Submission to the Comprehensive Spending Review 2021

Funding of maintained nursery schools

Summary

- MNS funding needs to be sufficient, and sufficiently predictable, to maintain stability of staffing with SEND expertise, and allow schools to operate above minimum ratios to support children with emerging SEND and to offer additional support to children in need.
- A transparent and easy to understand formula should be modelled on existing funding systems, eg a modified EYNFF and/or elements of the schools' funding formula such as the lump sum, and should reflect the cost of teaching children on all government-funded entitlements.
- Sustainable funding must at least reverse the 12% real terms cut to supplementary funding over the past five years and put in place a viable hourly funding rate to ensure schools are not sent deeper into deficit.
- A new formula must fund nursery schools based on a nationally consistent basis, addressing the inequities of the current historically-based allocations. In line with the funding of other schools, it should put in place a consistent policy for central reimbursement of business rates, provide an annual lump sum payment and increase the level of Early Years Pupil Premium.
- Any cut in funding affecting MNS with higher funding under the current formula needs to be limited year on year to ensure it can be sustainably managed.
- Estimated additional funding need:

Universal entitlement (distributed as lump sum and/or hourly rate):	£62.5m
Additional funding for 30 hours and 2-year-old entitlement	£26m
Reimbursement of rates for all MNS	£8m
Transitionary protection – dependent on actual formula	tbc
Total (excl transitionary protections)	**£96.5m**

Introduction

The 385 maintained nursery schools (MNS) in England (local authority-run schools for 2, 3 and 4-year-olds) are a unique resource offering outstanding education and care to 40,000 children, including some of the country's most vulnerable and disadvantaged children. They have a crucial role to play in post-pandemic education recovery and the levelling up agenda, if they are adequately funded. But this vital resource risks being lost as a result of the financial impact of the pandemic and delays in replacing a stop gap funding mechanism which is not fit for the long-term.

While there has been no nationally funded study of the value of MNS to the economy, a study of the 27 Birmingham MNS estimated that they provided £11.5m of unfunded services annually, 7 MNS in Yorkshire and North East Lincolnshire estimated that they provided £750,000 a year in unfunded services. They are far more than "just" providers of early education and childcare. In practice, they act as family hubs, supporting families in accessing health, social care and other services, but also reducing the number of families who need to do so and representing a significant saving on other public services.

Education ministers have recognised the crucial role of maintained nursery schools (MNS) and that the Early Years National Funding Formula (EYNFF) does not adequately provide for their costs and have said they are committed to addressing this in the current spending review. Urgent action from government will safeguard this vital resource which otherwise faces extensive cuts and closures.

Post-pandemic recovery

In the aftermath of the pandemic, the financial situation of maintained nursery schools has deteriorated markedly. While private nurseries in affluent area may turn over a healthy profit, the same does not hold for voluntary or maintained early years providers, and especially not those operating in disadvantaged areas. Maintained nursery schools operate on extremely tight margins, and the unexpected lost income (on average £72,000 per school in 2020-21) and extra costs of the pandemic (on average £8,000 in that year) have pushed even more into deficit – almost half reported a deficit by March 2021, on average of £76,000.

They have limited scope for further cuts and efficiency savings, and MNS report that their services are being affected. Worryingly given their key role in supporting children with SEND whom other settings cannot or will not admit, three quarters expecting to have to less capacity to support children with SEND next year. Worse still, across the country, local authorities are reviewing whether their nursery schools have a viable future and puzzling how to put in place financial recovery plans for schools in deficit for which funding is not even confirmed for the summer term of the 2021-22 school year, despite guidance requiring schools to budget for a three year period. Long term certainty is urgently needed for them to achieve financial stability.

Proposals for future funding

In 2020, the minister, Vicky Ford, stated that a new funding formula for MNS must:

a) preserve services for the most vulnerable including children in need and those with SEND
b) be transparent and easy to understand
c) be sustainable to allow nursery schools and local authorities to plan
d) be fair between local authorities and between providers within a local authority and be clear on value for money and the wider role of nursery schools
e) avoid volatility across the sector.

