

Education Scrutiny Committee

Meeting to be held on Monday, 22 July 2019

Electoral Division affected:
(All Divisions);

Maintained Nursery School Provision

Contact for further information:

Andrew Good, Tel: 01772 534053, Head of Service Financial Management
(Development and Schools), andrew.good@lancashire.gov.uk

Executive Summary

This report provides an update on the financial position of Lancashire's maintained nursery schools.

Recommendation

The Education Scrutiny Committee is asked to:

- i. Consider the information contained in the report;
- ii. Note the financial position of maintained nursery schools and the support offered.

Background and Advice

Previous reports to the Committee have provided information about maintained nursery schools (MNS) and in particular the financial challenges facing the sector, which are in a part caused by national changes in the early year's national funding formula (EYNFF).

This report updates the Committee on the current financial position facing MNS as at 31 March 2019, sets out information on the support that is being provided to the sector and looks ahead to the continuing challenges that are being faced.

2018/19 Outturn Position

The outturn position at 31 March 2019 offers evidence that MNS continue to face considerable financial challenge. Further information is provided in the following tables:

2018/19 School Balances - In-Year Movement of Balances by Phase

Phase	Balance Brought Forward as at 1 April 2018	Less Net Expenditure 18/19	Balance Carried Forward as at 31 March 19
	£m	£m	£m
Nursery	0.466	-0.049	0.417

As can be seen, the total level of balances held by nursery schools fell by almost £50k to March 2019, and now the aggregate balance across all 24 schools stands at £417k which equates to 3.4% of their total Combined Financial Reporting (CFR) income.

The county council's guideline for schools is to have reserves equating to 12% of their total Combined Financial reporting (CFR) income or a minimum of £60,000. If all the nursery schools held their guideline balance figure this would equate to £1.753m.

2018/19 School Balances –In-Year Movement Count of Schools by Phase

Phase	Count of deficit in year	Count of surplus in year
Nursery	14	10

14 of the 24 schools operated an 'in-year' deficit in 2018/19. This equates to 58% of nursery schools. This represents the highest percentage of schools in any phase and compares to a Lancashire average of 46% that operated an 'in-year' deficit.

2018/19 School Balances – No of Schools in Surplus/Deficit by Phase

Phase	Count of deficit close balance	Count of surplus close balance
Nursery	5	19

5 nursery schools ended the 2018/19 financial year in an overall deficit position, which equates to 21% of schools in the sector. This is the joint highest percentage of schools in deficit across all phases and compares to a Lancashire average of 7%.

One positive note taken from the outturn data is that one fewer nursery school is in deficit at 31 March 2019 than was the case at March 2018, when there were 6 MNS in deficit. All 5 schools in deficit have been worked with. Two of which should recover their deficit within 3 years. Two will take longer to recover but will show in year stability in 2019/20 and 2020/21 respectively.

School in Financial Difficulty (SIFD) Categorisations

As the Committee will be aware, a School in Financial Difficulty (SIFD) Categorisation has been introduced to monitor the financial health of Lancashire schools. The 4 identified categories are:

