

Maintained Nursery Schools: the continuing financial crisis

June 2022

Executive Summary

- More than half of all maintained nursery schools in England had an in-year deficit in 2021-22 and 28% of had a cumulative deficit.
- Only 4 in ten (41%) had been able to set a balanced budget for 2022-23. 44% could not and 15% didn't yet know if they were able to.
- Some MNS are not able to meet their statutory requirements within budget.
- Factors impacting on respondents' ability to set a balanced budget included increased costs of staffing, including Covid-related staff cover costs, increased energy costs and decreased income streams including numbers of children attending not having recovered from the impact of the pandemic.
- In order to balance budgets, MNS are having to cut staffing and services to the extent that for some the only teacher on site will be the headteacher.
- Further closures are likely as 2% of settings are already consulting on closure or expecting to do so imminently; 12% are in discussion about their future with their local authority, 21% expect to face closure within three years on current budget projections.
- There is an urgent need for a revised funding formula for MNS to ensure that funding is sufficient to deliver at least the minimum statutory requirements which apply to MNS.

Background

In October 2021, the three-year comprehensive spending review confirmed the continuation of Maintained Nursery Schools (MNS) supplementary funding for the following three years. This effectively made permanent a funding stream which was added to the 2017 Early Years National Funding Formula as a stop gap measure until an appropriate formula could be worked out.

While it was welcome to have additional funding for MNS recognised as an ongoing need, this settlement did not address the inequity of the current system, which varies hugely based on historical local funding arrangements – the only remaining part of the schools and early years system to do so. In May 2022, government set out its ambition for the Schools Bill to “Introduce a direct National Funding Formula, so that every school is allocated funding on a fair and consistent basis, wherever it is in the country.” We urge ministers to apply this principle to MNS, which are schools and have to fulfil the same requirements as schools although they are repeatedly excluded from funding and initiatives offered to other schools. This leaves the worst funded schools at greatest risk of cuts and closure.

The need to reform the funding formula is also evident from the continued stream closures of MNS, with only 385 now left in England.

The findings from our latest survey show that many MNS face repeated rounds of making cuts to staffing and services, while others simply cannot make budgets balance and hence face closure, either imminently or within the next three years. This cannot be allowed to continue. Government must act urgently to put in place a revised funding formula that allows maintained nursery schools to carry out their vital role in supporting some of the most vulnerable children in the country, supporting the levelling up agenda and providing system leadership to the early years sector.

About the survey

The survey took place online in April/May 2022. All 385 MNS were emailed details of the survey with multiple reminders. We received 169 responses representing 172 schools in 74 local authorities (45% response rate).

Findings

More than half of all nursery schools had a deficit in 2021-22

At end of the financial year 2021-22, 52% of respondents reported that their school was in deficit, 10% broke even and 39% were in surplus for the year. The number in deficit has increased since last year when a similar survey we carried out last year found 46% of settings reporting a deficit for 2020-21.

<i>Table 1: Our survey findings</i>	2020-21	2021-22
% of MNS in deficit	46%	52%

The DfE's own figures on MNS in deficit (Table 1) have been showing a steady rise over a long period, as well as showing an increase in the total amount of deficit.

<i>Table 2:</i>	<i>DfE data on % of MNS in deficit</i>					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
% of MNS in deficit	12.7	18.2	20.3	17.6	20.8	24.6

Covid has added to the sector's financial fragility

The financial impact of Covid - in terms of falling numbers of children on roll, loss of parental fee income and additional costs – has been significant and MNS have not had access to many of the Covid funding streams provided to other providers and schools such as staff cover costs and business rates holidays. While numbers and income are now recovering, given the tight margins within the sector, those schools which did not have reserves, or who have now exhausted them, are at significant risk.

No grants available to help with the loss of income of covid. Result is it has devastated our carefully managed budget into huge deficit.

Some of those who reported that they broke even, said they had used carry forward from previous years to balance the budget, without which they would have had an in-year deficit. Their ability to do this is also decreasing. Our survey found that 28% of MNS had a cumulative deficit by March 2022, 63% had a carry forward and 9% had neither. This puts more than one in four nursery schools in a fragile position of not having any cushion against rapidly rising costs.