We set out below how we believe these principles can be achieved, and why we believe they need to be.

a) Preserving services for the most vulnerable including children in need and those with SEND

Our recent research shows that MNS finances are reaching a point where their ability to support children with SEND is being compromised. If MNS are funded only for minimum staff ratios, with limited high needs funding available, there will be an increase in the number of children with SEND for whom limited or no early years education is available.

Most MNS report that the additional funding they receive for supporting children with SEND has decreased since 2016-17, although the level of need has not. MNS prioritise children with SEND in their admissions policies and have a higher proportion of children with SEND (15% compared to a sector average of 6%). In many cases MNS are instrumental in diagnosing children's needs and putting Education and Health Care (EHC) plans in place, although the funding that follows the EHC generally benefits the receiving primary school in the following year and little or none may be available to the MNS. MNS have built up huge expertise on SEND in their staff teams, but need funding stability to retain that expertise, which is already being eroded by funding cuts. In the context of an increasing gap in outcomes for children with SEND (EPI, 2020) this is of considerable concern.

As identified in the Frontier Economics study for DfE, "MNS are more likely than other provider types to offer a greater range of service types and to deliver more user hours in larger groups." According to the Survey of Childcare and Early Years Providers (2018), 64% versus 36% sector average delivering specialist services for children, 58% versus 24% delivering specialist family support and 73% versus 21% delivering system leadership.

The cost is high (over £20 per hour for 1:1 support and professional meetings about a child) and in many cases MNS deliver these from within existing budgets and do not receive additional funding, eg for children in need. This is increasingly unsustainable as MNS funding is not even increasing in line with inflation. There is no equivalent of Pupil Premium Plus in the early years. MNS also have higher than average numbers of children needing these additional services. 98% of MNS have at least one child in receipt of the Early Years Pupil Premium (EYPP), compared to 30% of the sector as a whole.

MNS funding needs to be sufficient, and sufficiently predictable, to maintain stability of staffing with SEND expertise, and allow schools to operate above minimum ratios to support children with emerging SEND and to offer additional support to children in need.

b) A transparent and easy to understand formula

MNS deliver a range of services and separating out funding streams to cover each of these is likely to be complex. A transparent and easy to understand formula should therefore remain simple, and be modelled on existing funding systems, eg a modified EYNFF and/or elements of the schools' funding formula such as the lump sum. However, it should take into account that the hourly cost of teaching is higher than other providers in relation to all the following:

- the universal 3- and 4-year-old entitlement
- the 30 hour offer
- the 2-year-old entitlement

At present supplementary funding is available only in relation to the universal offer. Yet supporting disadvantaged 2-year-olds and enabling parents to return to or increase their working hours are equally vital agendas for the communities MNS serve, so MNS need to be funded to deliver these viably.

A transparent and easy to understand formula should be modelled on existing funding systems, eg a modified EYNFF and/or elements of the schools' funding formula such as the lump sum, and should reflect the cost of teaching children on all government-funded entitlements.

c) Sustainable funding to allow nursery schools and local authorities to plan

Calculating the supplementary funding on the basis of an hourly rate instead of as a lump sum increases the volatility. Core costs associated with being a school are not affected by changes in numbers of children and therefore, like other schools, **MNS need the certainty of a lump sum component in their funding to reflect these core costs**.

Under the EYNFF stop-gap "supplementary funding" is being paid at the same rates as in 2016-17 without even a year-on-year inflationary increase**, so in real terms this represents a cut of 12% over five years.** Supplementary funding provides an average of 31% of maintained nursery schools' budgets. Like the rest of the early years sector, MNS have also been affected by the underfunding of the hourly base rate across the sector, and the limited increases since 2016-17 that have not kept pace with inflation or actual costs.

Over and above inflationary increases to costs, MNS have faced increases to business rates and staff costs such as pay and pensions, a growing crisis in funding for SEND support, and having to pay for services previously provided by local authorities. The **DfE's own figures show that the percentage of MNS in deficit has risen from 3.5% in 2009-10 to 20.8% in 2019-20** and the **total deficit rose from £6.7m to £8.8m over that last year**, indicating a rapid escalation of difficulties for the worst affected schools. That, of course, was before the pandemic hit**. Our own research found that as many as 46% were in deficit by March 2021** as a result of the additional costs and loss of income due to Covid-19.