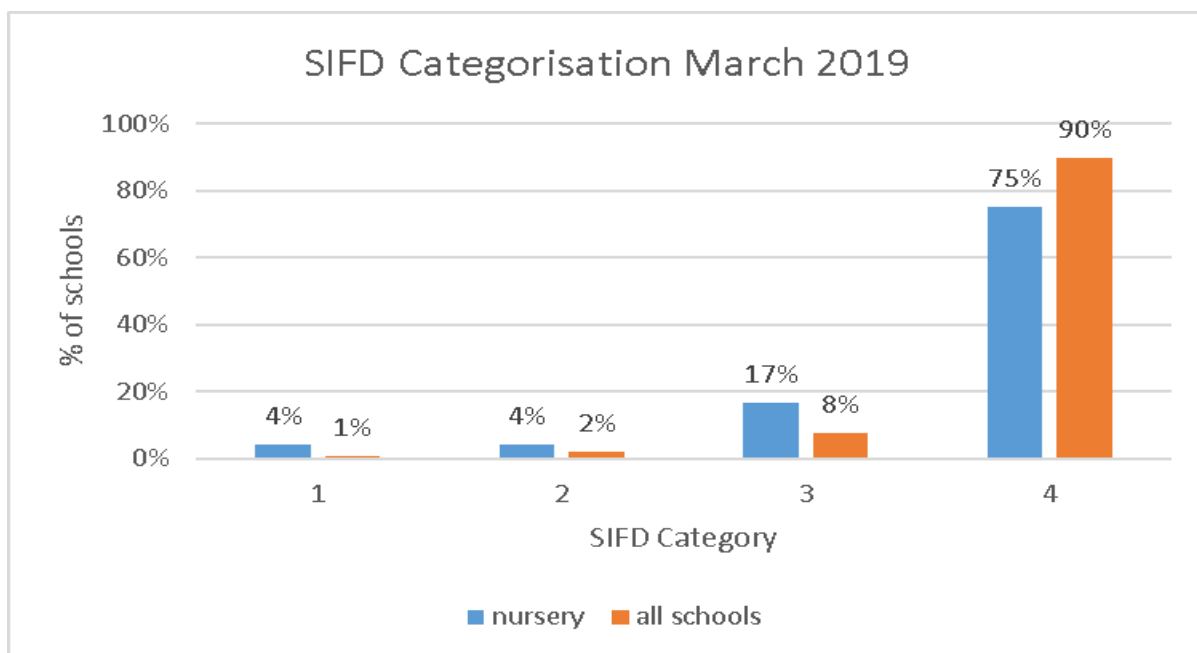
Category	Description
Category 1 Structural Deficit	Structural deficit beyond recovery, school is financially non-viable, strategic solutions required
Category 2 Significant Deficit	Schools have significant deficits requiring intensive intervention and focussed support to recover, or have no agreed recovery 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.

The Categorisations have been rerun based on the 2018/19 outturn data and the details for MNS are shown below:

SIFD categorisation – Nursery Schools 31 March 2019 data

Category	No. of schools	%
1	1	4.2%
2	1	4.2%
3	4	16.7%
4	18	75.0%
	24	

The nursery school sector remains the highest risk sector on the SIFD categorisations, with 25% of schools identified across categories 1, 2 and 3. The equivalent figure across all schools is just above 10%. The graph below shows the nursery school categorisation at March 2019 compared to all Lancashire schools.



LCC Support for the Sector

Considerable targeted support has been provided to maintained nursery schools during the 2018/19 financial year. Officers from school finance and early year's teams have been working with individual schools to review business models and staffing structures as funding becomes increasingly tight. A number of restructures have been instigated, with additional support from Schools HR as required.

During the year, reviews have been carried out at 12 schools and the financial situation has been stabilised at 11 of these schools. Support to schools has been carried out over past 18 months. Several of which have been supported during budget setting for 2019/20.

