a half hours. There are six voluntary providers that offer full daycare four of these providers are also Neighbourhood Nurseries.

The Independent sector offers early years education within the Independent Schools in Wakefield.

Each provider type and providers across the same sector operate differently in terms of opening hours, weeks open, how nursery numbers and therefore vacancies are counted and the age range provided for. All these factors have a bearing on the costing exercise that has been undertaken and shows that we are not always comparing like for like even within the same sector. Our best endeavours have been used to establish an equal platform wherever possible.

Methodology

The time constraint to provide this information has impacted on the methods used to collect the data. The decision was taken to use costings information already held by the Council through annual provider accounts and vacancy information collected through the Childcare Sufficiency Assessment. The Private Voluntary Independent sector was consulted on the process being used to undertake the Early Years Costings Reform at a Provider meeting in October 2007 where 90% of providers attended. At this meeting nominations were also sought for the Early Years Reference Group which was duly set up and this group has been consulted on and had input to the data and the calculation process at all stages.

Analysis

The costing exercise undertaken within the Private Voluntary Independent Sector followed the process detailed below.

Costs

Private Voluntary Independent Sector

The Local Authority collects, as part of its audit of three and four year old funding, Provider Annual Accounts. These were used as a basis to establish both salary costs and other costs. As the annual accounts from Providers differed in terms of year end dates, various uplifts were agreed to cover increases to inflation, utilities and salaries, these are detailed in Appendix B

The Local Authority analysed accounts across the sectors as follows:

Sector	Number of Providers	Number of accounts provided	% Against Provider Type
Private	35	18	52%
Voluntary	21	12	57%
Independent	6	2	33%
Total	62	32	52%

Based on numbers of Providers October 2007

The above table shows that a good cross section of data was gathered and used to provide costs.

Government guidance states that an amount can be added for profit/surplus depending on Provider type. To tackle this issue the following principles were applied and details of how the figures were attributed to each sector are detailed in Appendix B.

The approach taken was to apply an amount to the cost for the rent and rates information and apply and uplift to profit. The decision to add an amount to rent was to recognise that some providers own buildings and could expect a return on investment. The average amount, per sector, spent on rent/rates was found and providers were brought up to the average where they were below and the average was applied to those who did not pay rent/rates. For Providers who already paid above the average, their costs remained the same.

Profits were dealt with by uplifting the income figures in the following ways:

- Nothing was added to the Independent sector income as it is difficult to establish an amount and no representative from this sector attends the Early Years Reference Group;
- In the Private sector 10% was added to the income figure this was only applied once even if the accounts were two years old. This was judged appropriate as we only had income levels for one year and each year may differ considerably. A figure of 10% was applied as recent information suggests that when setting a selling price for a business the amount is value of the building plus 10% of annual turnover to cover goodwill;

- In the Voluntary sector 3.5% was added to the income to cover for reserves/ reinvestment. The Charities Commission suggests that the Voluntary sector should have three months worth of salary in reserves 3.5% of turnover is applied to support this.

Costings Calculator

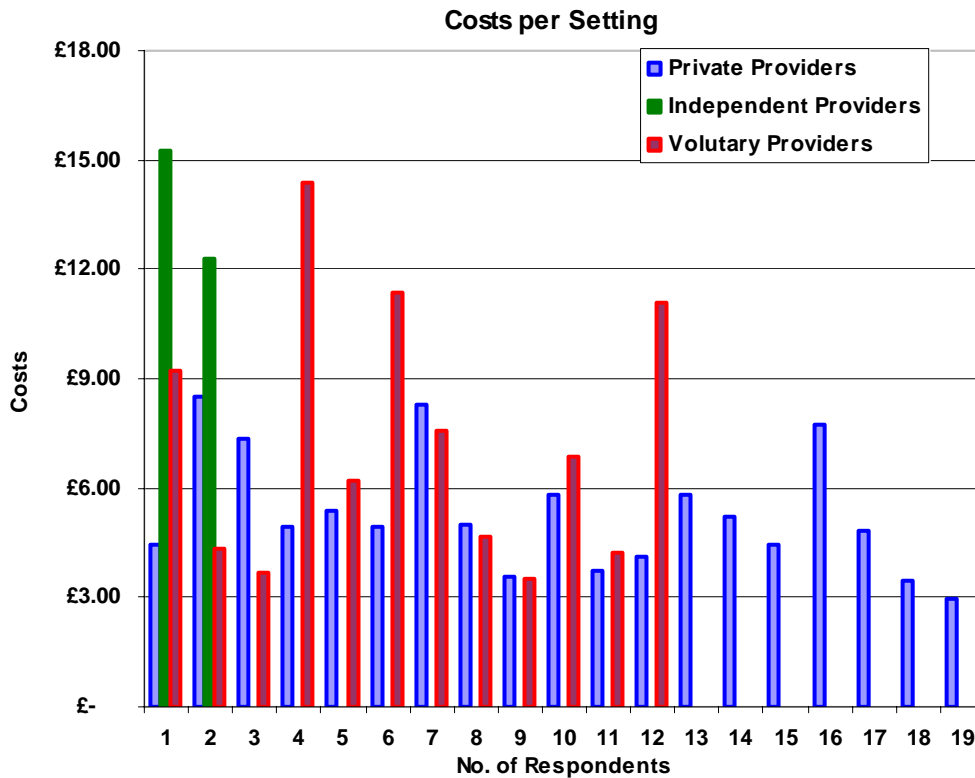
A copy of the calculator used to bring all the figures and variables together can be found in Appendix C.