Nursery schools have already made extensive cuts: for example, child:teacher ratios have increased from 16 to 22 children per teacher between 2010 and 2020. Further efficiency savings are simply no longer possible, particularly given the profile of children on roll including those with SEND and children in need.

The Frontier Economics study of the cost and value of maintained nursery schools estimated the hourly cost of teaching 3- to 4-year-olds in MNS was £4.92. It compared costs with estimates from another DfE research programme, the Study of Early Education and Development (SEED) programme, which estimated the hourly cost of teaching 3-4 year olds in MNS was £6.65 (with confidence intervals of £5.18 to £8.13). The Frontier Economics report notes that "The confidence intervals for costs for three and four year olds are wide for both studies and overlap between the two studies for all provider types and for all settings combined, reflecting the small sample sizes." These estimated hourly costs separate out "additional services" even though there is no additional funding to provide these, hence the hourly rate needs to build in additional unfunded support such as professional meetings and support with obtaining EHC plans. By contrast, the DfE's Survey of Childcare and Early Years Providers (2018) calculated the mean unit cost for MNS at £7.23 compared to £3.83 for private providers and £4.16 for voluntary providers.

The current funding arrangements equate to an average hourly rate of c. £8.05 per hour, and yet despite extensive efficiency savings, nearly half of MNS are in deficit. SCEYP also found MNS had an income to cost ratio of 1.0 compared to a sector mean of 1.3 and a mean for private providers of 1.7, ie the margins for MNS are tighter than the rest of the sector on average. The hourly rates suggested by the Frontier Economics and SEED studies, based on small sample sizes, are therefore highly questionable. Even the higher rate of £6.65 would represent a cut in funding for three quarters of LAs. **The average hourly rate needs to be at least at current levels of £8.35 per hour** to return the value of the supplementary funding to its 2016-17 level, and the rest of the formula also needs uprating for the whole early years sector to reflect inflation and above inflation cost increases.

Sustainable funding must at least reverse the 12% real terms cut to supplementary funding over the past five years and put in place a viable hourly funding rate to ensure schools are not sent deeper into deficit.

d) Achieving fairness between local authorities and between providers within a local authority and being clear on value for money and the wider role of nursery schools

Current funding is distributed on the basis of historical decisions at local authority (LA) level and is therefore wildly inconsistent. At the bottom end of the scale, three LA areas with MNS, including one in inner London, currently receive no supplementary funding at all, while, at the top end, one inner LA receives around £12ph in supplementary funding. **It is imperative that this historical unfairness is addressed in any new formula** so that funding reflects actual costs**.**

A further unfairness is created by the inconsistency regarding reimbursement of business rates. All other LA maintained schools have their rates reimbursed under the schools funding formula. MNS receive reimbursement of rates only in LAs which reported funding this in their 2016-17 S251 returns, and only at 2016-17 levels without any reflection of subsequent increases. Business rates of up to £120,000 per year have been reported by some MNS, while others pay a tenth of that. **Reimbursement of business rates needs to be funded for all MNS, as it is for other LA maintained schools, to provide a level playing with other schools, and fairness between MNS in calculating equitable distribution of funds for other costs. It is not equitable that voluntary sector nurseries can access business rates relief, while MNS, which are also non-profit, in many cases have to pay business rates in full.**

We welcome the acknowledgement in the DfE's response to its business rates consultation to explore the feasibility of extending the scheme for central payment of rates to maintained nursery schools in the future. In order to be able to do so, there needs to be a consistent policy of reimbursing all MNS business rates in full as part of any new formula.

The Frontier Economics study recognises that MNS have higher core staff costs. MNS are schools with the same statutory requirements as all other schools to employ a headteacher, qualified teachers, a SENCO who is a qualified teacher, and to pay salaries and pensions accordingly. As local authority employees, other staff must also be paid according to locally and nationally agreed scales. The SCEYP survey found that "Almost a quarter (24 percent) of workers aged 25 and over were paid at or below the statutory minimum of the National Living Wage (NLW), but … 3 percent of staff in MNS were paid at or below the NLW."