The DfE's [Providers' Finances report](#) finds that MNS have the lowest income-to-cost ratio of all providers at 1.07, indicating that they have little margin to absorb unexpected additional costs, such as the Covid pandemic brought. This same report puts 80% of MNS in what it calls the "breakeven range" based on income-to-cost ratios of 1.2 to 0.8. Given that the report finds only 6% of MNS had a "surplus" under this definition compared to 24% of the sector as a whole, it is clear that MNS are operating on extremely tight margins.

Only four in ten nursery schools able to set a balanced budget

Our survey found that 41% of respondents had been able to set a balanced budget for 2022-23, but 44% could not and 15% didn't yet know if they were able to.

The factors impacting on respondents' ability to set a balanced budget were mainly increased costs of staffing, including Covid-related staff cover costs, and increased energy costs. Decreasing income streams were also a significant factor, with numbers of children attending not yet fully recovered from the impact of the pandemic.

<i>Table 3: Factors affecting ability to set a balanced budget</i>	<i>% of all responses</i>
Increased staffing costs	84%
Increased heating & fuel costs	79%
Staff cover costs due to Covid	62%
Fall in no of 3-/4-year-olds taking the universal 15 hours impacting base rate income	58%
Decreased funding for children with SEND	44%
Other staff cover costs	44%
Fall in no of children taking 30 hours	44%
Business rates	41%
Fall in number of parent-paid hours taken up	41%
Reduction of 2022-23 supplementary funding allocation due to Jan 2021 census figures	40%
Clawback of 2021-22 supplementary funding	23%
Fall in no of children taking 2-year-old entitlement	28%
Fall in demand for out of hours and holiday provision	20%
Other (eg fall in parent-paid fees, general increase in costs, unfunded support costs for children with SEND, premises costs, loss of teaching school funding)	30%

"The funding does not support the ongoing cost of living rises to the support staff cost and the inflationary rises to services including the hike in the utilities prices. Furthermore, in the coming year we will have to fund the discrepancy in the term time only contracts holiday pay which is being backdated 5 years and only funded 50% by the LA."

"No extra funding for COVID catch up when children starting now have lower baselines than before covid. Staff are exhausted and it is unsurprisingly hard to motivate them. The only thing we have got to show for this is an air purifier!!"

In response to many years of funding pressures, MNS have carried out multiple rounds of cost cutting measures. The table below shows measures already taken by respondents over the last three years, and those planned for the coming year. The situation has worsened since last year when 33% reported cutting staffing and services.

<i>Table 4: Steps MNS taking to balance their budgets</i>	<i>Over the last 3 years</i>	<i>Further planned cuts</i>
Freezing vacancies or filling on temporary basis only	59%	43%
Reducing other staff hours/numbers	56%	39%
Reducing teaching staff hours/numbers	48%	26%
Cutting bought-in services/SLAs	47%	35%
Federation with another school	19%	27%
Reducing the hours of the headteacher	17%	16%
Reducing provision for children with SEND	7%	7%

The reason why 64% of MNS are graded outstanding by Ofsted and 35% as good, far higher than other schools or early years providers, is their knowledgeable and experienced teacher-led staff teams. These ongoing cuts to staffing are putting at risk the quality for which they are so widely prized, jeopardising their ability to support the most vulnerable children, to close the disadvantage gap and to share their expertise with others in the sector. Both leadership teams, teaching and support staff have been cut and growing numbers of schools share a leadership team across schools through a federation or through less formal structures. Despite the growing push towards academisation in the Schools Bill, MNS remain unable to become academies, to join or form multi-academy trusts.

Loss of teachers

A handful of schools reported that the headteacher is now the only teacher on site. Many more report the headteacher teaching part-time and significant reductions in the number of qualified teachers employed. In many cases they reported that the workloads were not sustainable, but that this was the only solution within budget. DfE need to review the funding to ensure that schools can meet their statutory requirements, including being able to afford teachers, which is clearly not the case for all MNS under the current funding model.

