13 March 2023

Rt Hon Gillian Keegan MP
Secretary of State for Education
Department for Education
Sanctuary Buildings
Great Smith Street
London SW1P 3BT

Dear Gillian

Early Years Funding 2023-24

We are writing to you to about delivering on the Government's ongoing commitment to addressing the crisis in Early Years funding, as we approach the Budget on 15 March.

We were pleased to note the Government's announcements in October on levels of funding for the early years sector and in December on increases to allocations to local authorities for 2023-24. The extra £10m and the new £3.80 floor for supplementary funding for Maintained Nursery Schools confirmed last Autumn has been a positive step forward, but in most cases will have been cancelled out by the below-inflationary fall in the early years funding rates. Further reform to the supplementary funding remains important but is not as urgent as ensuring that hourly rates for the early years entitlements actually cover the costs incurred by early years settings and schools. The impact of high levels of inflation in the economy means that settings are actually facing a real terms decrease in their funding. As a result, there continues to be a very real crisis in Early Years funding which needs to be addressed now.

We have recently surveyed Headteachers in Maintained Nursery Schools and other early years settings to understand their current financial position and to hear first-hand what the funding crisis means for them and the responses are extremely concerning. They are telling us that their budgets are being severely hit, by a combination of increased staff costs, funded entitlement rates not keeping pace with inflation, increased heating and fuel costs, increased demand for support for children with SEND coupled with decreased funding, staff cover costs and inflation more generally.

These issues are common against all parts of the early years sector, with only one major distinction. Maintained settings are struggling to fund pay increases to teachers' pay and local authority payscales, and having to cut staffing where funding falls short, while PVI settings are struggling with the increases to the National Minimum Wage,

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and as a result, face greater recruitment and retention issues. In both cases, there is a clear need for entitlement rates to reflect pay increases in the sector.

Some key findings that schools and settings are reporting to us from our survey are:

- Only 3% of respondents expect to be able to continue their current levels of service in twelve months' time
- 30% can continue current services, but only if they implement cuts
- 39% were only confident of their future for 12 months, but not beyond that, while…
- …18% were not confident about whether they could continue for another 12 months
- 73% will not break even in 2022-23
- 56% of providers will use up some or all of their reserves offsetting costs, while…
- …40% have no reserves to draw on, or already have a cumulative deficit
- 63% of providers do not expect to balance their budget in 2023-24
- 47% of providers are reducing the number of staff or the number of hours worked by staff, with 41% are freezing vacancies or not making permanent appointments

The negative effects of this are being particularly felt in areas of high deprivation, as a result of having above average proportions of children with SEND, complex needs and safeguarding concerns, generating higher costs and putting more demands on staff time. Parents in these areas are less likely to be able to pay for funded hours or extras and providers therefore have no way of topping up inadequately funded entitlement rates. Maintained Nursery Schools are meeting parents needs by providing two year old and 30 hours places for children who can't access these elsewhere, despite losing out by not getting supplementary funding for these children.

The Institute for Fiscal Studies (IFS) report published last November on government spending on the Early Years sector found that funding for the early years is likely to fall by some 8% up to 2024, as a result of faster-than-expected cost rises. As the IFS report makes clear "early years providers are facing rapidly rising costs that are eroding the value of their budgets. Childcare providers' costs had already been rising faster than economy-wide inflation over the last few years, but they face an even steeper rise in the coming years. The net effect is that Government funding for the free childcare programme will be much lower than had been intended when the budget was last set in 2021."

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Early education and care should first and foremost improve the life-chances of young children and give every child an equal chance to flourish from the start, but it is also vital infrastructure to support working parents. Current cost of living pressures are driving calls for more childcare support for working parents. Before any expansion of the number of funded hours or age groups can take place, the current entitlements need to be adequately funded to stabilise the sector, and remove the need for cross-subsidy and top-up charges which are currently driving the high level of fees to parents.

We therefore call on you to take urgent action and look forward to hearing from you on how the upcoming Budget will set out how the government intends to address this funding crisis for the Early Years sector. We would be more than happy to meet you to outline why we think Early Years funding needs to be dealt with urgently and to set out in more detail the issues our members are reporting.

I am copying this letter to Rt Hon Jeremy Hunt MP

Yours sincerely,

Beatrice Merrick
Chief Executive
Early Education

Dr Mary Bousted & Kevin Courtney
Joint General Secretaries
NEU

Paul Whiteman
General Secretary
NAHT

Jon Richards
Assistant General Secretary
Unison

Cc Jeremy Hunt MP, Chancellor of the Exchequer