National Audit Office

MEMORANDUM FOR THE CHILDREN, SCHOOLS AND FAMILIES COMMITTEE

DECEMBER 2009

Sure Start children's centres

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In July 2009 the Children, Schools and Families Committee requested that the National Audit Office update some of the findings of our 2006 value for money report on Sure Start Children's Centres (HC104, Session 2006-07). The main areas requested for updating were cost analysis and our consideration of cost effectiveness.

This memorandum has been prepared in response. It is based primarily on surveys of local authorities and children's centres, analysis of administrative data and interviews with authority and centre staff. We collected and analysed 300 centres' costs. The results of our analyses are indicative rather than definitive, because the diversity of centres' operations and financial sophistication means that data they provide cannot be fully comparable or reliable. Our methodology is set out in Appendix 1.

Contents

The National Audit Office team consisted of: Richard Douglas; Andrew Epps; Angela Hands; Ah Mun Kuan; Victoria Lasore; Sarah Perryman; Baljinder Virk and Paul Wright-Anderson.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

Summary

Our findings in summary

1 Sure Start children's centres are multi-purpose centres that provide access to services and information for parents and children under five years old. The Government intends that there will be universal access to children's centres by 2010, with the aim of ensuring that every child in England gets the best start in life.[1]

Development and funding of children's centres

2 In March 2006, 800 centres were open. By 30 September 2009, 3,109 centres were open and providing services, including 1,706 centres that were providing the full range of services. Although in September 2009 16 local authorities were recognised as needing additional support to meet their targets, the Department for Children, Schools and Families (the Department) is confident that it will meet its target of having 3,500 centres open by March 2010.

3 The Department's funding for Sure Start increased from £473 million in 2005-06 to £885 million in 2008-09. While most of the increase relates to the increasing number of Sure Start centres, a proportion of the 2008-09 total (and beyond) is intended to increase outreach to the most disadvantaged families. However, our survey indicated a low level of outreach activity.

4 Most of the income received by children's centres comes from the Sure Start grant. Centres that were originally part of the Sure Start Local Programme receive more funding than other centres, although the differential is being reduced over time.

Costs and ways of delivering services

5 There is considerable diversity in how centres are organised, operate and record their costs and activities, and the management of some is contracted out for example, to charitable organisations. With such a high level of variation, it remains very difficult to examine and compare centres' cost effectiveness. Though the potential benefits of benchmarking are widely recognised, our survey of children's centres confirmed that only limited information is currently available.

1 http://www.dcsf.gov.uk/everychildmatters/earlyyears/surestart/surestartchildrenscentres/childrenscentres/

6 We looked at a number of different models for delivering centres, including the arrangements for management, commissioning of services, and location of services: our analysis could not indicate that any particular model was more cost efficient than others. However, some centres considered there were efficiencies and increased effectiveness, for example where local authorities were providing support and/or services centrally from sharing skills such as financial management. Similarly, centres operating in clusters were seen as likely to benefit from sharing of resources and expertise.

Performance monitoring and financial management

7 In 2006, we found little consistency in how local authorities measured centres' performance. The Department subsequently provided guidance on how to manage the performance of children's centres. In 2009 we found that local authorities and centres are applying the principles of the guidance, and there is now more regular performance review. Self evaluations completed by children's centres are used by most authorities as a basis for performance monitoring.

8 Ofsted inspections provide the Department with assurance about the quality of childcare services. Results of these inspections are so far overwhelmingly positive: the overall effectiveness of 98 per cent of the childcare in centres was judged to be good or outstanding in inspections up to July 2009. In 2010, Ofsted will inspect all services provided by children's centres.

9 Centres' access to financial management expertise has improved since 2006, with support from local authorities and other organisations that manage the centres.

10 Notification of future funding has improved since 2006. Most of the managers we spoke to had been given their budgets for the current and next financial year well in advance.

Financial sustainability

11 Local authorities see the current level of Sure Start grant as essential for delivering the main services it was intended to pay for, and in some cases for supporting the provision of some services that it was not designed to cover, for example, childcare.

12 Centres' financial performance has improved, and the large majority are now close to break even or under budget (92 per cent compared with 60 per cent in 2006). Some local authorities consider they have improved financial performance by clustering centres under one manager.

13 In 2006, centres were concerned about the long term viability of childcare and this remains a widespread concern in 2009:

- 59 per cent of authorities say little or no childcare in their area is wholly funded by fee income;
- 53 per cent of centres offering childcare report that the service operates at a loss; and
- reasons for deficits include insufficient demand for places, high costs and limitations on fee levels and the proportion of childcare places filled varies widely.

14 Of the 2009-10 capital allocation of £169 million, 13 per cent is included for maintenance. Some 40 per cent of local authorities consider the maintenance allowance to be insufficient to maintain buildings.

15 Centre managers and local authorities are concerned about the future of the programme in the current economic climate. Centre managers fear that their services would be particularly vulnerable to reductions if the ring-fencing of the Sure Start Early Years and Childcare Grant were removed. They also recognise that the impacts of children's centres are difficult to demonstrate, and that they take a long time to come to fruition, because they concern the development of very young children into successful young people.

Conclusions on costs and cost effectiveness

16 In requesting that we update our 2006 report, the Committee asked us also to consider whether there was any basis for revising our previous conclusions that 'we could not identify a clear relationship between costs and the range or quality of the services provided', and 'we cannot say yet whether they are using their funds cost-effectively'.

- Subject to our reservations about the reliability of data from children's centres (paragraphs 2.2 to 2.5), we found that costs increase with service volume. However, it was not possible to prove a similar relationship between costs and service quality, though this does not mean that such a relationship does not exist.
- Where we have been able to calculate unit costs we found wide variations. Together with other evidence this suggests that there is still scope for improving cost effectiveness. There is qualitative evidence of improvements; for example, some local authorities and centres are developing and implementing means of managing children's centres to make more effective and efficient use of skills and resources. And most centres and local authorities have made substantial improvements in their monitoring of performance since our 2006 report.

Part One

Development and funding of children's centres

1.1 The programme to set up children's centres is nearing completion, and the Department[2] is confident that it will meet its target of 3,500 centres by March 2010. Revenue funding for running costs increased to £885 million in 2008-09. Increased funding for outreach workers appears not to have led to the increase in numbers of outreach workers desired by the Department.

Children's centre services

1.2 Centres that serve a community ranked as one of the 30 per cent most deprived in England[3] must provide the full 'core offer' of services (listed below), while other centres must provide all services other than the first:

- integrated full-day childcare and early learning;
- drop-in sessions and activities for parents, carers and children;
- access to child and family health services, including antenatal care (provided by other organisations such as Primary Care Trusts);
- outreach and family support services;
- links with Jobcentre Plus for training and employment advice;
- support for childminders; and
- support for children and parents with special needs.

2 In this memorandum 'the Department' refers to the Department for Education and Skills before June 2007 and the Department for Children, Schools and Families thereafter.
3 Based on analysis published by the Office of National Statistics.

Establishing children's centres

Box 1
In 2006 we found that …

- In March that year there were around 800 children's centres in England, providing services to around 650,000 children.
- The Department was on track to deliver 2,500 centres by the end of phase 2 (March 2008).
- Most local authorities consulted were on track to meet their targets for centres in phase 1, but there had been some delays in planning and building new centres.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

1.3 The Department has set up children's centres in three phases[4] (**Figure 1**):

- phase 1 (2004-06) targeted areas of greatest social need – the 20 per cent most deprived wards in England;
- phase 2 (2006-08) completed the coverage of the most deprived communities – the definition of which was widened to include the 30 per cent most deprived – and expanded into some of the 70 per cent less deprived communities; and
- phase 3 (2008-10) is extending to all remaining 70 per cent less deprived areas of England.[5]

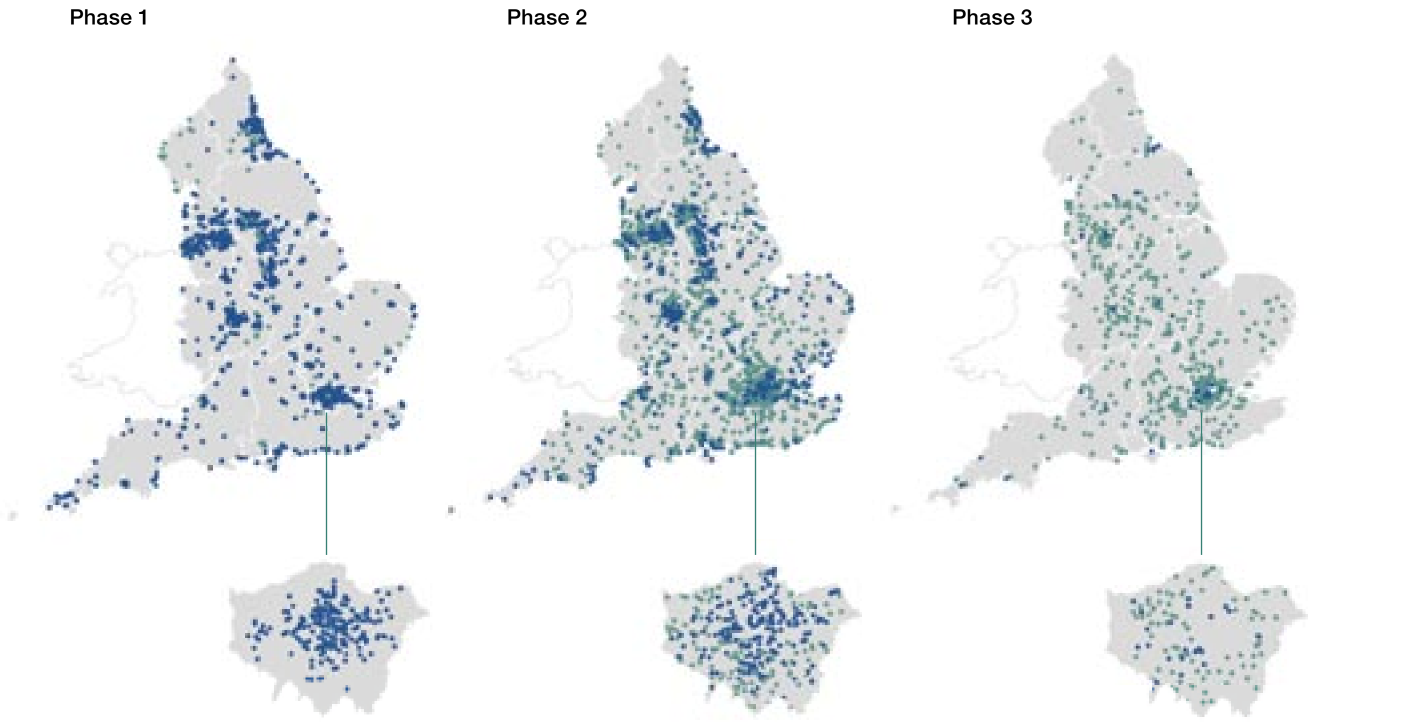
1.4 By 30 September 2009 there were 3,109 children's centres open and delivering services, of which 1,706 were delivering the full core offer.[6] Another 391 centres are needed to reach the 2010 target.

