

Early Education
The British Association for Early Childhood Education



Maintained nursery schools and COVID-19: vital community services on a cliff-edge

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Executive Summary

The remaining 389 maintained nursery schools in England have already been shown to be under severe financial pressure. Our survey confirmed that over the past four years, while income from government funding was static or falling for the majority, costs increased including business rates by an average of 35%. Pay and staffing costs increased by an average of 16%. 39% had seen decreases in funding to support children with SEND. 32% had seen disadvantage supplements decrease.

At the end of 2019-20, 33% of respondents had an in-year deficit, with 67% having a balanced or surplus budget. This is nearly double the proportion in the latest figures held by DfE which showed 18% of MNS in deficit at the end of 2018-19.

Before the pandemic, 51% were expecting to balance their budget in 2020-21, 34% expected an in-year deficit and 11% had a recovery plan to address a pre-existing deficit.

As a result of the pandemic, only 28% were still expecting to balance their budget at the end of the year; 30% were expecting an in-year deficit instead of a balanced budget and 34% expected higher than planned deficits. 8% did not expect to achieve the targets in their recovery plan.

There is little scope left for further cuts or efficiency savings: 75% had already reduced teaching staff to minimum numbers. 71% had frozen vacancies or made temporary instead of permanent appointments. 57% were already staffed at minimum ratios. 46% already had a less than full-time headteacher eg due to federation or a part-time teaching load.

As a result of the pandemic, respondents reported an average loss of parent-paid fee income of £36,000, and an average of over £4,000 of additional costs (eg for cleaning and staffing) during lockdown. Unlike other schools, but like the rest of the early years sector, no additional funding has been made available to meet these additional costs.

Only 27% of respondents confirmed that they had been able to access funding via the CJRS. MNS were not able to access any of the other government support schemes: in particular, they were not eligible for the business rates holiday.

38% were already discussing or expected to need to discuss the possibility of closure. 40% were facing cuts to staffing or services. Only 10% were confident they could operate within existing funding levels.

Without swift action by government, the vital services provided by maintained nursery schools in some of England's most deprived communities could soon be lost. The two crucial steps for ministers to take are, therefore:

- To put in place as a matter of urgency a long-term sustainable funding formula for MNS
- To ensure that the additional costs and loss of fee income from the pandemic are addressed by support measures until at least the end of the current financial year.

Introduction

Due to COVID19 our financial stability is now at a cliff edge (sooner than was anticipated!)

Maintained nursery schools (MNS) have shown their vital community role during the pandemic. During lockdown, according to [DfE figures](#), 71% of state nurseries were open versus 35% of EY settings, and by mid-July, after wider opening, 93% of state nurseries were open compared to 62% of other EY providers. MNS acted as hubs, taking in children from other settings which had closed, as well as supporting vulnerable children and children of critical workers on their own roll. They provided support to parents for home learning during lockdown and kept in contact with vulnerable families at a time when health and social services were unable to provide the usual level of contact. Many went above and beyond their role as schools by delivering food parcels and other practical support to families in need.

Unlike other schools, MNS received no access to extra funding during the summer term to cover the additional costs required to remain open safely. MNS, like other early years providers, faced financial challenges during the pandemic from a combination of these extra costs and loss of parent-paid fees and other income. The continuation of the early entitlement funding has kept the doors open, but MNS were able to make only limited use of CJRS funding, did not qualify for the business rates holiday or access to business loans and grants which some other EY providers were able to make use of.

MNS were already teetering on a cliff-edge of financial sustainability. The [DfE's own figures](#) showed that the percentage of MNS in deficit had risen from 3.5% in 2009-10 to 17.7% in 2018-19. Although the proportion of schools was down from a high of 20.3% in 2017-18, the total deficit had jumped from £4.9m to £6.7m in that one year, indicating a rapid escalation of difficulties for the worst affected schools. The [Survey of Childcare and Early Years Providers \(2018\)](#) 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.

We carried out a survey of MNS in August to September 2020 to ascertain in more detail their current financial situation and the impact COVID-19 had had on their finances. We received 133 responses on behalf of 144 MNS in 63 local authority areas. This report sets out of the findings of that survey.

The situation pre-COVID

MNS funding has been based on a stop-gap formula since the introduction of the Early Years National Funding Formula (EYNFF) in 2017. This used “supplementary funding” to nominally keep MNS funding at an equivalent hourly rate to that received in 2016-17, in recognition that the EYNFF funding would not be sufficient to meet the additional costs which MNS face as schools eg the employment of a headteacher and qualified teachers. This cash-limiting of funding at 2016-17 rates, with no inflationary increases, has effectively meant year-on-year cuts.