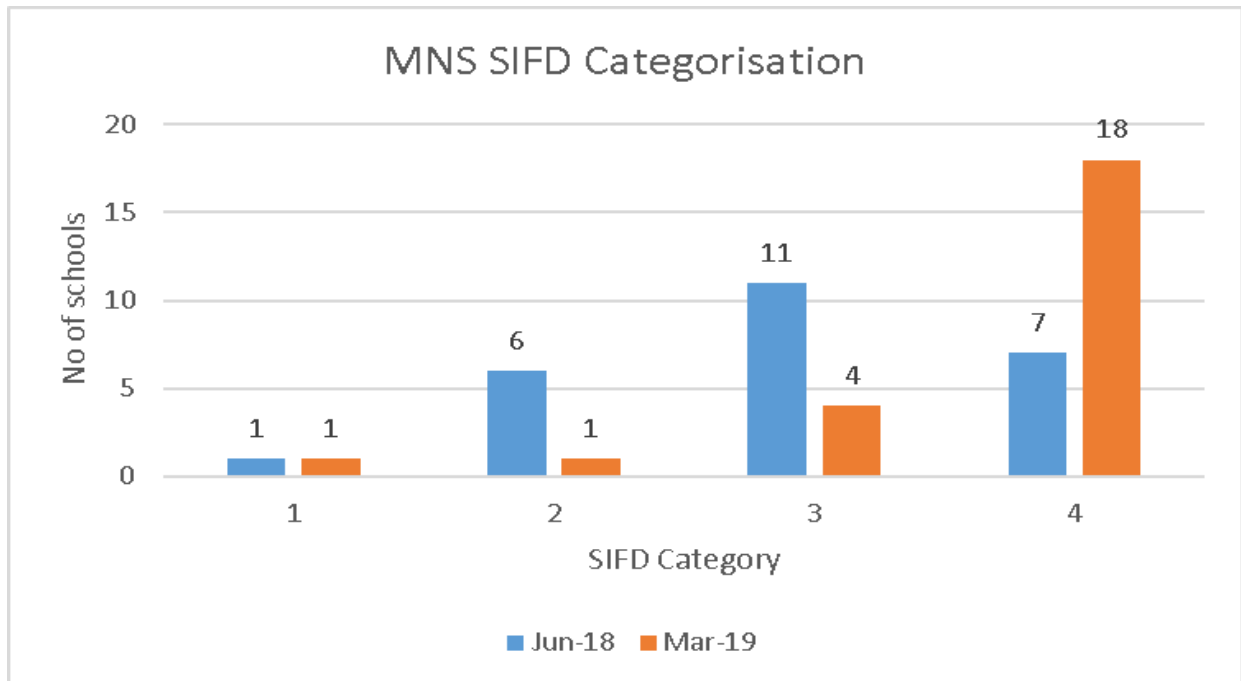
As financial plans are agreed with the schools it is intended that deficit budgets will be repaid over time. Clearly, this is challenging in the current financial environment, and the normal 3 year timescale for deficits to be repaid will be difficult to achieve in some cases.

Ongoing support continues for the school where the financial situation has not currently been stabilised. The school has undertaken a staffing restructure from 1 June 2019 and staffing is now considered to be at minimum safe levels. However, under occupancy of the school continues to impact on the budget situation.

To increase occupancy the school is developing its early year's provision to reflect wrap-around care and is actively marketing this enhanced provision. Additional advice and supporting data and mapping information has been provided to assist the marketing strategy.

In June 2019, the school was invited to discuss the current situation at the LA's School Improvement Challenge Board (SICB). The schools financial position will be reviewed again on confirmation of the actual summer term early years funding data, but a sustainable budget strategy is some way off at this stage.

The LCC support provided and the commitment of individual school leaders has gone some way to stabilising the financial position of the MNS sector. The chart below compares the SIFD categorisation data from March 2019 to that last reported to the Committee in June 2018.



As can be seen, by the end of the 2018/19 financial year there has been an improvement in the financial situation within the sector, but nursery schools remain the highest risk sector in the SIFD categorisation.

A further 4 schools have been prioritised to receive support in the 2019/20 financial year and more will follow in due course.

In addition to this individual level support, the county council has convened working groups involving nursery school headteachers and senior LCC officers to look at strategic options for the future, including amalgamations, federations, sharing of staffing/headteacher costs, revised staffing structures, increased income generation etc. Further information will be provided to members in the form of a presentation with an update on progress.

The county council has also made representations to central government to lobby for increased early years funding for Lancashire. This has included correspondence jointly signed by the Chair of the Education Scrutiny Committee and the Cabinet Member for Children, Young People and Schools. The Schools Forum has also made its own representations on this issue.

Nationally, an All Party Parliamentary Group on Nursery Schools, Nursery and Reception Classes continues to make the case about the important role provided by the maintained sector. A number of Lancashire maintained nursery school headteachers are involved with this group.

LCC officers are also contributing to focus groups to discuss what a workable funding formula for maintained nursery schools could look like, and to explore how different proposals that the DfE might bring forward would work in practice.