1.5 Analysis of demographic data for each area served by a children's centre confirms that phase 1 centres are generally sited in areas of greatest need (for example, rates of unemployment, proportion of single parents, etc.). Phase 3 centres are generally located in areas of relative affluence.

4 The two-year periods of each phase relate to the time in which all centres in that phase should move to providing services.
5 Department for Children, Schools and Families (2007) *Sure Start Children's Centres: Phase 3 Planning and Delivery*, p 4. According to the Department, around one third of the most disadvantaged children in England live outside of the most disadvantaged areas, often in 'pockets' of disadvantage with low numbers of children under five.
6 Together for Children, October dashboard reporting September performance.

Figure 1

Geographical distribution of open centres in each phase



● Centres based in the 30 per cent most deprived communities ● Centres based in the 70 per cent least deprived communities

Source: National Audit Office analysis of Together for Children's Tracker database, August 2009

NOTE

214 centres are not depicted, almost all in phase 3, because of inaccurate or missing postcodes.

Targets

Box 2

In 2006 we found that…

- It was too early to assess progress against most 2005-2008 Public Service Agreement targets, though the target to increase provision of childcare had been met by 2006.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

1.6 The Government's *Ten Year Strategy for Childcare* (2004) set the target of 3,500 centres by 2010, 'ensuring there is at least one centre in every community' in England.[7] To count towards this target, centres must be officially designated, meaning that they are providing services and have plans to deliver all required services within two years. In March and September each year Together for Children,[8] the Department's delivery partner:

- identifies local authorities at risk of not delivering centres on time; and
- considers progress and identifies whether a local authority requires a high, medium, or low level of support. In September 2009, 89 per cent of local authorities were in the low or medium support category, with 11 per cent in the high support category.[9] Local authorities in need of high support receive additional time with Together for Children's regional advisers to help them identify and address barriers to progress.

1.7 Following the 2004 Spending Review, the Department was given two Public Service Agreement targets (held jointly with the Department for Work and Pensions) to which children's centres made a contribution, measured by four indicators.[10] Good progress was made by 2008 on one of the four sub-targets, with the stock of Ofsted-registered childcare places increasing by 193,000. The other sub-targets were not met:

- the number of children in lower income working families using formal childcare decreased, whereas the target was to increase take up by 120,000. (The Department calculates that this target would have been narrowly missed, but for a fall in the number of children from lower income working families);
- 49 per cent of children reached a 'good level of development' at the end of the Foundation Stage, compared with a target of 53 per cent; and
- there was no reduction in inequality between child development achieved in the 30 per cent most disadvantaged communities and in the rest of England, against a target to reduce the gap by four percentage points.

7 HM Treasury *et al, Choice for parents, the best start for children: a ten year strategy for childcare*, December 2004, p 36.
8 Together for Children is a partnership run by Serco and the charity 4Children. It is 'working in partnership with the Department for Children, Schools and Families to support local authorities in their delivery of Sure Start Children's Centres.' See www.childrens-centres.org.
9 Together for Children, September 2009.
10 Department for Children, Schools and Families (2008) *Autumn Performance Report*, pp 78-83.

1.8 There are no current Public Service Agreement targets which are specific to children's centres.[11] However, the Department does hold two Public Service Agreement targets which are relevant: to raise the proportion of children achieving a 'good level of development' by four percentage points by 2011; and to narrow the gap between the 20 per cent lowest achievers and the average by three percentage points by 2011. The Department's 2009 analysis shows improvements against both of these indicators.[12] In particular, since 2008 the proportion of children achieving a 'good level of development' increased by three percentage points, and the gap between the lowest achievers and the average has decreased by two percentage points.

Location of children's centres

1.9 Most phase 1 centres are located in the North West, London, and Yorkshire and the Humber, with most open phase 3 centres situated in the South East, London, and the East Midlands (Figure 1 and **Figure 2**).

Figure 2

Number of children's centres and revenue allocations by region, 2004-05 to 2010-11

Region	Phase 1 centres		Phase 2 centres		Phase 3 centres		All phases		Revenue funding 2004-05 to 2010-11[1]	
	Number	%	Number	%	Number	%	Number	%	£m	%
East of England	73	7	210	12	33	13	316	10	415	8
East Midlands	83	7	151	9	21	9	255	8	371	7
London	194	17	282	16	37	15	513	16	989	19
North East	114	10	68	4	6	2	188	6	384	7
North West	206	18	210	12	23	9	439	14	888	17
South East	86	8	329	19	37	15	452	14	559	11
South West	86	8	182	10	21	9	289	9	400	8
West Midlands	122	11	181	10	43	17	346	11	614	12
Yorkshire and the Humber	162	14	168	9	26	11	356	11	599	11
Total	1,126	100	1,781	100[2]	247	100	3,154	100[2]	5,220	100

Source: Number of children's centres is based on National Audit Office analysis of Together for Children's database, as at 13 November 2009; Financial information is from the Department for Children, School and Families.

NOTES

1 Funding figures are expenditure for 2004-05 to 2007-08. For 2008-09 onwards allocated funding has been used.

2 Total percentages do not sum to 100 due to rounding.

11 In addition, children's centres contribute towards the five outcomes (Be Healthy, Stay Safe, Enjoy and Achieve, Positive Contribution, Achieve Economic Wellbeing) under the Every Child Matters strategy. The Department also uses the number of children's centres as an indicator in its annual reporting of progress against one of its Departmental Strategic Objectives, to narrow the gap in educational achievement.

12 Department for Children, Schools and Families (2009) *Statistical First Release: Early Years Foundation Stage Profile Results in England, 2008/09*, SFR 26/2009, 14 October.

The Department's funding of children's centres

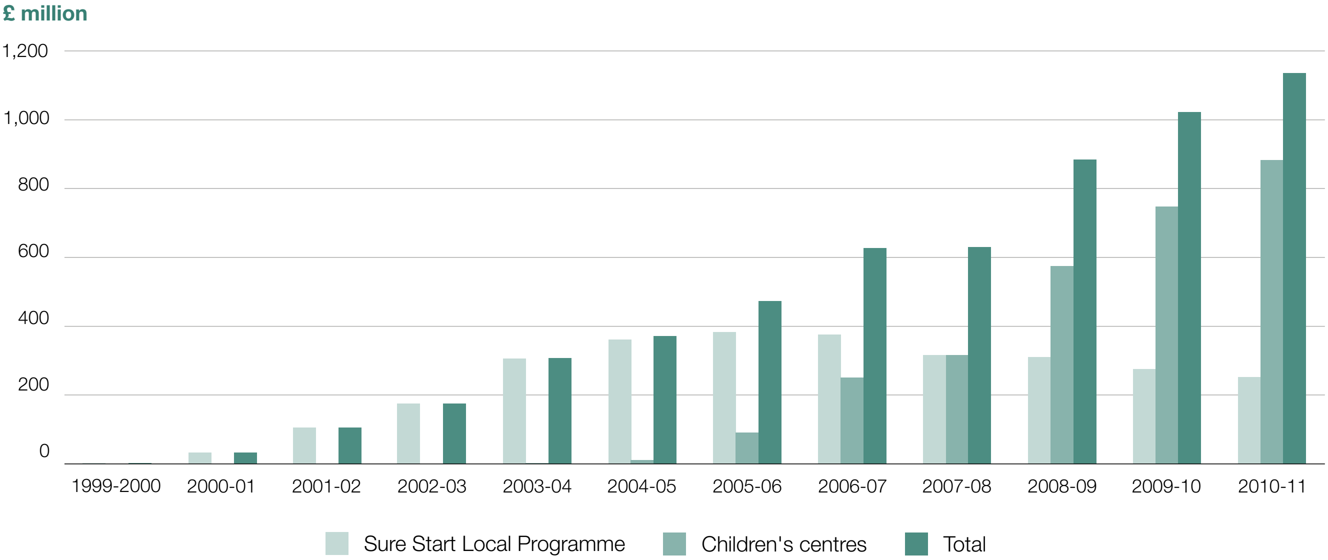
Box 3
In 2006 we found that …

- The Department spent approximately £480 million on the running costs of children's centres in 2005-06, with this allocation set to rise to around £700 million in 2006-07.
- The Department planned capital investment of £1.2 billion by March 2008.
- The Department allocated funding to local authorities using a formula that took account of the number of children under five and levels of disadvantage.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

1.10 In 2008-09, the Department allocated funding for running costs of £311 million to former Sure Start Local Programme centres and £574 million to other centres (**Figure 3**), and capital investment of £81 million (**Figure 4**). Total revenue funding has increased year on year, and capital funding has fluctuated reflecting the establishment of children's centres. Increases in both revenue and capital funding are planned for 2010-11. These figures do not represent the total spend through children's centres, since a number of services provided through centres are funded separately by the Department, through fee income or by partner organisations (**Figure 5**). Taking all funding related to children aged 0-5 together, combined departmental revenue and capital funding increased from £0.7 billion in 2003-04 to £1.7 billion in 2008-09.[13]