The survey findings show variations across the sector as to whether funding levels have remained at 2016-17 levels, even in cash terms. MNS funding for the early years entitlements is made up of several components, each of which can rise or fall for a variety of reasons. These are the supplementary funding, plus those funding components received by all early years providers: the hourly base rate; supplements (of which the only compulsory one is disadvantage-based); Early Years Pupil Premium funding; and additional funding for SEND support.

- 68% confirmed they had had their **supplementary funding** passed on in full each year but 21% were unsure, 4% said it had been passed on in full in some years but not others and 7% said it had not been passed on in full at any time.
- 43% said that their **total core funding** for the 2-, 3- and 4-year-old funded entitlements had decreased in cash terms compared to 2016-17, 34% found it had stayed roughly the same, 16% had seen an increase in cash terms and 8% had seen it vary significantly from year to year. Amounts received will depend on numbers on roll as well as hourly funding rates.
- **Early Years Pupil Premium** funding had stayed stable for 54% of respondents, had increased for 16%, decreased for 13% and varied year on year for 16%.
- However, **the disadvantage supplement** had stayed the same for only 36% of respondents. 32% had seen this decrease and only 7% had seen an increase, while 9% saw no consistent trend from year to year. 17% were unsure.
- The biggest change was for **SEND funding** which had decreased for 39% of respondents, stayed the same for 35% and increased for only 13%. 11% reported no consistent trend. This reflects the findings of our [previous report](#) on the challenges in relation to SEND funding.

Overall, this is a picture of income which is stable or falling, while costs have risen above inflation since 2016-17:

- The average by which respondents had seen rates bills rise was 35%.
- The average increase for pay and staffing costs was estimated at 16%.
- Other costs were estimated to have risen by 12%.

The lack of a consistent policy on reimbursement of business rates hits some schools particularly hard, with rates bills of up to £120,000 a year being reported and increases which came into effect after 2016-17 but have not been accounted for in the funding. 50% of respondents did not get the cost of business rates reimbursed. 12% had their business rates fully reimbursed, and 5% partially, as part of their supplementary funding, 11% had this reimbursed in addition to their supplementary funding. 7% were unsure and 14% gave other responses.

The impact of the pandemic

It has hit us hard. Our private childcare closed for 3 months so we couldn't charge fees. In addition, we lost rental income on children's centre spaces. This has now put our budget into 3-year deficit. We haven't been able to access support from

anywhere with to minimise the impact of covid. We have been turned away from DFE, local council and the LA. Am angry that we have been overlooked. We are now in a very vulnerable position where serious discussions need to be had about our future. We are a double outstanding school, it is beyond comprehension. We do nothing but firefight the financial crisis, bought on because we have been grossly underfunded for years.

The Covid restrictions mean that we cannot offer the full breakfast and after school club offer which is now having more of an effect on our childcare fee income. In addition, our admissions are 30-40% down on our usual numbers

The cost for cleaning products, extra hours for cleaning, extra resources (needed to duplicate some for each bubble, provide individual packs etc.) has had a significant impact on our already tight budget as these costs could not be foreseen but were not luxuries or avoidable. It was money spent to ensure that we were compliant with government guidance and could reopen safely.

We are very concerned as 'wraparound' completely stopped for almost 6 months and will take considerable months to recover (not expecting a full recovery of previous income as many parents changing working patterns). All staff are on permanent school employment contracts. Very worried that this loss will be catastrophic for our school.

The financial challenges set out in the previous section have been significantly worsened by the impact of the pandemic, increasing costs and reducing income for MNS:

- As a result of lockdown, respondents reported an average **loss of parent-paid fee income** of £36,000, ranging from none for some MNS to £247,000 for one school.
- MNS reported a small loss of **SEND support funding**, averaging £2,300 per school.
- On average, respondents reported over £4,000 of **additional costs** (eg for cleaning and staffing) during lockdown. Unlike other schools, but like the rest of the early years sector, no additional funding has been made available to meet these additional costs.
- The government's advice to local authorities to pay **autumn entitlement funding** on the basis of autumn 2019 rather than actual numbers is vital to sustainability, and we are grateful to the DfE for following up to ensure this policy is consistently applied. Our survey found that only 57% were able to confirm this was happening, and the remainder were unsure or had been told they would be funded on actual numbers.
- Only 27% of respondents confirmed that they had been able to access **funding via the CJRS**. 47% had not been able to and 17% were unsure or said it was not applicable. Schools appeared to have received varying advice from their local authorities as to whether they were able to furlough staff, and in some cases received advice too late to action it. This is unfortunate as

MNS were not able to access any of the other government support schemes: in particular, they were not eligible for the business rates holiday.