Cuts to services

As a result of the funding pressures, some MNS reported having to **cut wraparound provision and provision for 2-year-olds and younger children**, which may be a vital service for some families but are not necessarily viable for the school. Staff recruitment difficulties were also reported as a factor, in some cases relating to rates of pay.

Many MNS reported having to **cut added value services such as stay and play, parenting sessions and family support**, although one MNS reported introducing these because they were simply not available anywhere else locally. One school flagged an increase in children on the 30 hours eligible for free school meals (FSM) which the school had to fund. Another noted it was no longer able to support vulnerable families, for example with food bank parcels.

Pressures were reported on **services to support children with SEND** such as buying in support from educational psychologists, speech and language therapists and other professionals. Staff time for small group or individual interventions with children have also been reduced. Enrichment activities such as Forest School, including for EYPP children, are being reduced.

Cuts to **staff training** were reported.

Respondents commented on their reduced ability to offer **training, school to school support and outreach to other providers** due to increased staff workloads.

Can MNS survive on current funding?

The need for funding reform is evident from the following comments:

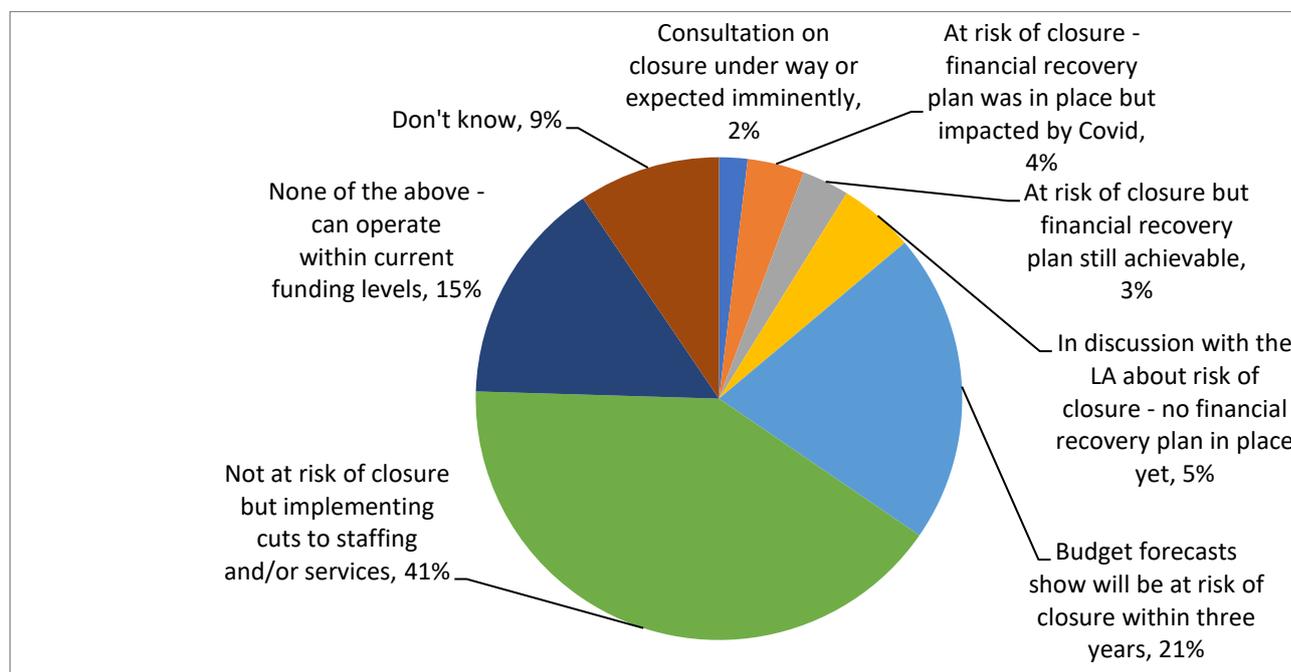
“It is impossible for us to set a balanced budget and stay within legal ratios and statutory requirements.”