Figure 3
Revenue expenditure and allocations to children's centres (including former Sure Start Local Programmes), 1999-2000 to 2010-11

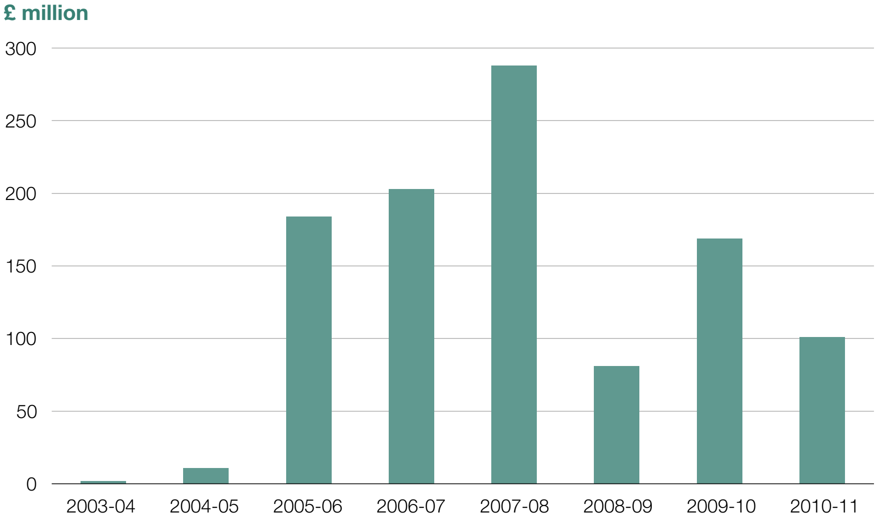


Source: National Audit Office/Department for Children, Schools and Families

NOTE
Figures are expenditure for 1999-2000 to 2007-08. For 2008-09 onwards allocated funding has been used.

13 Department for Children, Schools and Families (2009) *Departmental Annual Report 2009*, Table 8.4, p 175-176.

Figure 4
Capital expenditure and allocations to children's centres, 2003-04 to 2010-11



Source: National Audit Office/Department for Children, Schools and Families

NOTE

Figures exclude capital funding for the Sure Start Local Programme of £430 million between 1999 and 2006. Totals for 2003-04 to 2007-08 are actual expenditure, and totals for 2008-09 onwards are funding allocations. For 2008-09 the base allocation is shown; in reality reported spend will be higher reflecting the slippage of unspent capital from prior years.

Figure 5
Origin of children's centres' resources for the full core offer

Childcare services

Intended to be **self-sustaining from parental fees**, government funding for the free entitlements to childcare for 2 to 4 year olds, and other local authority sources.

Employment and training services

Jobcentre Plus services funded by the **Department for Work and Pensions**

Health services

Delivery of services funded by the **Department of Health**

Family services

Funded by the **Department for Children, Schools and Families**

Infrastructure, for example premises and centre management

Funded by the **Department for Children, Schools and Families**

Source: National Audit Office/Department for Children, Schools and Families

How local authorities receive and allocate Sure Start funding

1.11 The Department allocates funding through the Sure Start, Early Years and Childcare Grant ('the Sure Start grant') to local authorities in the following blocks:[14]

- **The main Sure Start revenue block** is to cover all of an authority's children's centres (excluding former Sure Start Local Programmes – see below) and a range of other objectives, such as take up of childcare by low income families, and initiatives such as Every Child a Talker.
- **The Sure Start Local Programme block,** which authorities may use only for these centres. Though funding for Sure Start Local Programmes was originally much higher than that awarded to later centres, the Department began to taper off the amounts allocated from 2006-07, and allocations to local authorities in respect of all centres will be on the same basis from 2011-12. Some centre and local authority staff told us former Sure Start Local Programmes are finding it difficult to manage within the reduced funding, while others are confident their local authority is managing the reduction smoothly, having had a long time to plan for it.
- **A capital funding block,** which from 2008-09 to 2010-11 includes elements for creating new centres and maintaining existing ones.

1.12 Most local authorities told us their decisions on funding for each centre are based on formulae that take into account a range of factors (such as their communities' population of under fives, level of deprivation and rurality).[15] Some local authorities retain a proportion of the Sure Start grant to fund authority-wide services to individual centres.

Extra funding for outreach workers

1.13 For the years 2008-09 to 2010-11, the Department increased its Sure Start funding to local authorities to support the provision of two additional outreach workers per centre in the most disadvantaged communities.[16] In practice, local authorities decide how to deploy the extra funding, but the Department intended that it would be used to increase engagement with the most disadvantaged families as recommended in our 2006 report. The Department issued guidance to local authorities indicating they should direct additional resources to meet the needs of the most vulnerable families.

14 Local authorities cannot switch funds between separate blocks, use these funds to purchase capital assets, or carry forward any unspent revenue allocations for use in future years. Appendix 2 provides details of the formula used to determine funding for individual authorities.

15 See Appendix 2 for an example.

16 An annual figure of £79 million is quoted in the white paper *New Opportunities: Fair chances for the future*, (CM 7533) January 2009, para 3.20, p 40, and was quoted by Beverley Hughes in the House of Commons (Hansard column 6, 19 May 2008, http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080519/debtext/80519-0001.htm). The Department has explained this figure is based on a series of assumptions, for example of the number of centres required to reach all under fives in disadvantaged communities and assumed salary costs. It also notes the local authorities' prerogative in determining how they use their Sure Start funding.

1.14 The Department does not collect data on staffing levels at individual centres, but provides local authorities with indicative guidance on the level of outreach appropriate at different types of centre. Our survey found that centres servicing the 30 per cent most deprived communities report an average of only 38 staff hours spent on parental outreach each week.[17] The Department believes this figure may under estimate the number of hours of outreach provided by centres, for example, because a range of staff — not just those employed explicitly in outreach roles — may undertake outreach as part of their work, or because some centres may not have included non-contact time in their estimates of hours worked.

Other funding streams

1.15 Centre staff and local authorities told us of other funding sources that are also important for the provision of the current level of services including core schools and children's services funding (such as Extended Schools), special needs funding (such as Quality and Access Capital Grant, which helps pay for children's centres to be built and adapted for disabled users), and various smaller, often pilot, schemes.

17 Mean number of hours worked by parental outreach delivery staff covered by the centre per week. Calcluated from 96 centres serving the 30 per cent most deprived communities providing data.

Part Two

Costs and models of delivery

2.1 It is difficult to draw conclusions on the cost effectiveness[18] of different types of centre – or on Sure Start as a whole – both because of the diversity of centres, and because of a lack of detailed and consistent data. We collected our data (on income, expenditure, and use of services) via a survey of centres and local authorities across England.[19] Many centres had difficulties in providing us with the type of data we required. Nevertheless, we found that overall there was a clear link between amounts spent and numbers of service users, and that some local authorities were taking a strategic approach to improving cost effectiveness. There were, however, no conclusive data on which models of centre were the most cost efficient. Most centres are operating at near full capacity.

Availability of financial data

Box 4
In 2006 we found that …

- Centres could not provide sufficient cost details to assess their cost effectiveness.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

2.2 In 2006 we found that the phase 1 centres we surveyed could not supply sufficiently detailed and reliable information on income, expenditure and activities to allow us to compare their efficiency, or to evaluate the overall value for money of Sure Start.

2.3 In collecting evidence in 2009, we encountered similar difficulties in obtaining cost information. Many centres could not meet the minimum data requirement recommended, by a 2009 feasibility study commissioned by the Department, as necessary before any national benchmarking system could operate.[20] Many were unable to supply data for capturing income and expenditure consistently, and much of the data we received were not comparable.

18 Our analysis compares the number of beneficiaries, be they children, parents or families (outputs), to service delivery salary costs (inputs) to derive a measure of the amount of service delivered per unit of funding – 'cost efficiency'. Ideally, long term benefits to service recipients, the local community and the general public (outcomes) would be expressed in monetary or other quantifiable terms to judge cost *effectiveness*, but as yet there is no consistent outcome data at centre or national level. In this context, therefore, we are only able to analyse the cost-efficiency of different centres and types of centre but not the cost effectiveness of these centres or of Sure Start as a whole.
19 See Appendix 1 for further details of the survey methodology.
20 Hedra (2009) *Sure Start Children's Centres: Financial Benchmarking to Ensure Value for Money*, Department for Children, Schools and Families (Research Report No 123).

2.4 There are four particular areas of difficulty in collecting and comparing financial data:

- **centres' increased diversity,** with over 3,000 centres often using different ways of delivering varying portfolios of services, using different delivery methods;
- **the wide range of IT and management systems used for financial management,** creating differences in definitions and causing problems in aggregation and comparability;
- **different models of commissioning services** for example, local authorities may manage centres directly, devolve management to a school's governing body, contract it out to a charity, or use a mix. The different approaches generate variety in the amount of delegated financial and budgetary responsibility given to centre managers, and therefore the skills required at different levels. As might be expected, centres did not have detailed information for childcare provision where it was delivered by a contractor; and
- **few phase 3 centres were open and offering services** that would support a complete analysis.

2.5 Given the limitations of the data from which they are derived, the financial analyses in this memorandum should be taken to be indicative rather than definitive, and any use made of them should take the data limitations into account.

Income and expenditure

Box 5
In 2006 we found that…

- Sure Start grant accounted for 80 per cent of centres' income, with the remaining 20 per cent coming from other central and local government funding, and fees charged for childcare.
- The average expenditure of Sure Start Local Programme children's centres was £580,000. For other centres the average was £350,000.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

2.6 In respect of centre **income,**[21] our survey found that in 2008-09:

- the Sure Start grant, which made up around 80 per cent of centre income in 2006, remains the largest source of income for centres; and
- centres' income levels vary widely, even within phases, as in 2006.