Forecast Financial Position in 2019/20 and beyond

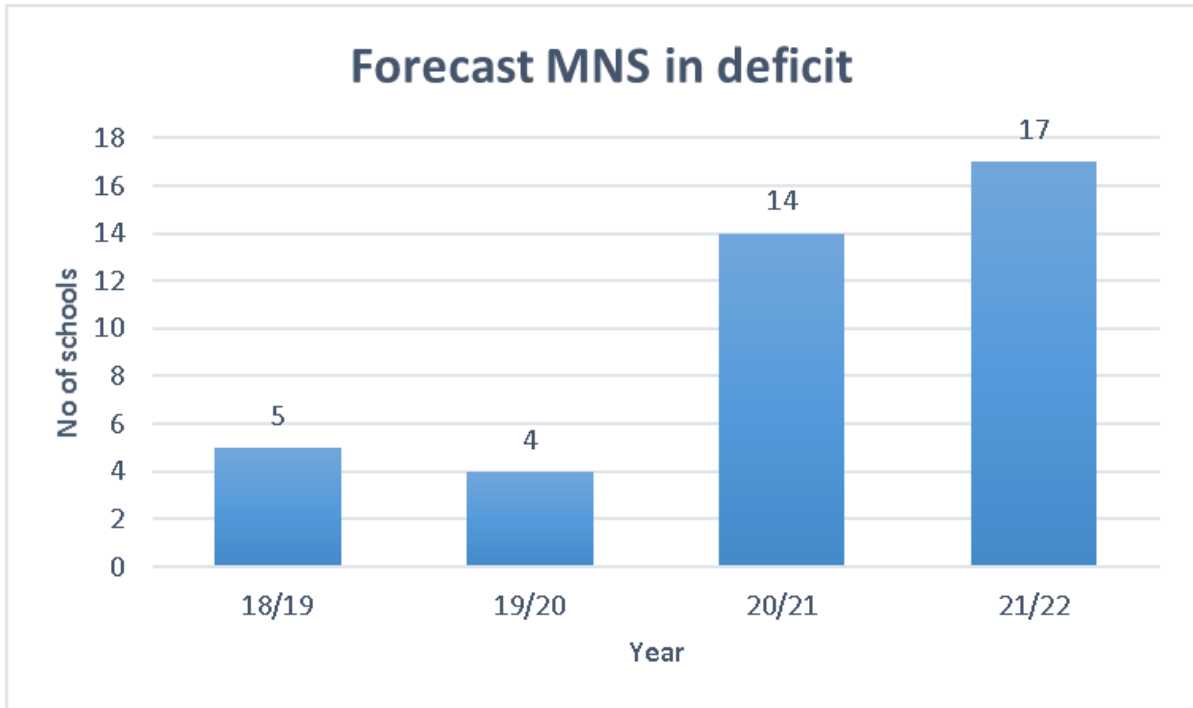
One of the key factors impacting on MNS funding was the Government's introduction of an Early Years National Funding Formula (EYNFF) from April 2017. This new arrangement introduced a formulaic mechanism for distributing early years funding from National Government to each local authority and set a framework 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.

Following an allowed period of transition, the EYNFF has been fully implemented from April 2019.

As part of the ongoing support for the sector, the LA has looked to forecast the financial position of the MNS going forward, assuming that Early Years Dedicated Schools Grant (DSG) income remains cash flat, as it has in recent years, and cost pressures continue to grow. The modelling also looks at the impact of the declining pupil numbers in the sector following a reduction in the birth rate. Forecasting Early Years Funding is a large variable as funding is re-determined each term. Most forecasting assumes numbers based on current years estimates.