“In our view, there are no further cuts which can be made without compromising the safety of the provision. Urgent meetings with the LA to discuss the position are being requested.”

“We are now staffed to the bone and can make no more savings, we are so tight on staffing that we have had to close classes throughout the year when we had staff sickness as we could not maintain legal ratios.”

Respondents reported that:

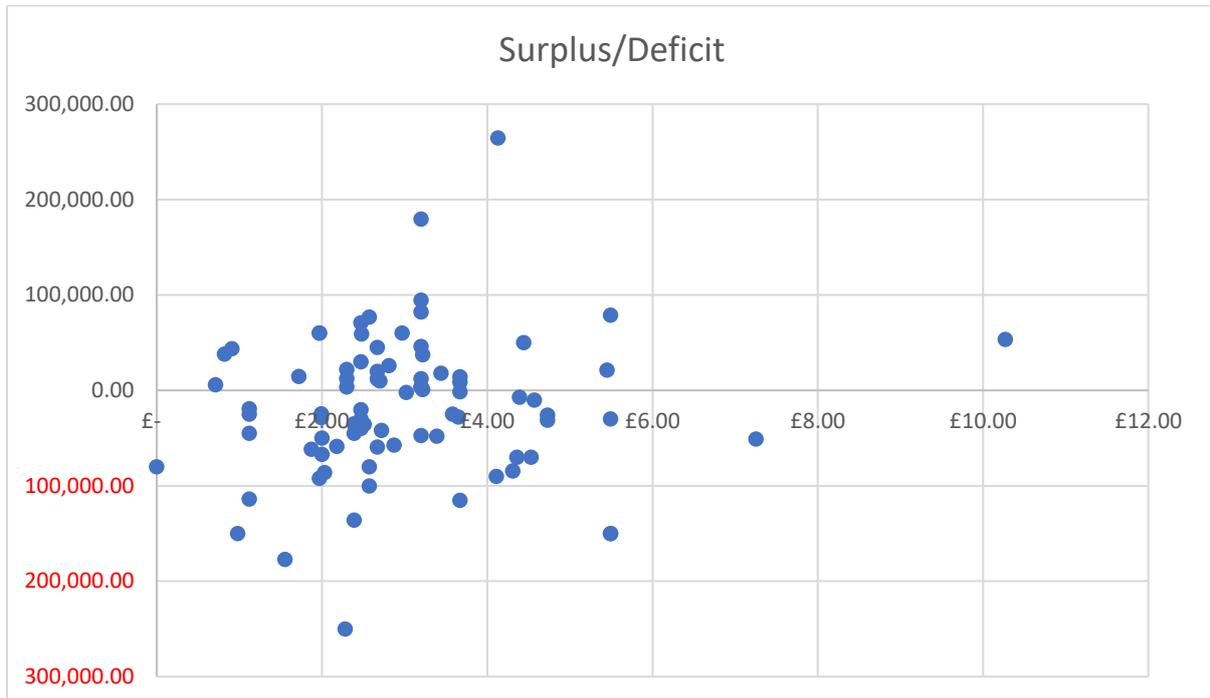
- 2% are under immediate threat of closure with a consultation on closure already under way or expected shortly
- for 12% survival is dependent on current discussions with local authorities and whether financial recovery plans succeed
- 21% could be at risk of closure within three years based on current three-year budget predictions
- 41% are not at risk of closure but are having to cut staff and services
- 9% have begun the financial year unsure of their financial situation
- only 15% are confident about operating within current funding levels (compared with 23% in 2021)