Further details are presented in Appendix 3.

21 This includes Sure Start and other grants, fees and other income.

2.7 Our main survey findings on centre **expenditure** in 2008-09 are:

- in comparison with 2006, former Sure Start Local Programme's expenditure in 2009 appears to be lower (£580,000 in 2006), though the samples of these centres and other phases are not strictly comparable;
- former Sure Start Local Programme centres have higher annual costs than other phase 1 centres. Phase 2 centres spend much less than either group of phase 1 centres (**Figure 6**). These differences are statistically significant;
- generally the number of hours delivered to service beneficiaries for various centre activities correlates with expenditure on service delivery and total expenditure; that is, the more hours of service a centre provides, the higher its delivery costs. In 2006, we were unable to find a clear link between centre costs and the number of families reached – a slightly different measure of quantity of service – but our results now suggest a stronger association between service provision and costs than previously; and
- the proportion of spending devoted to centre management, as opposed to service delivery, is generally higher for centres with smaller budgets.

Further details are presented in Appendix 3.

Figure 6

Division of expenditure by type of cost, 2008-09

	Centre management costs	Service delivery costs	Total expenditure
Former Sure Start Local Programme centres			
Median £ ('000)	110	390	510
Half of centres fall into range: £ ('000)	70–170	210–540	390–640
Number of centres	**40**	**41**	**41**
Other phase 1 centres			
Median £ ('000)	80	180	290
Half of centres fall into range: £ ('000)	50–140	120–340	140–440
Number of centres	**30**	**34**	**34**
Phase 2 centres			
Median £ ('000)	50	80	120
Half of centres fall into range: £ ('000)	30–70	30–130	80–210
Number of centres	**115**	**118**	**121**

Source: National Audit Office analysis of survey data from children's centres

NOTES

1 The sum of medians for centre management costs and service delivery costs do not equal the total median because of the underlying data distribution.

2 Rounded to nearest £10,000. Calculated on weighted data.

3 Too few phase 3 centres were operating in 2008-09 for a reliable calculation to be made.

Costs per service user

Box 6
In 2006 we found that …

- Where known, unit costs of specific activities fell within a wide range.
- There was no clear relationship between centres' expenditure and the number of children and families reached.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

2.8 To calculate unit costs we asked centres about how many beneficiaries[22] there were for services, and the total direct salary cost to provide the service. Taken together we could then calculate an average direct salary cost per beneficiary. Analysis of our survey data showed that:

- phase 1 centres have greater numbers of children and families benefiting from most services (Figure 17, Appendix 3). This may be because they have greater need, or have been running for longer, or have effective outreach to attract more families.
- centres' unit salary costs vary between types of services (**Figure 7** overleaf). For example early learning/full day care costs, on average, £1.85 an hour in direct salary costs for each beneficiary. Even for a particular service, the unit cost between centres varies considerably.
- we could not find a statistically significant association between phase of centre and the unit salary costs for each service.

Further details are presented in Appendix 3.

2.9 In addition to explanations of cost variation related to volumes, centre managers suggested that some variation could arise from the additional costs of servicing more isolated deprived areas within an affluent area. The costs of supporting families in these areas can be higher as they are more dispersed, less easy to identify, and the services may be less visible than in an area where larger numbers of families require and use a service. Managers considered that these factors applied especially to small pockets of deprivation in rural areas.

2.10 As in 2006, we found some local authorities were initiating work on understanding the cost of individual activities and services, though fewer than we expected in view of the three years that have elapsed since our first report. Other local authorities told us this kind of analysis was possible, but had not been a high priority in view of the time and resources it would take. We found a similar position at centre level. While some centres perform occasional cost analyses for individual services, most centres we visited do not routinely analyse all their services' unit costs.

22 Number of service beneficiaries per session multiplied by number of sessions.

Figure 7

Average (median) direct, hourly, delivery-staff cost per beneficiary[1] by children's centre service, 2008-09 (£s[2])

	Average	Half of centres fall into range	Number of centres
Early learning/full day care	1.85	0.90–3.25	57
Drop-in sessions for parents/carers and children	1.60	0.90–3.60	116
Teacher input to learning development	1.90	0.60–4.55	54
Child/family health services (including antenatal)	1.30	0.45–3.50	63
Parental outreach	5.25	1.30–16.30	100
Family support services	4.35	1.65–12.70	100
Childminder network or other support to childminders	2.90	1.50–9.15	64
Support for children with special needs and/or parents/carers	2.95	1.05–11.20	49
Links with Jobcentre Plus	8.20	1.65–38.45	29

Source: National Audit Office analysis of data from children's centres

NOTES

1 Number of service beneficiaries per session multiplied by number of sessions per week. A beneficiary may attend more than one session in a week.

2 Rounded to nearest 5 pence. Calculated on weighted data.

3 Too few phase 3 centres were operating in 2008-09 for a reliable calculation to be made and have therefore been excluded.

Take up of services

2.11 At the majority of children's centres, take up of services is close to maximum capacity (**Figure 8**). Having some spare capacity allows centres to act flexibly when faced with unexpected demand, but it can also reflect inefficient use of resources. Phase 2 centres achieve a higher take up rate for early learning/full day care (91 per cent) than former Sure Start Local Programmes (78 per cent) and other phase 1 centres (83 per cent). Former Sure Start Local Programmes have higher take up for health services (83 per cent) than other centres (around 73 per cent). Otherwise, differences between phases were not statistically significant.

Different ways of providing children's centres

2.12 Centres can be classified in many ways, for example by: phase; level of deprivation; how they are managed; and characteristics of physical accommodation. All centres are involved in partnership working.

Figure 8
Take up by children's centre services, 2008-09

	Take up of places (%)
Early learning/full day care	85
Drop-in sessions for parents/carers and children	75
Teacher input to learning development	75
Child/family health services (including antenatal)	75
Parental outreach	80
Family support services	75
Childminder network or other support to childminders	55
Support for children with special needs and/or parents/carers	67
Links with Jobcentre Plus	67

Source: National Audit Office analysis of data from 84-172 children's centres

NOTES
1 Take-up is calculated as the number of service beneficiaries (Figure 17, Appendix 3) divided by maximum capacity per session.
2 Too few Phase 3 centres were operating in 2008-09 for a reliable calculation to be made.
3 Calculated on weighted data.

Management of children's centres

2.13 Centres may be managed by:

- a manager who reports to the local authority directly;
- a manager who reports to another public sector organisation, for example, a nursery, primary school or Primary Care Trust; or
- a third sector organisation that is contracted by the local authority (for example, Action for Children).

Some local authorities use different approaches for their different centres. In one fifth of centres surveyed, management was contracted to a charity, voluntary or private organisation. The proportions contracted out in each of the three phases of the programme were similar.

2.14 Some authorities have a manager in charge of each centre. Others organise centres into formal clusters or areas with one manager responsible for, typically, three or four centres. In some areas budgets are allocated to clusters.

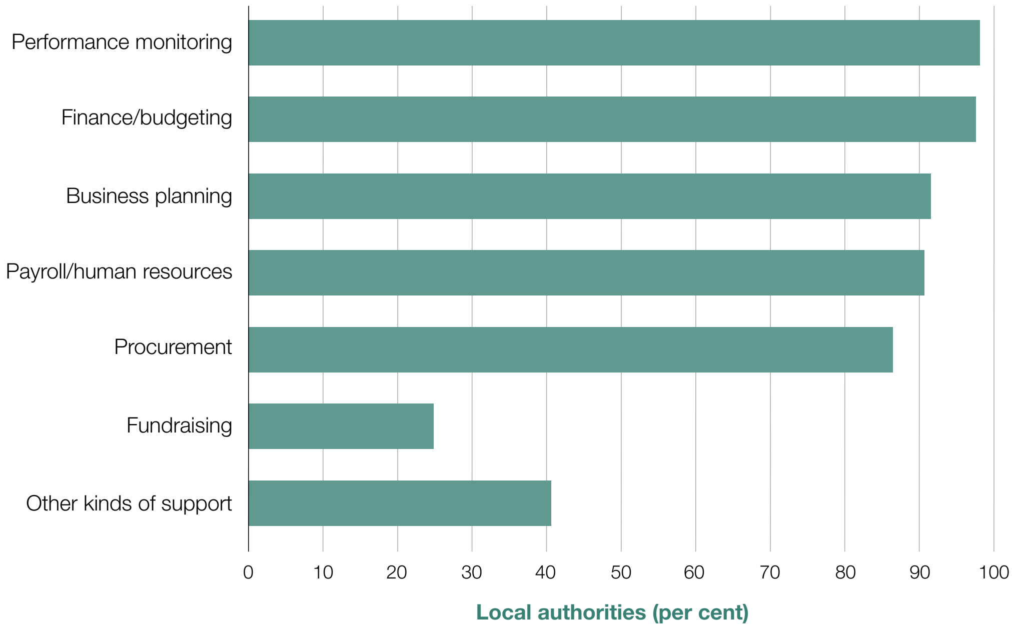
Commissioning of services

2.15 Local authorities have four main options for commissioning services.

- Central commissioning of some services: 60 per cent of authorities in our sample commission some or all services centrally on behalf of centres. Thirty eight per cent of local authorities use central commissioning only.
- Centre manager directly managing their centre's share of the revenue funding to deliver services: around 22 per cent of authorities pass revenue funding on to centres that do their own commissioning.
- Contracting with a private, voluntary or independent organisation to manage the centre on behalf of the authority. Fifteen per cent of local authorities contract out and seven per cent use only this method.
- Other approaches to commissioning for example, commissioning the Primary Care Trust, or a mixture of approaches (51 per cent of authorities).

2.16 In addition, local authorities typically provide a range of support services to centres, often back-office administration (**Figure 9**).

Figure 9
Support provided by local authorities to centres



Source: National Audit Office analysis of survey data from 85 local authorities

Physical location of services

2.17 Forty per cent of children's centres in our survey – mostly phase 1 and phase 2 centres — have a sole-purpose building, and 33 per cent are based in a school. The proportion of dedicated new builds has decreased in successive phases.

