

Education Scrutiny Committee

Meeting to be held on Monday, 25 June 2018

Electoral Division affected:
(All Divisions);

Maintained Nursery Schools

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Executive Summary

This report provides information about Lancashire's maintained nursery schools, including updates on standards and finances.

Recommendation

The Education Scrutiny Committee is asked to:

- a) Note the information contained in the report;
- b) Endorse the implementation of the recommended actions set out in the report to support maintained nursery schools identified in Schools in Financial Difficulty categories 1, 2 and 3.

Background and Advice

Lancashire nursery schools make up an element of the early years provision within the county as follows:

- Nursery schools – 24;
- Nursery provision within Primary schools – 139;
- Private, Voluntary and Independent – 487;
- Childminders - 509

Maintained Nursery School Funding changes

From 1 April 2017, the government brought in an Early Years National Funding Formula (EYNFF). This new arrangement introduced a formulaic mechanism for distributing early years funding from National Government to each local authority and set a framework that must be used to distribute funding to all types of early education provider, including nursery schools. The EYNFF introduced a requirement to have a Universal Base Rate for all providers and set out the type and level of supplements that are available. Full implementation of the new EYNFF arrangements must be achieved by 2019/20.

Historically, when more local discretion was available, Lancashire had an early years funding system that provided a higher level of funding for maintained nursery schools that recognised their greater cost base. However, these factors are no longer permissible to be funded under the EYNFF arrangements.

Lancashire responded to Government consultations on the introduction of the EYNFF, lobbying for recognition of the different legal frameworks to be allowed in the funding system, but these differences are no longer permissible in the main formula.

The EYNFF framework does provide supplementary funding for maintained nursery schools to enable the local authority to maintain current maintained nursery schools funding levels. When announcing this funding, the Government indicated that they 'remain committed to consulting in regard to the future role of maintained nursery schools and how best to secure their high quality provision for the longer term.'

Lancashire has recently received confirmation from the DfE that the ring fenced funding for maintained nursery schools will continue until at least 2019/20.

The county council held discussions with maintained nursery school head teachers to enable them to determine the 2018/19 allocation methodology for this funding.

The support provided by our nursery schools is greatly appreciated and valued. However, the county council must adhere to the legal framework that applies to the funding of early years education. It should also be noted that many of the budgetary pressures facing nursery schools are also encountered by other schools and providers.

Standards in our Nursery Schools

Standards in our nursery schools are very high. We have a total of 24 nursery schools, all located in the most deprived areas of Lancashire. There are three in Area South, two in Area North, and the rest are in Burnley, Hyndburn, Pendle and Rossendale. Of these, 100% are judged by Ofsted to be good, and 83% to be outstanding, the highest sector compared to primary, special and secondary schools. This places us 1st against our statistical neighbours.

Our nursery schools provide high quality care to the families of Lancashire. Each nursery school adopts a model of delivery to meet the needs of the local community; no model is exactly the same. Some of these models include extending the hours outside of a normal school day to accommodate the needs of working families and they are often the first choice for parents if their child has SEN.

Nursery schools had 2,375 children accessing a funded place in spring term (11% of the total across the LA). Of those, 434 received Early Years Pupil Premium funding (16% of the total across the LA) and 284 were identified as a child with SEN (27% of the total across the LA).

East Lancashire has 19 of the 24 nursery schools. Nursery schools in the East of Lancashire provide 18% of our childcare places and provide a large proportion of our childcare market in those areas. For example, in Burnley 31% of childcare places are from nursery schools. As a local authority we have a duty to ensure we have sufficient high quality, sustainable childcare for working families.

Our nursery schools are facing several challenges at present.

- A number of nursery schools had a children's centre attached. Following a review 18 months ago this service has a different format, is being provided differently and delivered directly by LCC. This has resulted in funding no longer flowing directly to the schools concerned as it did in the past. As the funding now remains within LCC but with premises costs remaining at school level, an initial one off payment was made to all schools with children's centres for 2017/18. This was to reflect the realignment whilst joint use agreements are finalised in connection with those sites where LCC still utilise school premises for delivery. Annual payments will be made to schools where LCC utilises such premises (including a number of nursery schools) to reflect the costs and LCC's use of these buildings. This change has resulted in some financial challenge to some schools (but not all);
- The introduction of an additional 15 hours child care (15 universal plus 15 extended = 30 hours total) has proved challenging for the early years sector as a whole including the nursery school sector given the level of funding available and the complexity of sourcing funding;
- With the location of our nursery schools in deprived areas, many of the pupils arrive at nursery with barriers to learning, including those with Special Needs who may require additional support from staff. Assessment for additional education needs will often take some time to complete, meaning nursery commonly has to fund this support themselves. A review is being carried out by the SEND team and an allocation for this type of need has increased from £150k to £300k from April 2018;
- Some nursery schools have one headteacher across two schools, as a way of reducing costs. Most have had to undergo some form of staffing review, with a subsequent impact on staffing levels;
- Maintaining the current level of quality of Maintained Nursery provision will become harder within the continuing financial constraints.