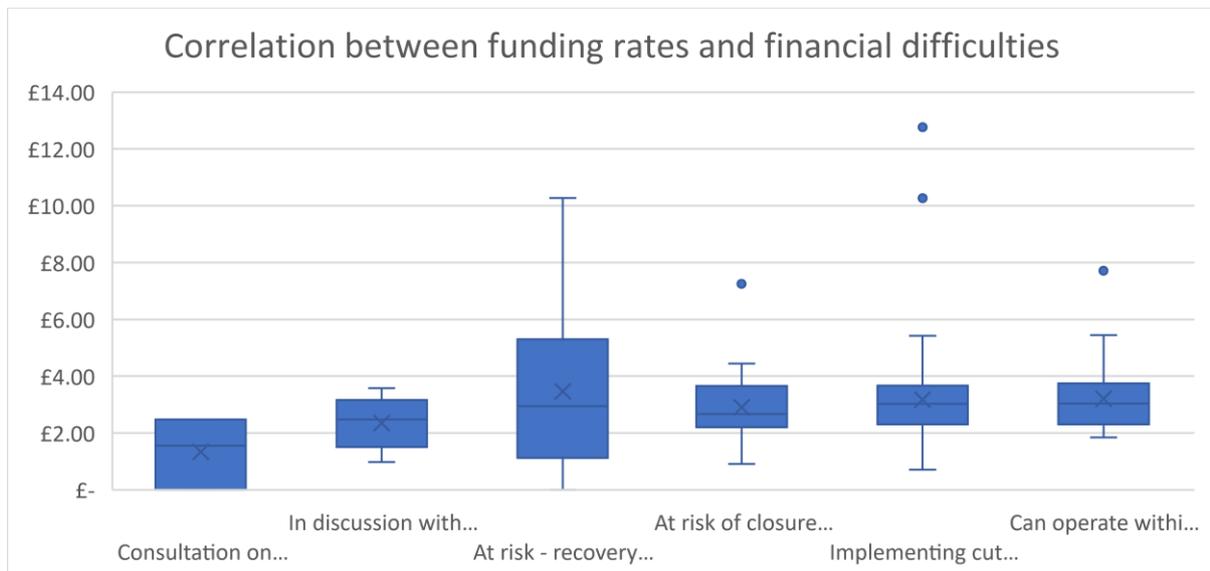
The viability of current funding rates

There is no simple relationship between the amount of funding MNS receive and their current financial situation. This no doubt reflects other factors such as the scope for additional income generation through traded services and local circumstances such as

whether schools are having to pay rent or business rates. The graph below maps the amount of surplus or deficit in 2021-22 against the MNS hourly rate received:



Notwithstanding the complexity, all of the MNS which have reached the stage of consultation on closure (and those which have closed over recent years) are in the lowest funded areas. Those currently in discussions with their LA about closure are also on below average rates of supplementary funding. Higher rates of funding are still not sufficient at present to guarantee viability, but they do increase the probability that a nursery school can operate within current funding levels.



Conclusions

These statistics show that the current funding formula for maintained nursery schools is in urgent need of reform to ensure their survival.

As a minimum government must commit to:

- consult on a mechanism to ensure that all MNS receive a fair and equitable amount of funding which is sufficient to allow them to operate within statutory requirements
- include provision so that business rates are centrally funded on the same basis as other schools
- ensure the new formula is in place for the 2022-23 financial year

Although this report has focused on the figures, the final words should go to headteachers on what all this means for children and families:

“My real concern is that we will find our principles continually eroded by our financial challenges because there could easily come a time when we exist in name only, being unable to provide the quality provision that MNS are known for.”

“Covid showed that we are an essential service. We were in fact the only service open to families in our community. We think we should be funded as a place based integrated service for education, health and welfare. The current system is broken and services are becoming remote and less accessible to our families. We should be central to an integrated place-based service for education, health and welfare and be funded accordingly.”

“It does seem so sad that when I have shown parents round in the last few weeks all of them say we have been round other providers but nothing touches this - it just shows that the quality is there in Nursery schools but [we] still have trouble getting it across to the government and communicating it to the public.”

“The impact of COVID on our financial situation alongside our inability to income generate during restrictions has had a catastrophic impact on our capacity to offer the range of services we previously have. This is particularly damaging at a time when stressed families who have been navigating the trauma of a pandemic need us and our services more than ever before.”