2.18 Some 55 per cent of centres deliver services from one, central location, 38 per cent operate from a central base and use other buildings as necessary. Seven per cent have other modes of delivery, often using a variety of buildings but without a central hub. Over 90 per cent of phase 1 and 2 centres are in permanent accommodation.

Impact on cost efficiency

2.19 We examined the unit salary costs of centre services according to:

- phase;
- whether the centre is based in a community ranked as one of the 30 per cent most deprived or not;
- whether the centre was managed by a charity, voluntary or private organisation or otherwise;
- service delivery mostly from one, central location versus a range of different locations;
- location in permanent or temporary accommodation;
- location in a sole-use building, school, health centre or nursery;
- whether services are delivered directly or by a partner; and
- whether the centre is contracted out, a school or nursery, neither or both.

In each case, though there were apparent differences in unit costs, we could not be sure that they were real differences and that the variations were not due to chance variation in the small number of centres' data that were available. On the information the sector can provide at present, no one model can be said to be demonstrably more cost efficient than others.

Partnership working

2.20 In 2006 we found that many centres had difficulties working with health organisations and Jobcentre Plus, and some local authorities had not developed effective partnerships with them. In 2009, we found some examples of continuing, similar problems.

2.21 We also found some examples of successful partnership working. In centres where partnerships are working well, we were told the arrangements are often long established. We also heard that while good partnerships resulted from centre managers working hard to engage at a local, operational level, they were greatly supported where there were strong strategic links, for example, between the Primary Care Trust and the local authority, and where Service Level Agreements were in place.

Actions to improve cost effectiveness

Box 7
In 2006 we found that …

- Many local authorities had not identified the costs of individual services.
- Some authorities had started to plan innovative ways to deliver new children's centres.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

2.22 Clustering and sharing resources are now common features of initiatives to improve cost effectiveness in the public sector. We found evidence of local authorities seeking economies, and four approaches are outlined below.

- **Managing centres and centre budgets within a cluster:** clustering allows a strategic approach to sharing services, switching resources between centres to meet greatest needs, and avoiding duplication.
- **Retaining support services within the local authority:** this can lead to fewer specialist staff, for example Finance Officers, needing to be employed in centres.
- **Commissioning of services centrally:** for example, speech and language, or domestic-violence related services.
- **Having one lead agency operating multiple centres.**

2.23 Our 2006 report noted that local authorities could not demonstrate cost effectiveness, and recommended that authorities should assess unit costs of services and benchmark their centres. In 2009 we found that little such work has been carried out: interviewees said they did not have the time to do it, or wanted guidance from Together for Children about how to do it. Such benchmarking as exists is at a very early stage and involves IT-based cost and activity monitoring. Many centre managers told us that their IT systems were still in the early stages of development, many had only begun to use them in the past year, and they were yet to deliver anticipated benefits. Within authorities, there are opportunities for meaningful comparisons where the authority provides support services and/or clusters centres in ways that support the production of comparative data.

2.24 Differences in the way centres record activities and costs will continue to make benchmarking between centres challenging and difficult. The findings in our memorandum are consistent with the Department-commissioned feasibility study (paragraph 2.3). The study concluded that a national financial benchmarking system is not currently a viable option, though there is widespread recognition of the benefits that would accrue from effective benchmarking.[23] Together for Children has produced a toolkit to assist local authorities in establishing unit costs for services, which should be available online by March 2010 following trials with a small number of authorities and introductory briefings for local authority officers.

23 Hedra (2009).

Part Three

Performance monitoring and financial management

3.1 Performance monitoring and financial management have improved since 2006. More performance monitoring is being undertaken, it is more sophisticated and it is applied more consistently. In some places improvements to performance monitoring are relatively recent. Financial management support available to centres has improved, and forward budgets are announced allowing centres to plan ahead. Efforts to improve centre managers' financial management skills have yet to prove their effectiveness.

The Department's oversight of performance of children's centres

3.2 Overall the principles on good practice in planning and performance management, set out in the Department's guidance[24] and issued to local authorities following our 2006 report, are being met. The principles envisage that:

- the priorities of children's centres align with national priorities, including those set out in Public Service Agreements;
- common performance indicators are used for all of an authority's centres, and they should focus on outcomes and some key processes but local indicators may be added;
- centres' performance is reviewed as part of an annual cycle of monitoring, and coordinated to allow benchmarking;
- local authorities have responsibility for managing the performance of their centres, developing clear mechanisms to challenge and support; and
- a common self-evaluation form (developed by the Department) is used to showcase evidence on how well centres are delivering outcomes for children and families. The form includes factual information about the children's centre, data on performance, self evaluation of performance and challenges for the following year.

24 Department for Education and Skills (2006) *Sure Start Children's Centres: Planning and Performance Management Guidance*.

3.3 Ofsted inspects all early years' settings including those in children's centres. We were able to match nearly 150 nursery school inspections conducted between 2005/06 and July 2009, to centres providing registered childcare.[25] These inspections were overwhelmingly positive: the overall effectiveness of 98 per cent of these centres was judged to be good or outstanding.

3.4 Some centres are concerned that they could be subject to multiple inspection and evaluation processes. For example, a school hosting a children's centre that offers registered childcare could be subject to three separate Ofsted inspections (and three self-evaluation forms): covering the school, the centre itself, and the childcare. Ofsted is currently piloting inspections of all services provided by children's centres. Actual inspections will start in 2010. Integration of inspections will be gradual and Ofsted's long term aim is to have a single self-evaluation form.

Alignment of children's centre services with national and local priorities

3.5 In 2007, the Government introduced a set of 198 (now 188) statistical indicators to monitor progress of departments, local authorities and partners towards priorities for action. Sixty four indicators relate to children, young people and families. Local authorities decide which indicators to prioritise.

- Local authorities typically select around 30 indicators to include in their Local Area Agreement, which sets out the priorities for a local area agreed between central government, a local authority and its partners. But local authorities seldom select the indicators most relevant to children's centres. For this reason, Local Area Agreements are not likely to provide a primary route for the Department to influence and monitor Sure Start's progress and performance.
- They also select relevant indicators for the self-evaluation form provided by the Department and used by authorities to monitor centres' progress.

3.6 The first reports of the multi-inspectorate Comprehensive Area Assessment will be published on 10 December 2009. They will take account of Ofsted's inspections of services provided by children's centres. Annual reports will include explicit statements on the performance of key services including those provided for children and young people, and may report specifically on a local authority's performance management of its children's centre responsibilities.

25 We matched Ofsted Section 5 inspection data from 2005/06 to July 2009 by postcode or centre name to children's centre data. Some centres provide childcare through third parties who register the service. Where these providers have a different postcode to their centre's postcode, we have not been able to match the data to include any relevant inspection in our analysis

Local authorities' performance monitoring

Box 8
In 2006 we found that …

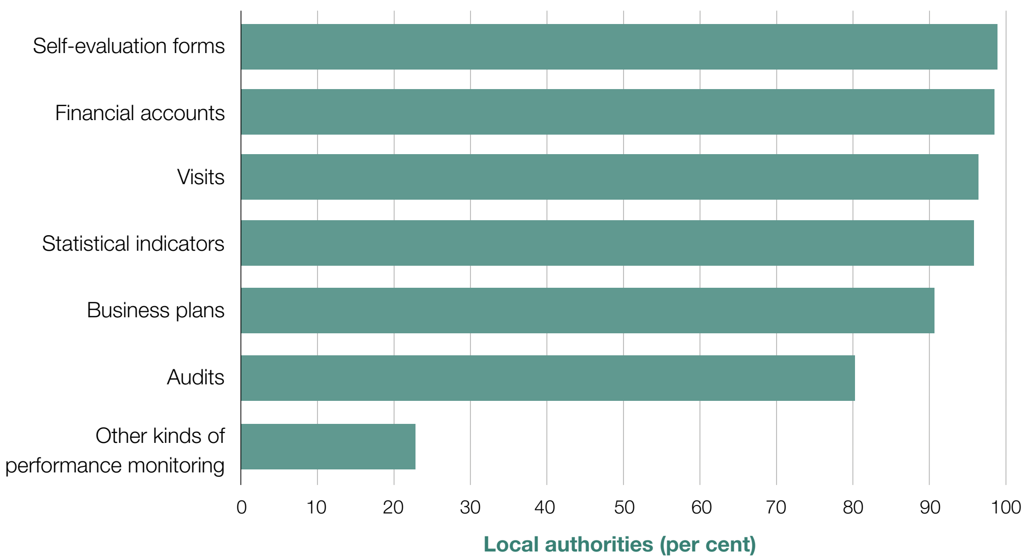
- More than half of local authorities were not monitoring performance. Authorities had yet to develop performance and financial monitoring systems.
- Lack of consistency between different authorities in how they monitor progress made it difficult to assess the aggregate performance of centres across England.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

3.7 Local authorities commonly use a number of performance monitoring methods, including a mixture of face to face, quantitative and self-evaluation methods (**Figure 10**). Most phase 1 centres indicate that authority monitoring of their performance has improved, and that authorities give timely feedback on performance.

3.8 Our survey, confirmed by discussions with local authority representatives, found that almost all local authorities ask centres to complete the self-evaluation form, which is used as the basis for an 'annual conversation'. Together for Children's regional adviser survey[26] estimated that around 60 per cent of local authorities have started the annual conversations. Some authorities have more frequent performance discussions with their centres. Performance monitoring has progressed since our 2006 report.

Figure 10
Local authority methods of monitoring centre performance



Source: National Audit Office analysis of survey data from 85 local authorities

26 Together for Children, September 2009.

3.9 Almost all (98 per cent) authorities have an electronic system to record and monitor children's centres' performance and progress. However, Together for Children's regional advisers estimate that 16 per cent of local authorities do not provide their centres with baseline data against which to measure progress. We also found that a small proportion of local authorities still undertake only limited performance monitoring. The reason given is the time still required to establish centres and services, such that they are only now at the stage where they feel able to initiate performance monitoring.