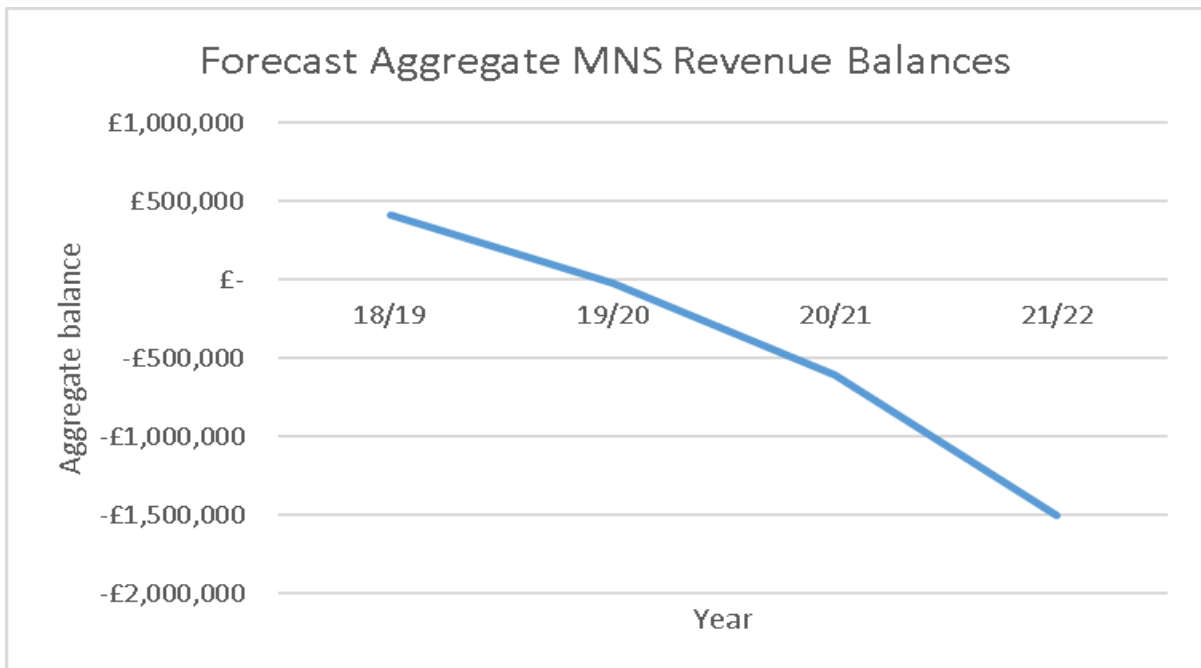
Whilst work undertaken in 2018/19 has managed to largely stabilise the MNS position, the forecasts going forward illustrate a significantly worsening position in future years.

The chart below shows the number of maintained nursery schools in a deficit budget position at the end of 2018/19 and provides a forecast number for 2019/20 to 2021/22 based on the latest LA projections.



The forecast predicts that there may be a small reduction in the number of nursery schools in deficit at the end of 2019/20, but then the number is predicted to increase significantly in 2020/21 and 2021/22, reaching 17 schools (71%) by March 2022.

The graph below also illustrates the predicted level of aggregate balance at MNS for the period 2019/20 to 2021/22, set against the 2018/19 outturn figure as a baseline.



Modelling predicts that in aggregate, nursery school balances will reduce from the 2018/19 outturn position of over £400k, to a small overall deficit in 2019/20 and over a £600k deficit in 2020/21. The modelling currently predicts that nursery schools will have over £1.5m in aggregate deficits by March 2022.

It must be noted that the EYNFF framework does provide supplementary funding for maintained nursery schools to enable the local authority to provide some protection for nursery schools funding levels. For the 2019/20 financial year the supplementary funding for MNS equates to £3.789m.

The DfE have confirmed that this supplementary funding will be available until the end of the 2019/20 academic year.

Government responses to all correspondence lobbying for additional resources for Lancashire, or queries about the possible continuation of the supplementary funding for maintained nursery schools indicate that all funding decisions for 2020/21 and beyond will be based on the outcome of the Government's Comprehensive Spending Review.

All nursery schools continue to face financial challenges and modelling predicts a significant deterioration in the financial health of the sector without substantial additional investment. However, the outlook will be even more severe if the supplementary funding for maintained nursery schools were to cease. Almost all schools in the sector would not be viable without the supplementary funding.

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 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. The financial viability of at least one MNS is severely in question.

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. In addition, significant structural change to the existing status quo may be needed in order to address the deficits forecast within the next 3 years.

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A