A sector sliding into deficit

Prior to Covid we were projecting to get to the end of this financial year with a carry forward of £5000; we are now projecting to be in deficit by approx £18,000.

Already had a deficit budget although 4 year recovery plan was in place. This further loss to income and then restrictions on numbers of children we can take in in order to meet COVID staffing issues means this year is likely to place us in irrecoverable financial deficit.

Respondents told us that

- At the end of 2019-20, 33% of respondents had an in-year deficit, with 67% having a balanced or surplus budget. This is nearly double the proportion in the latest figures held by DfE which showed 18% of MNS in deficit at the end of 2018-19.
- Before the pandemic, 51% were expecting to balance their budget in 2020-21, 34% expected an in-year deficit and 11% had a recovery plan to address a pre-existing deficit.
- As a result of the pandemic, only 28% were still expecting to balance their budget at the end of the year; 30% are expecting an in-year deficit instead of a balanced budget and 34% expect higher than planned deficits. 8% do not expect to achieve the targets in their recovery plan.
- This is particularly worrying given the limited remaining scope for cuts:
 - 75% have already reduced teaching staff to minimum numbers
 - 71% have frozen vacancies or made temporary instead of permanent appointments
 - 57% are already staffed at minimum ratios – others commented they were above the minimum only because of the high number of children with SEND requiring additional staffing
 - 46% already have a less than full-time headteacher eg due to federation or a part-time teaching load
 - 24% are facing financial challenges due to linked children's centres being closed or having budgets cut
 - Additionally, staff are juggling multiple roles and working across several sites for federated MNS, restructures to save costs are ongoing and staff are also taking on additional income generating work (in this context, the forthcoming loss of Teaching School income was a concern).
- Two schools reported being under imminent threat of closure. 12% said their LA had indicated this option should be considered and 18% were in discussion about financial recovery plans or already had one in place. A further 8% expected the impact of COVID to raise the possibility of closure. 40% were facing cuts to staffing or services. Only 10% were confident they could operate within existing funding levels.

Conclusion

This report demonstrates that the already precarious position of maintained nursery schools has been further strained by the pandemic, at the very time when their vital role in communities was more evident than ever.

Going forward, it is clear that a new long-term funding formula cannot wait: MNS urgently need to be sustainably funded, with confidence that their funding will continue on a permanent basis, not confirmed year on year or term by term as a stop-gap measure. No other part of the school sector has to battle for survival from year to year in this way, and nor should nursery schools.

In addition, government decisions about how to take forward support for the early years sector as the pandemic continues will be crucial. Recent research from Frontier Economics and the IFS highlights how the varying balance between fee income and entitlement funding affects all parts of the sector differently. Our report shows that even for a sub-group such as MNS, there are hugely differing financial models, with some schools having negligible fee income and others being hugely dependent on it for survival, but the entitlements funding remains particularly crucial. Frontier Economics' modelling suggests that "a 15% loss in fees (and no change in free entitlement funding) has no impact on MNS, but the scenario of a 15% loss in both fees and funding almost doubles the proportion with an income-to-cost ratio of less than 0.8 from 12% to 23%", or in other words, that it would leave nearly a quarter of the sector in deficit – which based on the data in our survey is in fact a significant under-estimate given the numbers already in deficit for the current year.

The DfE are currently considering whether funding for spring 2020 should continue to reflect pre-COVID numbers or should revert to actual numbers. The IFS/Frontier Economics modelling shows that this decision could have a crucial impact on the number of MNS in deficit - and indeed, the picture for nursery classes in primary schools is similar, which should be borne in mind given that they are also more concentrated in disadvantaged areas.

Schools are expected to budget for a three-year period. MNS have not been able to do so since the introduction of the supplementary funding (initially only confirmed for two years, then extended year by year, and in the last year with initial confirmation only of summer term funding for the coming year). A cut in budgets mid-year if the number of children taking up places in January is dramatically lower than usual, as seems likely, will be hugely challenging for MNS to manage given the pattern of staff contracts and is likely to push even more MNS into an unsustainable financial position from which they may not be able to recover.

The two crucial steps for ministers to take are, therefore:

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