Children's centres' monitoring of their own performance

Box 9
In 2006 we found that …

- Centres were uncertain how to measure their performance.
- Centres were not collecting data in a consistent way, and some were unclear about the types of information that they should be collecting, and how to use it.
- Centres had access to varying levels of financial expertise and the financial capability within or available to centres to manage their resources needed to improve.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

3.10 All centres we spoke to or visited had performance monitoring processes and most used the self-evaluation form, though in some these improvements had been slow to get under way. For example, one phase 1 centre was still only in its first self-evaluation/annual conversation cycle.

3.11 All centres we visited emphasised the difficulty of measuring the impacts of children's centres. Some believe it will take several years to demonstrate significant impacts on children's development. Phase 1 centre managers anticipate that as the new systems are developed and used, they will support better recording of impact.

3.12 Phase 1 centres continue to collect activity data in varying ways. Some still rely on paper methods, use bespoke databases or, in externally managed centres, use the database of the lead delivery agency. There were two centres which were not using electronic systems: one was waiting for the local authority to purchase a system and the other was waiting for proprietary software to be introduced. Centres with bespoke databases would prefer software that connects with their local authority's database. In contrast all the phase 2 and 3 centres we visited were using or were due to begin using electronic performance management systems.

3.13 Together for Children issued a toolkit to assist local authorities (its primary clients) with business planning in July 2007, following our recommendation that centre managers required support to fulfil their challenging roles. However, though the toolkit has been designed to be accessible to centre leaders, few of the centre staff we spoke to during visits to centres had consulted Together for Children's website for guidance, or had used any of the toolkits. Together for Children's stakeholder satisfaction survey shows that authorities have found its toolkits useful, for example on commissioning services, working with the private, voluntary and independent sector and performance management.

Notification of future funding

Box 10
In 2006 we found that …

- One third of centres had not agreed their budget for the coming financial year, hindering their ability to plan how to use their resources.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

3.14 Centres are informed more promptly of their funding allocations than was the case in 2006. Most of the managers we spoke to from phase 1, and all from phase 2, had been given their budgets for the current and next financial year well in advance. However, uncertainty about funding beyond 2010-11 is making it difficult for centres to plan ahead and ensure continuity of service. Most Service Level Agreements with partners will terminate in March 2011. For charities acting as lead agents for the local authority, contract agreements will also end in March 2011.

Financial management expertise

3.15 In 2006 the financial expertise available to centres was variable, but there have since been improvements.

3.16 The majority of centre managers we spoke to are satisfied with the level of financial support and expertise at their disposal, which usually comes from the local authority. Additional support can be accessed through Together for Children's toolkit (paragraph 3.13). Local authorities are responsible for ensuring centre staff have the right skills for the job. Managers at centres run by national charities also told us of the importance of the financial management support they receive from their head offices. All centres we visited have access to qualified financial management staff, though the ways in which staffing is arranged varies. Some centres have a dedicated member of staff with accounting experience. In others, the centre is closely supported by local authority financial staff. Where a centre is attached to a school, the school business manager generally provides financial management for the centre.

3.17 In 2005 the Government introduced a professional qualification for centre leaders, the National Professional Qualification in Integrated Centre Leadership, equivalent to the National Professional Qualification for Headteachers, and overseen by the National College for School Leadership.[27] Between the academic years 2005/06 and 2008/09, 1,357 centre leaders have successfully completed the course. Funded by the Department, the cost was £2.8 million in 2008-09, comprising £2.3 million to deliver and develop the course and a further £0.5 million to fund additional early years' leadership development.

3.18 In 2006, following our report, the Department asked the National College to review the financial management and performance monitoring content of the course. The National College reviewed the qualification and in 2008/09 a new curriculum was introduced. We contributed to the feedback process for the design and development of the new financial management and performance monitoring materials.

3.19 We have reservations about the extent to which the revised curriculum can be expected to deliver improved financial management and performance monitoring skills. Our review of course literature found that:

- the qualification is a leadership development course, and covers a wide range of material. Equal coverage is given to other key areas including multi-agency working, governance, community development and leading learning;
- the course content on financial management and performance outcomes does not form part of the taught course, but is provided as part of the course resource pack in the form of two booklets (out of 20).

3.20 The Department considers that the qualification is an experiential, self-directed course so the issues of concern and experience of students shape the course. Therefore, performance and financial management *could* be topics of focus. In addition, the National College is considering whether it can further support financial and performance management skills development by transferring its school business manager course to children's centres.

27 The National College for School Leadership changed its title this year to the National College for Leadership of School and Children's Services.

Part Four

Financial sustainability

4.1 Since 2006, centres' overall financial performance has improved, but centres and local authorities have concerns about the sustainability of childcare provision and security of Sure Start as a whole. The current level of Sure Start grant is seen by local authorities as necessary to maintain the current quantity and quality of services. Local authorities have concerns that maintaining physical assets created under Sure Start may not be sustainable in the longer term.

Sustainability of centres as a whole

Box 11

In 2006 we found that …

- Sixty per cent of centres expected to stay within their budget.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

Importance of the Sure Start grant

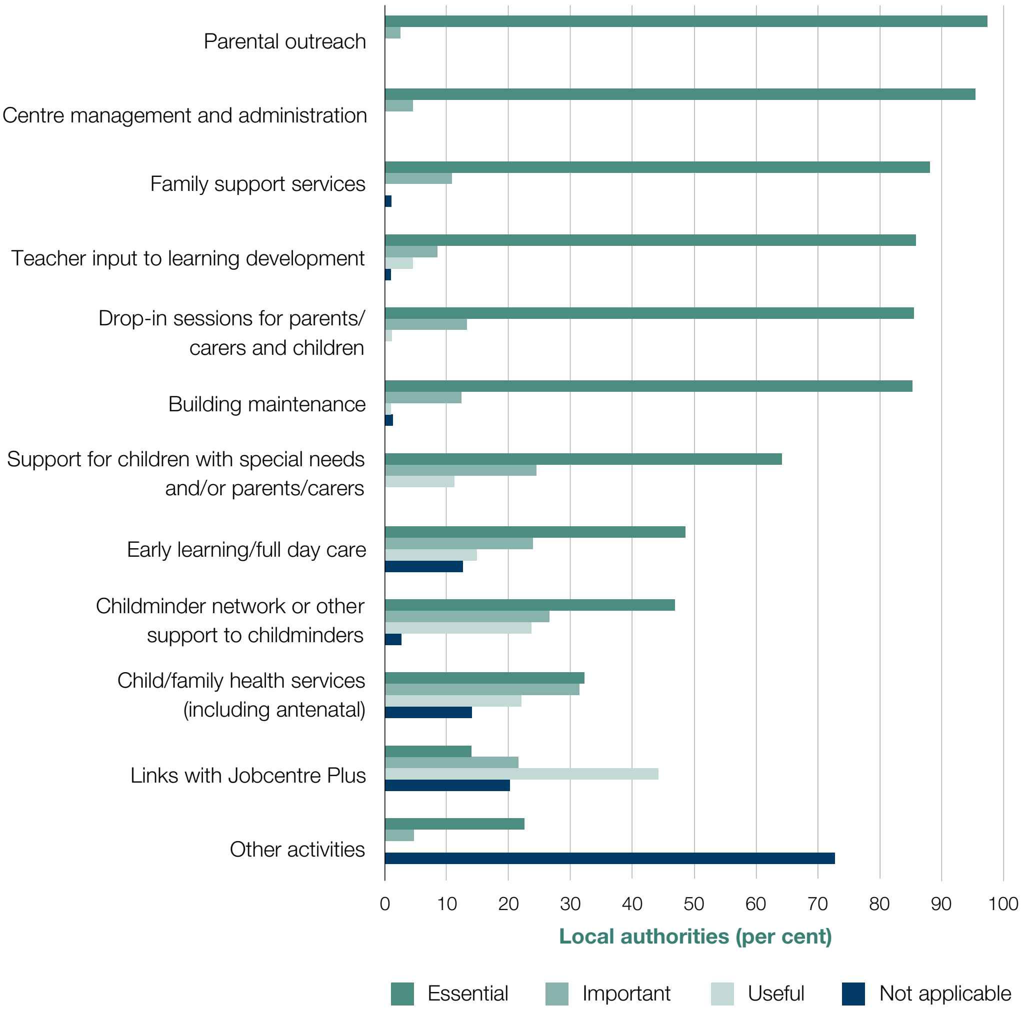
4.2 The majority of local authorities regard the current level of grant as essential to delivering the main services it is meant to pay for: centre management and administration, family support, teacher input to childcare, drop-in sessions and building maintenance (**Figure 11**). Significant numbers of local authorities also see the grant as essential or important to the provision of other services that it is not meant to fund, for example, childcare.

Centres' financial performance

4.3 Ninety two per cent of centres surveyed say their centre was at or close to break even or under budget in 2008-09, compared to 60 per cent in 2005-06. Many phase 1 centre managers considered that their centre's financial performance had improved over the last three years: most associated improvements with the introduction of clustering of centres, or with the Primary Care Trust providing more services through the centre. Where financial performance was felt to have worsened, managers associated the change with high staff costs and/or the tapering of grants to centres that were formerly Sure Start Local Programmes.

Figure 11

Importance of Sure Start grant funding to the viability of activities offered by children's centres



Source: National Audit Office analysis of survey data from 85 local authorities

4.4 Over 90 per cent of authorities provide finance/budgeting support (Figure 9). Some local authorities provide business support to assist centres with sustainability. Manchester City Council, for example, has three business support officers and one manager working across all private and voluntary sector activities of children's centres to advise on sustainability.

Childcare sustainability

Box 12
In 2006 we found that …

- Centres were concerned about the financial viability of childcare provision, especially as start-up grants were about to cease.
- Centre managers were uncertain whether they could generate sufficient new income and savings to break even on childcare.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

4.5 Sustainability of the childcare element of the children's centre offer is still of widespread concern to local authorities and centres.

