Early Education Submission to the Comprehensive Spending Review

Funding of maintained nursery schools

The 389 maintained nursery schools in England (local authority-run schools for 2, 3 and 4-year-olds) offer outstanding education and care to 40,000 children, including some of the most vulnerable and disadvantaged children. 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 are committed to addressing this in the current spending review.

Calculating a fair formula for all MNS is complex. The minister, Vicky Ford, has stated that the new formula 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 welcome these principles and have the following suggestions of how to achieve them.

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

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. If MNS are funded only for minimum staff ratios, with limited SEND funding available, they will not be able to continue this work. 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. 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 o 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 operate above minimum ratios to support children with emerging SEND and to offer additional support to children in need. This could be as part of a lump sum or supplementary hourly rate, or a combination.

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 first of these. 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.

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 8% over four years, and in relation to the increase in costs faced by early years providers, this represents a 14% cut.** 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 inflationary increases since 2016-17.

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 17.7% in 2018-19**. Although the proportion of schools is down from a high of 20.3% in 2017-18, the **total deficit has jumped from £4.9m to £6.7m in that one year**, indicating a rapid escalation of difficulties for the worst affected schools.

Nursery schools have already made extensive cuts: for example, child:teacher ratios have increased from 16 to 23 children per teacher between 2010 and 2018. 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, more than one in six 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 an 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, ie over £8 per hour**. **To retain its real terms value compared to 2016-17 it would need to be at least an average of £8.47 per hour.**

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

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 rates without any reflection of subsequent increases. Others receive no reimbursement. Business rates of up to £120,000 per year have been reported by MNS, while others pay a tenth of that. **Reimbursement of business rates needs to be covered for all MNS, as it is for other LA maintained schools, to provide a level playing with other schools, and 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 note that Treasury is currently conducting a review of business rates and would urge that reliefs and exemptions for all early years providers are prioritised as part of the aim of funding all early years providers fairly.

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 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 of £120,000 on the same basis as infant and primary schools in addition to the hourly rate provided under the EYNFF.** In addition, it is likely that in some areas a top up of the hourly rate would also be needed either on a transitionary basis or longer term in relation to regional cost variations.

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 vary between maintained and non-maintained sectors, nor when schools are required to prioritise the children in greatest need who require more resources, but PVIs are not. The higher costs of MNS are also justified by their role in providing system leadership and support for others in the sector (though local authorities and EY providers do not always make best use of this resource).

However, schools are not alone in supporting disadvantaged children, and PVIs in disadvantaged areas also need more funding, as demonstrated by the greater number of these at risk of closure. 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. **Greater fairness of EY funding would be helped by increasing the rates of EYPP and/or disadvantage supplements for all providers, to target funding where it is most needed.**

e) Avoiding volatility across 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.**

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.

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
- At present, supplementary funding for MNS totals £58m 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 a 14% increase taking it to £64m, representing an average hourly MNS supplement of £3.47** 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.
- Providing a **lump sum of £120,000 per MNS to recognise the costs associated with being a school** would cost approximately £47m. If this were the only funding additional to the hourly base rate, transitional funding of approximately £15m would be needed in addition (excluding any inflationary or real terms increases) This amount would potentially reduce if a supplementary hourly rate were also applied to recognise that hourly costs as well as core costs are higher for MNS because of their more highly qualified staffing profile.
- To cover the additional costs of delivering the 2-year-old entitlements and 30 hours would require **an additional £26 million.**
- 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):	£64m
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)	**£98m**