Nursery School Financial Position

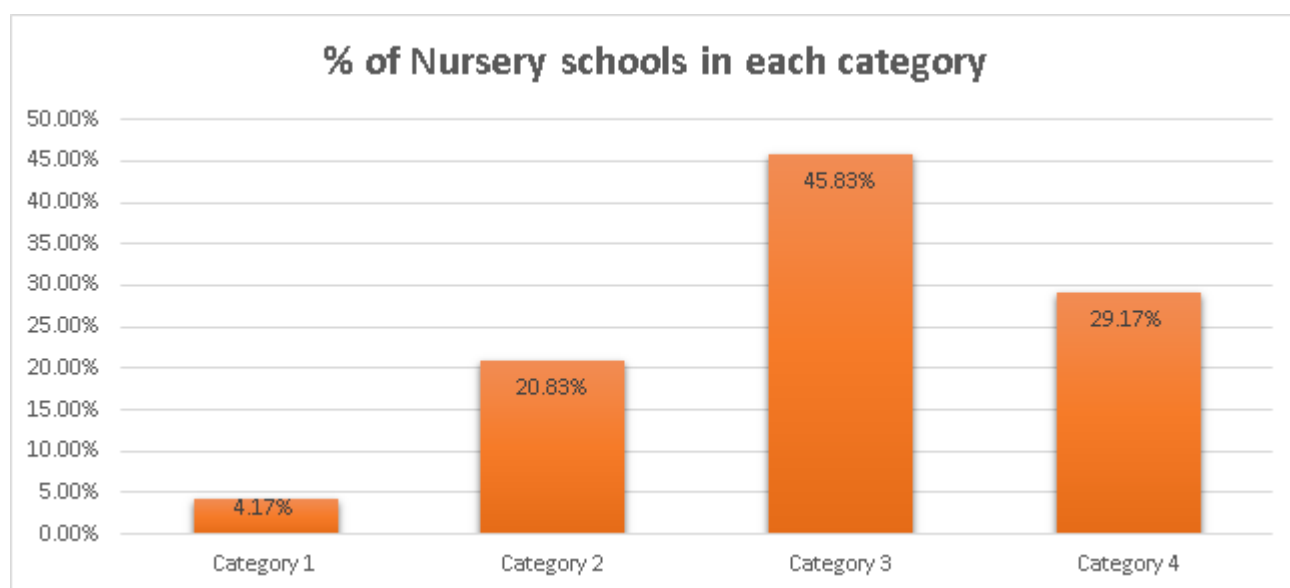
The following categories have been established over all school phases to enable support to be prioritised and targeted:

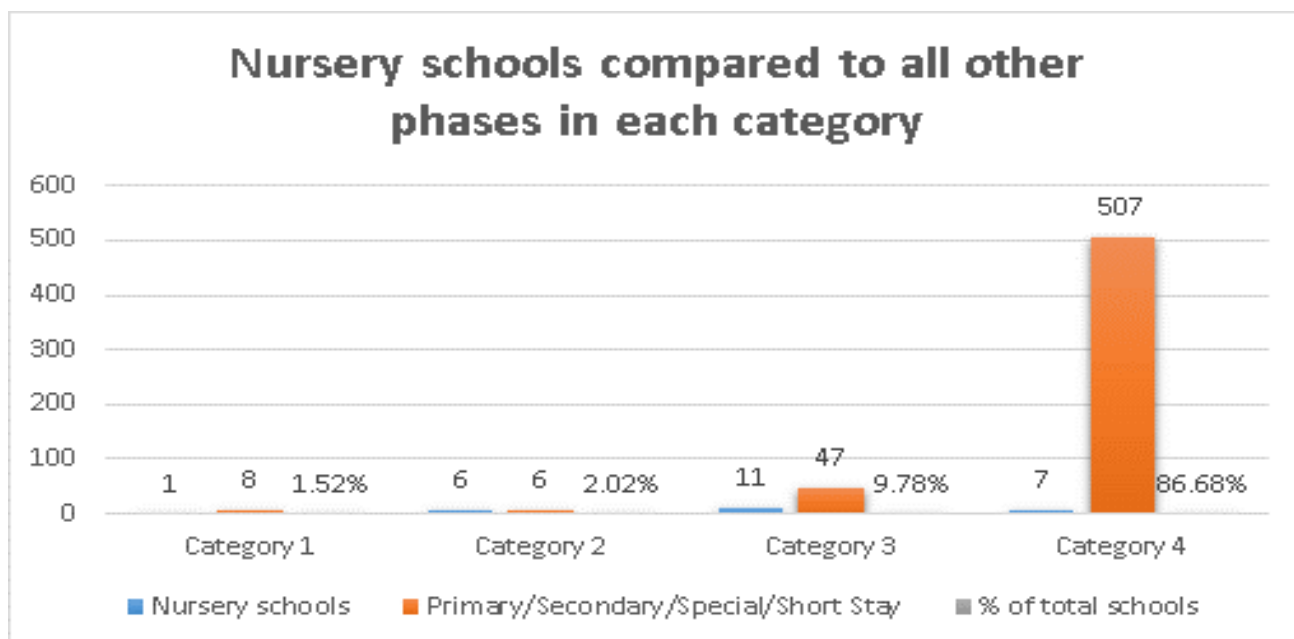
- **Category 1 - Structural Deficit** Structural deficit beyond recovery, school is financially non-viable, strategic solutions required;