- Around 59 per cent of authorities consider that none or only a minority of their centres' childcare is self financing through the fees charged to parents (**Figure 12**).
- In centres that deliver childcare directly, the majority (53 per cent) consider the service makes a loss, though we have no data on the scale of the losses.[28] Only six per cent of centres make a surplus.[29]
- Nearly three quarters of local authorities say that the current level of Sure Start funding is important or essential to the financial viability of early learning and full day care provision (Figure 11).

4.6 Centres and authorities described how childcare may receive a variety of additional sources of funding, notably core funding for the 12.5 hours entitlement,[30] and in addition specialised funds such as Aiming High for Disabled Children, and Care to Learn, which subsidises childcare for teenage parents.

28 The respondents to this question were mainly phase 1 centres. Phase 2 and 3 centres do not generally have to provide day care within their core offer.

29 We attempted the analysis by Government Office Region, however, with 85 local authorities the numbers were too few to compare. We analysed the responses by Index of Multiple Deprivation, however, we found no significant difference.

30 Local authorities are legally required to secure a free Government-funded early education place (currently for 12.5 hours per week over a minimum of 38 weeks per year) for every three and four year old in their area. This entitlement is to be extended to 15 hours per week by September 2010. Most local authorities are delivering the new 15 hour offer to their 25 per cent most disadvantaged children from September 2009. HC Deb, 12 October 2009, c200W, 3 November 2009, c947W.

Demand for childcare and sustainability

4.7 One third of centres making a loss on childcare attribute it to insufficient demand for places. Only five per cent say fees are too low. Many other reasons were offered, including:

- **demand and supply,** for example, in areas of low employment parents do not need full day care; or general oversupply of day care in the area. (In England local authorities have responsibility for managing local childcare provision, although in theory they should not provide childcare except to meet unmet demand.[31])
- **costs,** for example, high staff costs, particularly where those set by local authorities are higher than in the private sector.
- **income,** for example, where funding for the free entitlement to nursery education for three and four year olds[32] does not cover the cost per child; or where parents in the area cannot afford to pay the level of fees that would be appropriate for the quality of service delivered.

4.8 Centres have little discretion to vary the prices of childcare. Prices are usually set within local authority guideline charges for the area and flat fees are based on age. There are national schemes to help cover childcare costs, for example Working Tax Credit (childcare element) and the grant to cover the free entitlement to nursery education for three and four year olds.

4.9 The proportion of childcare places filled varies widely (**Figure 13**). All phase 1 centre managers interviewed said that day care is now offered in short sessions rather than in full days or weeks, as there is limited demand from parents for full day care throughout the week. As a result, some sessions are filled up, sometimes with waiting lists, while others may have spare places.

Figure 12
Local authorities reporting that childcare in their area is self financing through fees

	Local authorities (%)
Self financing at all centres	17
Self financing at majority of centres	24
Self financing at minority of centres	35
Self financing at no centres	24

Source: National Audit Office analysis of survey data from 85 local authorities

Figure 13
Occupancy rates of childcare places

Proportion of childcare places filled on an average day (%)	Percentage of centres responding
95–100	28
85–94	21
75–84	21
65–74	8
Under 65	22

Source: National Audit Office analysis of survey data from 126 centres, excluding phase 3 centres

31 Section 8 of the Childcare Act 2006 states that a local authority must be satisfied:
a) that no other person is willing to provide the childcare; or
b) if another person is willing to do so, that in the circumstances it is appropriate for the local authority to provide the childcare.

32 Formerly the Nursery Education Grant.

Supplementing grant with other funding

Box 13
In 2006 we found that …

- Most local authorities would need to find innovative ways to fund phase 2 centres.

Source: National Audit Office (2006) Sure Start Children's Centres, HC104, Session 2006-07

4.10 Other resources that either reduce costs or increase income are mainly used to fund family support services. Resources include: use of trained volunteers that reduces labour costs and assists the volunteers on the path to employment; partners delivering part of the core offer free; other authority monies such as year end local authority underspend for which the centre could apply; investment by partner agencies; other external grants; and income from room lettings.

4.11 Several phase 1 centre managers told us that sourcing supplementary grants to raise money for the centre, or specific projects, takes up a considerable amount of their working time. Some said that the additional income is important to enhance the quality of services delivered and to extend their range beyond the core offer in order to attract families who are hard to reach.

Capital implications

4.12 The 2009-10 capital allocation for children's centres is £169 million, of which maintenance accounts for 13 per cent. As the programme to establish centres nears completion in 2010-11, the proportion allocated to maintenance is planned to increase to 25 per cent. After that the continuation of capital maintenance allocations is subject to the outcome of future public sector spending decisions.

4.13 Forty per cent of authorities consider that their capital maintenance allowance is insufficient to maintain their buildings. Twenty six per cent believe that the allowance is sufficient and 34 per cent do not know. Phase 1 managers we spoke to are generally satisfied with the present condition of their buildings, which are mostly newly built. Some authorities find that as the centres are new buildings there have been few demands on the maintenance budget, leaving enough funds to allocate to centres on a needs basis. Others say that though capital maintenance budgets are currently adequate, maintenance may become a problem as new buildings age. Some indicated new centres can be expensive, for example lift maintenance, heating/cooling, and IT management.

4.14 The Commission for Architecture and the Built Environment conducted a post-occupancy evaluation of 101 centres for the Department in 2008.[33] The Commission found that:

- the majority of centres were rated 'good' overall by centre staff and parents;

33 Commission for Architecture and the Built Environment (2008) *Sure Start Children's Centres: A post-occupancy evaluation.*

- tight budgets meant that centres were primarily designed to deliver the core functions; other elements, for example, adult space, were lacking in quality and provision;
- local authorities and centre heads had faced challenges in meeting Sure Start's two year turnaround time for design and build, though the Commission believed that authorities should be better equipped to handle phase 3 projects. The short turnaround also meant that the users and community were not sufficiently involved in design decisions; and
- the two year turnaround meant that many centres were located on sites already owned by the authority, which were not necessarily the best or most cost-effective location for the centre.

4.15 The Commission did not report on the cost implications of centre maintenance, but recommended that in designing centres, long term quality should be the prime consideration, above cost effectiveness.[34]

Concerns for the future of children's centres

4.16 Many centre managers across all phases were concerned about the future of children's centres, and particularly their financial sustainability given the current wider public sector spending and economic context.

4.17 Centres we contacted have considered options should the Sure Start grant be reduced. Responses fall into four broad categories.

- **Reduction/reprioritising services:** focusing on core services, to the extent that they remain viable within the grant. However, some centres say they do not offer 'extras', so it is hard to say what would not be core.
- **Charging for some services:** such as for drop-in sessions, particularly in the 70 per cent least deprived areas where incomes are generally higher.
- **Clustering of service delivery:** working with other centres to identify and exploit relative strengths, which some centres already do informally. Also pooling of resources with other centres.
- **Alternative funding and use of partner resources:** making further efforts to source other funding, and expecting partner organisations to fund some of the core offer.

4.18 Many centre managers and local authorities raised the possible removal of the ring-fence around children's centre funding. Some were concerned that if the ring-fence were removed (i.e. if local authorities received one large block of relevant funding, or could switch freely between blocks), children's centres could lose out. Some considered that local authorities would tend to prioritise schools, as a high-profile responsibility, and child protection, in view of the inherent risk of any service failure. They were concerned that children's centres had not yet had time to demonstrate impact, and that local authorities might prioritise the more established services, that they were more familiar with.

34 Commission for Architecture and the Built Environment (2008) recommendation 1, p 13.

Appendix One

Methodology

1 This report is based on:

- telephone interviews with 21 managers of phase 1 centres visited in 2006;
- visits to one centre from phase 1, eight from phase 2, and one from phase 3, as well as to one local authority;
- telephone interviews with 17 local authorities;
- a survey of local authorities about their management of children's centres, and the costs and activities of a selection of their centres;
- primary and secondary data analysis; and
- interviews with staff of the Department and Together for Children.

Telephone interviews with phase 1 centres

2 Our 2006 study included visits to 30 phase 1 children's centres. We sought to interview the current managers of these centres by telephone and were able to interview 21 centre managers, collecting evidence on services, funding, performance monitoring, delivery and sustainability. We made five attempts to reach each of the remaining nine. In most cases the centre manager had changed since 2005-06.

Visits to centres and local authorities

3 We visited eight phase 2 centres and spoke to centre managers and, where available, finance officers. The centres were located within the following local authorities: Hampshire, Lambeth, Newham, Oldham, Southampton, Tameside, Warwickshire and Wiltshire. The phase 1 centre we visited was in Bromley, and the phase 3 in Peterborough. Local authority officials were present at seven visits. In addition, we visited Lincolnshire County Council. We selected these centres randomly within the criteria of achieving a mix of regions, affluence, and rurality. In two cases we followed suggestions made by the Department to expand the range of delivery models included in our analysis.

Telephone interviews with local authorities

4 Our 2006 study included visits to 27 local authorities that had set up children's centres by September 2005. Efforts were made to reach all of the local authorities involved in 2006, and we were able to interview by telephone staff in 17 of these local authorities to collect evidence on funding, performance monitoring, delivery and sustainability. We made five attempts to reach each of the remaining ten.

Survey of local authorities and children's centres

5 Eighty five out of 148 local authorities responded to our survey about their management of children's centres, a response rate of 57 per cent. The achieved sample was broadly representative across the regions and levels of deprivation.

6 From each authority, we selected a small number of their centres and requested information on services offered, income and expenditure. We stratified the centres by phase and systematically sampled 20 per cent from phase 1, 15 per cent from phase 2 and 25 per cent from phase 3. This was to ensure we obtained a good spread of phases from local authorities. The local authorities sent the questionnaire to the centres to complete. We did not accept data on centres that were not in our chosen sample. In total, we requested data on 685 centres and received 300 replies, giving a response rate of 44 per cent. Very few of the phase 3 centres responding could provide financial or activity data yet. Therefore we excluded them from our financial and activity analyses.