MNS must also have a governing body and an admissions policy which prioritises the children in greatest need. In primary and infant schools, these core costs are reflected in the lump sum received by the school. **An equitable solution for maintained nursery schools would be to receive a lump sum on the same basis as infant and primary schools (currently of £117,800) in addition to the hourly rate provided under the EYNFF.** This would not on its own be sufficient to cover the additional costs of all schools, but would provide stability and parity with other schools.

Private and voluntary providers have argued the case for a "level playing field" of funding which is the same for all providers. However, it is not a level playing field when the staffing requirements are higher in maintained than in non-maintained sectors, nor when schools are required to prioritise the children in greatest need who require more resources, but PVIs are not. Private providers in wealthy areas are able to turn a healthy profit, but providers in disadvantaged areas struggle to remain viable.

There is a clear need for more targeting of early years funding towards disadvantaged children. Additional needs funding is 17.6% of the schools formula, but equivalent supplements are a maximum of 10% in EYNFF and 6% as a current sector average. Early Years Pupil Premium is £302 per child compared to £1345 for pupil premium in primary schools. MNS share funding challenges with other EY providers serving disadvantaged communities.

Targeted funding for disadvantage should include

- **ensuring the hourly rate for funded 2-year-olds fully covers costs,**
- **raising the rate of EYPP to match primary pupil premium**
- **and/or increasing disadvantage supplements for all providers, to target funding where it is most needed.**

A new formula must fund nursery schools based on a nationally consistent basis, addressing the inequities of the current historically-based allocations. In line with the funding of other schools, it should put in place a consistent policy for central reimbursement of business rates, provide an annual lump sum payment and increase the level of Early Years Pupil Premium.

e) Avoiding volatility across the sector.

Financial support from government to share expertise between business managers in MNS would greatly help with this process. External financial advice from those without an understanding of the core purpose of MNS has in the past been of poor quality and could be more effectively provided from within the sector.

The current range of hourly rates received by MNS mean that under any new system some could see their funding reduced. **Any cut in funding affecting MNS with higher funding under the current formula needs to be limited year on year to ensure it can be sustainably managed.**

Estimates of funding required

- The estimates available on which to base calculations of minimum viable MNS funding are problematic, and hourly rates relating to the cost of teaching 2-, 3- and 4-year-olds do not take account of currently unfunded additional support activities. **The evidence is that the current average of £8.05 per hour additional funding for the universal entitlement is insufficient for a significant minority of settings**, due to its current unequal distribution, local factors and the lack of inflationary increase since 2016-17
- In 2020-21, supplementary funding for MNS totalled £56m per year to cover the additional costs of teaching the universal 3- and 4-year-old entitlement. **To return this to 2016-17 funding rates in real terms would require at least a 12% increase taking it to £62.5m, representing an average hourly MNS supplement of £3.41** on top of the universal base rate and other payments**.** The funding protections required to maintain an average funding rate of at least £8 per hour would depend on how this was allocated, eg in relation to regional cost variation. The difference in funding rates is most significant in relation to some London LAs.
- Part of the above pot should be used for providing a **lump sum equivalent to that given to primary schools (£117,800 per MNS) to recognise the costs associated with being a school** would cost approximately £45.5m.
- We estimate that to cover the additional costs of delivering the 2-year-old entitlements and 30 hours would require **an additional £26 million** (based on 2019-20 figures and assuming the fall in 2020-21 numbers is a temporary impact of the pandemic)**.**
- We are not able to confirm the amount needed to cover the reimbursement of rates as this data is not available centrally. S251 returns suggest that 10 LAs currently reimburse approximately £790,000 in rates as part of their supplementary funding. If this is representative of the sector as a whole, the **total rates bill would be in the region of £8 million**.

In total, we believe that a revised funding formula needs to provide for the following:

Universal entitlement (distributed as lump sum and/or hourly rate):	£62.5m
Additional funding for 30 hours and 2-year-old entitlement	£26m
Reimbursement of rates for all MNS	£8m
Transitionary protection – dependent on actual formula	tbc
Total (excl transitionary protections)	**£96.5m**

Submitted on behalf of Early Education, NAHT, NEU and Unison, 27/9/21

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