- **Category 2 - Significant Deficit** Schools have significant deficits requiring intensive intervention and focussed support to recover, or have no agreed recovery plan – pushing boundaries of 3 year timescale;
- **Category 3 - Vulnerable Position** Incorporates schools burning through reserves, losing significant pupil numbers, moving into or on the brink of deficit, or schools that are recovering from more significant financial problems, but where the recovery plan is agreed and is on track - require intervention and monitoring in order to prevent failure in the next 3 years – education, challenge and forecasting support;
- **Category 4 - No financial issues** No budget issues but continued monitoring of financial indicators to confirm ongoing financial health.

Out of a total of 593 school settings in Lancashire initial analysis indicates that 79 schools (13%) are in categories 1, 2 & 3,.

Within the nursery school sector alone that equates to 18 out of 24 (75%) that fall into categories 1, 2 & 3.





Conclusion

The county council has recently established a Task and Finish Group which will focus on the issues outlined within this report. Significant work is required over the next 12 months to ensure the category 3 schools requiring intervention in 2018/19 move to a more stable position.

The current work being undertaken with schools in categories 1 and 2 has given rise to the issue of quality over affordability. Many nursery schools are sustainable when costed on staffing levels as required under the Early Years Foundation Stage guidance. However many operate above this ratio either because of the specific needs of the school or in order to maintain their current Ofsted ranking.

Issues also arise around the natural drop in pupil numbers over the autumn term. As the funding is re-determined each term based on actual hours provided, this means a drop in funding is not always met with a reduction in staffing costs. This is especially so for a teacher and head teacher salary as they are not employed on variable hours.

Over the past 2 years nursery schools have begun to take over the extended provisions provided by co-located PVI settings (hours over and above funded) from Voluntary Managed Committees. These committees set their own pay scales which are often set at the minimum wage and only pay into a National Employment Savings Trust (NEST) pension scheme (2%). Once moved under the school's umbrella, although it's not a legal requirement, consideration is often given by the school to bring all employees on the same Lancashire terms and conditions. This can have significant negative cost implications for the nursery schools.

The above considerations and figures have all arisen even with the inclusion of the supplementary funding for maintained nursery schools therefore it is clear that its removal would almost certainly make most if not all nursery schools in Lancashire non-viable.

Recommendations

Category 1 and 2 Schools

Nursery schools in categories 1 and 2 require intensive support from both finance and early years in order to understand the issues causing the financial difficulty. The early year's side brings experience in restructuring, quality and sufficiency. The financial side brings experience of budgeting in an early years setting, showing what areas of the nursery are not covering their costs and establishing a period of recovery. This joint working is now in place and work has begun on dealing with the schools. The joint working has also been extended to include senior HR support. This joint working across the three disciplines within the LA improves and focusses the support that can be given.

Once schools have been returned to a more stable in year financial position, consideration may need to be given to how accumulated budget deficits can be repaid and the impact that this may have on the schools, particularly the school identified in Category 1. The longer term viability of schools within Category 1 must be considered questionable and consideration given to further action by the LA including closure.

Category 3 Schools

Support for category 3 schools will vary depending on the level of estimated deficit. Smaller deficits may be alleviated by an increase in hours and small adjustments to staffing and non-staffing expenditure. This work can be done between the school and the Schools Finance Officer.

For the category 3 schools with higher deficits intelligence from the finance officers during and after budget time will determine if greater support is required, or, if the engagement between the school and finance officer is sufficient.

It is essential the category 3 schools aim to produce a balanced budget in 2018/19. The category 2 nursery schools moved to significant deficits very quickly so it is important to look to prevent this moving forward.

Significant officer time is being allocated to this issue but it remains uncertain, given the current level of funding within the early years sector, whether all Nursery Schools will remain financially viable in the medium term at the current level of quality.

Consultations

An ongoing dialogue continues with nursery schools through the regular business meetings and via the Lancashire Nursery School Headteachers Federation.

The Schools Forum has been consulted on the new school categorisation approach for Schools in Financial Difficulty (SIFD).

Implications:

This item has the following implications, as indicated:

Risk management

Financial

Dedicated Schools Grant income has, for a number of years, been cash flat and has not kept pace with inflation. This has brought increasing cost pressures on all schools and providers, both nationally and locally.

The maintained nursery school sector has faced additional financial pressures, as set out in the report, and this has created a situation where nursery schools are currently seen as the highest risk sector from a School in Financial Difficulty perspective. One nursery school is currently considered financially unviable.

If the government were to remove or significantly reduce the level of supplementary funding for maintained nursery schools this financial risk would increase further and almost certainly make most if not all nursery schools in Lancashire non-viable.

School Standards

The ability to retain the current high quality provision in Lancashire's maintained nursery schools will become harder within the continuing financial constraints.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		