Maintained Sector

A costing exercise is being considered to look at funding within the maintained sector but as yet no statutory guidance states this has to be completed.

Conclusions

Applying the calculator, as we have, provides differing costs per session across the sectors see below:



The above costs highlight that the Independent sector providers have the highest cost across all the sectors. This would be expected as these providers are likely to have a higher salary rate as most of the staff will hold Qualified Teacher Status, buildings within this sector tend to be older and therefore have higher maintenance and utility costs compared to buildings within the other sectors. Parent perceptions about the quality of education provided by this sector are higher and parents will pay nursery school fees whether they received Nursery Education Funding or not.

The figures across the Private and Voluntary sectors are a lot closer together with three voluntary providers skewing the figures slightly. The three Voluntary sector providers who have very high costs between £11 and £14 only offer care for three and four year olds two on a sessional basis and one full day care they also have lower numbers of registered places. Voluntary providers who offer full day care and provide 0 - 2 provision have lower costs. The losses incurred by these providers based on an average of their occupancy of 11 children and cost of £12.28 would be £8151 for 38 weeks which is a significant amount and would have serious implications for sustainability.

One Private provider has costs that are higher than the amount of funding this is a Neighbourhood Nursery which does tend to pay higher staff costs than the other Private day care settings.

Currently 2006/2007 the Private Voluntary Independent sector receives £8.38 per session in funding through the Dedicated Schools Grant (DSG).

Type	Average Costs	Difference Between Cost & Funding	Median Costs	Difference Between Median Cost & Funding
Private	£ 5.29	£3.09	£4.96	£3.42
Voluntary	£ 6.92	£1.46	£6.54	£1.84
Independent	£ 13.80	-£5.42	£13.79	-£5.41
Average of All Sectors	£ 8.67	£0.29	£6.92	£1.46

The Independent sector is the most expensive to run and currently receives £5.42 less than it actually costs to provide the service. The Private and Voluntary sectors receive more funding than it costs to provide the educational offer based on average costs.

The above figures whilst showing that the on average the private and voluntary sector receives greater funding than it costs to provide the three and four year old education offer must be treated with extreme caution for the following reasons:

- The costing calculator assumes occupancy at a fixed point in time as this reduces the sectors costs increase. This is due to the nature of the business in terms of the staffing ratios. Losing 5 children still means you have to have a member of staff on duty to operate within Ofsted guidelines. This can have a termly impact on funding of up £2,900 depending on how many sessions the children attend;
- Whilst the funding is provided for three and four year olds, in full day settings that offer 0 to 5 provision, funding will also support the costs incurred within the 0 – 2 units of the day nursery. Staff ratios for 0 – 2s are 1:3 which means higher staff costs in the baby units. Some full day nurseries do charge parents more for 0 – 2 year olds but do not charge the full cost amount as they subsidise the costs with income from the three and four year olds;

This cross subsidy between age bands is common place across the country for a number of reasons including:

Allowing parents the choice to return to work when their child is a baby. Charging parents more would mean in a lot of cases they would not be able to afford to return to work or they would seek alternative childcare arrangements. This is likely to be unregistered childcare with relatives or friends. Government guidance states that local authorities should promote formal registered childcare;

To promote the business in terms of keeping children within the nursery once they become three as costs reduce for parents both in terms of fees and then Nursery Education Funding being applied.

- The costings calculator does not include for any loss of income for providing a two and a half hour session and being paid £8.38 when the Provider could have offered a full place for half/full day at £17 or £30;
- Consultation through the Early Years Reference Group stated that costings in the Private sector are based predominantly on minimal ratios and that settings should be moving away from this to provide the best possible care for children and to use the funding to strive to improve the quality of provision. Higher quality settings who are working with increased ratios should not be penalised for the ones who are providing care with the minimum number of staff;
- The graduate leader qualification and a better trained workforce, which are central government targets to improve the quality of provision, raise standards and achievements of both settings and children will affect the wage costs of the providers. There will be a need, in the future to pay staff at higher rates than the minimum wage to ensure providers attract the best qualified people who will provide the high quality care for children.

Recommendations

As there are many factors that affect the above findings including the costing calculator which tries to apply an even base to the figures, we are still trying to compare things that have many differentials and factors that adversely affect the results.

For this reason the Early Years Reference Group recommends that the Council maintains its funding levels and process for applying the annual increase that has been adopted in previous years for the 2008/09 financial year.

Further work will need to be undertaken to establish a robust collection method to gather costing data for 2006/7 financial year and how this is then applied across the sectors. The maintained sector costings will need to be collected and analysed to enable a single funding formula to be reached by 2010.

In undertaking this work the Council must be mindful of:

- The section 7 duty of the Childcare Act 2006 placed upon the local authority to secure prescribed early education places to parents and carers of all eligible three and four year olds in a diverse choice of settings.
- Any changes to the Admission of Four Year Olds to Full Time School that is currently being consulted on and may affect the sustainability of the Private Voluntary Independent sector.