7 We weighted the local authority survey data to match the known number of authorities in each region. The children's centre survey data were weighted to match phase and region in Together for Children's tracker data.

Primary and secondary data analysis

8 We linked data from various sources to our survey data to broaden our analysis (**Figure 14**).

Statistical modelling with children's centre data

9 For the children's centres, we analysed expenditure and service costs. Specifically, we compared phases and other characteristics of centres.

10 We used median tests to test for any difference in the average income, expenditure and unit costs between phases 1, 2 and 3. Average hourly salary cost was calculated by dividing total salary cost per week by the total hours per week.

11 We looked at the utilisation rate of service provision. This was derived by taking the average number of service beneficiaries per session as a proportion of the maximum capacity per session. Median tests were used to test for differences in utilisation rate in each phase.

Figure 14
Sources of data linked to survey data

	Survey data from children's centres	Survey data from local authorities
Ofsted's inspection data on nursery schools[1]	✗	
Sure Start centre databases	✗	
Area level demographic data from the Office of National Statistics website:		
• index of multiple deprivation score	✗	✗
• percentage of population of working age	✗	✗
• percentage of population describing themselves as white	✗	✗
• rurality index	✗	✗
• percentage of population describing their health as 'not good'	✗	✗
• percentage of population aged 16-74 with no qualification	✗	✗
• percentage of households with lone parents with dependent child	✗	✗

Source: National Audit Office

NOTE
1 Limited to nursery schools that have been inspected.

Statistical modelling with local authority data

12 The chi square test was applied to look for significant differences between commissioning models and local authorities' Index of Multiple Deprivation scores, type of support authorities provide to centres, methods of performance monitoring of children's centres and having an electronic system to record and monitor performance and progress.

Appendix Two

How Sure Start funding is allocated to children's centres

1 The Department allocates local authorities two types of funding — revenue and capital. Local authorities are not allowed to transfer funding between the two.

Revenue funding

2 Revenue funding supports the development and running of children's centres. There are two elements, and both are ring-fenced.

- The main revenue block (the Sure Start, Early Years and Childcare Grant) is for Sure Start children's centres (excluding former Sure Start Local Programmes) and a range of other objectives, including Every Child a Talker, and take up of childcare by low income families. As in 2006, the Department uses an allocation formula that takes account of the number of children aged 0-5 living in disadvantaged areas. Local authorities decide what proportion of the main revenue block to spend on children's centres, and how to allocate it between centres. They cannot carry forward any unspent allocations.
- The second block of funding is specifically for centres that were previously part of the Sure Start Local Programme. A taper is being applied to gradually reduce funding per centre within this block by 2011-12, when all children's centres serving the most deprived communities will be funded on the same basis, regardless of origin.

3 Our previous report provided an example using Dudley Metropolitan Borough Council's allocation method. Dudley takes the total available funds and deducts approximately four per cent to cover central costs and area-wide commissioning. The remainder is allocated to children's centres as follows:

- Start-up funding where a new centre needs funds for equipment, salaries and running costs before the centre is open.
- Base budgets for the three phases of children's centre, calculated to cover the core staffing needed to run the centre. These include the gross salary, employer National Insurance and superannuation for the centre manager or coordinator, the administration staff and other indirect staff (for example, caretaking staff). The cost of a half-time teacher and one respite, full-time equivalent childcare place is also included, where appropriate. A standard amount is also added for running costs.

- After the start-up and base budget have been allocated, Dudley divides the remainder of its total funding from the Department into two, allocating half according to elements of the index of multiple deprivation for 2007 for each children's centre area (for example, the income, employment, health and disability, and educational deprivation sub-indices) and half according to the number of under fives. Using different elements of the index introduces an element of flexibility and adaptability to the needs of an area, for example, some centres' areas have issues such as education and training, which could not be identified if only the overall index was used.
- Local level data are used to calculate the number of 0-5 year olds in each centre's area. Funding related to the elements of the index of multiple deprivation and the number of children are then apportioned accordingly.

4 Unlike in 2006, there is no target or funding for creation of childcare places.

5 Below we give a worked example of an allocation to a children's centre in Dudley (**Figure 15**). The example is illustrative, and should not be taken as a blueprint for funding all centres. Authorities need to take a range of factors into account in allocating funding, which vary according to local needs and levels of existing service provision.

Figure 15

Example of the formula used by Dudley Metropolitan Borough Council to allocate revenue funding to a children's centre, 2009-10

Start-up	£0	1
Base budget	£158,315	2
Family support cost for the children's centre		
Unit cost of funding related to indices of multiple deprivation in the local authority	£10,932	3
Number of units of deprivation relating to centre	12.8	4
Funding based on index of deprivation	**£139,926**	**5**
Unit cost of funding based on number of under fives	£106	6
Number of under fives	550	7
Funding based on number of under fives	**£58,102**	**8**
Total family support funding	£198,028	9
Total budget awarded	**£356,343**	**1+2+5+8**

Source: Dudley Metropolitan Borough Council

NOTES

Row 1: This children's centre is not given start-up funding for childcare provision as it is an established centre.

Row 2: It is given a base budget of £158,315 for core staffing, etc.

Row 5: Funding based on index of deprivation is row 3 multiplied by row 4.

Row 8: Funding based on the number of under fives is row 6 multiplied by row 7.

Row 9: Row 5 plus row 8.

Capital funding

6 The Department allocates capital funding to local authorities in two blocks, both calculated by formulae, for the:

- **creation of new centres** – designed to deliver the requisite number of centres, and allowing for the number of under fives in each local authority. Other factors are rurality (based on ward scarcity data) and regional price differentials; and
- **maintenance of capital assets** – allocated according to the number of under fives, and weighted for regional price differentials.

Since our 2006 report, the Department has removed a factor relating to the number of childcare places to be created, and whether centres are in London or in rural areas.

7 Local authorities allocate capital maintenance allowance between centres in different ways.

- The maintenance budget is centrally held, and centres submit maintenance requests to the authority. In some instances the capital committee includes external representatives from the lead agency or partner organisations.
- On a formula basis using, for example, size, type and age of building as factors.
- Yearly, planned capital maintenance programmes, where maintenance is pre-planned by the authority based on pre-determined needs' analyses and expected levels of maintenance.

Appendix Three

Additional analysis

Income

1 For former Sure Start Local Programme centres, around 86 per cent of centre budgets comes from the Sure Start grant, for other phase 1 centres 84 per cent, and phase 2 centres 95 per cent. These differences are statistically significant.

2 In 2008-09, former Sure Start Local Programme centres had much higher total incomes, averaging (median) £520,000, reflecting their location in areas of relatively high need. Other phase 1 centres have an income of around £300,000, with phase 2 centres reporting average incomes of £130,000.

Expenditure

3 Overall, average annual expenditure per centre is in line with average income.

4 Former Sure Start Local Programme centres spend around 23 per cent of total expenditure on centre management. Other phase 1 centres spend 31 per cent, and phase 2 centres spend 36 per cent. These differences are statistically significant.

5 Some former Sure Start Local Programme centres continue to contribute towards the cost of their health and employment support services as they make the transition to become part of the wider, universal Sure Start service, but for other types of centre these services are funded entirely by the Primary Care Trust and Jobcentre Plus.

6 Salary costs account for the majority of centres' expenditure. They account for two thirds of former Sure Start Local Programme and phase 2 centre spend, and three quarters of other phase 1 centres' expenditure.

7 On average, phase 1 centres attribute a higher proportion of their salary spend to early learning and full day care than do phase 2 centres (**Figure 16**). Many phase 2 centres in less deprived areas are not required to provide full day childcare integrated with early learning as part of the core offer: where they do, many contract out delivery to private or voluntary providers, in which case service delivery will not form part of the centre's expenditure.

Costs per service user

8 The differences in the numbers of clients seen for drop-in services, teacher input, health services, parental outreach and family support are statistically significant (**Figure 17** overleaf). Other differences are not.

Figure 16

Distribution of children's centres' delivery-staff salary spend by centre service, 2008-09

	Former Sure Start Local Programmes (%)	Other Phase 1 centres (%)	Phase 2 centres (%)
Early learning/full day care	39	43	26
Drop-in sessions for parents/carers and children	9	9	16
Teacher input to learning development	17	10	8
Child/family health services (including antenatal)	4	7	5
Parental outreach	12	11	16
Family support services	15	11	20
Childminder network or other support to childminders	1	4	2
Support for children with special needs and/or parents/carers	2	4	3
Links with Jobcentre Plus	1	3	4
Number of centres	**38**	**31**	**64**

Source: National Audit Office analysis of data from children's centres

NOTES

1 Total percentages do not sum to 100 due to rounding.

2 Calculated on weighted data. Too few phase 3 centres were operating in 2008-09 for a reliable calculation to be made.

Figure 17

Average (median) number of service beneficiaries[1] per week of different children's centre activities by phase

	Former Sure Start Local Programmes	Other Phase 1 centres	Phase 2 centres
Early learning/full day care	246	291	200
Drop-in sessions for parents/carers and children[2]	88	119	48
Teacher input to learning development[2]	97	104	55
Child/family health services (including antenatal)[2]	70	35	32
Parental outreach[2]	60	42	18
Family support services[2]	55	54	17
Childminder network or other support to childminders	6	10	7
Support for children with special needs and/or parents/carers	10	23	6
Links with Jobcentre Plus	6	6	5
Number of centres	**26-40**	**15-29**	**43-109**

Source: National Audit Office analysis of data from children's centres

NOTES

1. Number of beneficiaries per session multiplied by number of sessions per week. A beneficiary may attend more than one session in a week, so the figures given do not necessarily equate to, for example, the number of children attending childcare.
2. Statistically significant differences.
3. Calculated on weighted data. Too few phase 3 centres were operating in 2008-09 for a reliable calculation to be made.

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