

Appendix E: Funding arrangements for Maintained Nursery Schools through the Early Years Single Funding Formula

1. Introduction:

1.1 Concern was expressed at the initial meeting of the Early Years Task and Finish Group about the financial viability of the remaining three Maintained Nursery Schools (MNS) in Waltham Forest. It was agreed that the Local Authority would review the current funding arrangements and consider options regarding the future of the three schools as part of child care package available to residents in Waltham Forest.

1.2 This report is in FIVE sections:

- (A) The current situation
- (B) Comparison with other Maintained Nursery Schools in London
- (C) Options for the short-term
- (D) Options for the long-term
- (E) Recommendations for action.

2. The current situation:

2.1 There has been a statutory requirement for Local Authorities to have an Early Years Single Funding Formula (EYSFF) for all providers of free education for 3 and 4 year olds since April 2010. Waltham Forest introduced a scheme in April 2008.

2.2 The DfE offered advice and guidance to Local Authorities in establishing a statutory EYSFF, including specific advice on funding arrangements for Maintained Nursery Schools. This is attached as **Appendix A** to this report. This guidance recognised that nursery schools faced higher costs than other settings mainly because of higher statutory costs especially the requirement to have a headteacher. The expectation of the DfE was that Local Authorities would make every effort to enable MNSs to continue to operate effectively by recognising these additional costs in the funding arrangements devised, whilst not ruling out the need for efficiency savings where this could be achieved e.g.

- Reviewing whether the services provided by MNSs represented good value for money
- Enabling MNSs to play a wider role in sharing good practice locally
- Looking at structural solutions in the longer term e.g. federation to support their ongoing financial viability.

2.3 The initial Waltham Forest EYSFF introduced in April 2008 recognised the additional costs faced by the then four MNSs. They received the following funding over and above that given to other settings e.g. PVI and nursery classes attached to mainstream primary schools:

- Rates
- School Meals
- Management Costs to cover salary of Headteacher
- School Standards Grants and Teachers Pay Grant

2.4 Between 2009-10 to 2013-14. The additional funding for MNSs accounted for on average 38% of their total funding for 3-4 year olds, representing a sizeable premium over and above that allocated to nursery classes attached to primary schools and PVI settings. Funding for SEN and AEN has been removed from this data as it is now funded from the High Needs Block.

2.5 Having reviewed EYSFF schemes introduced by Local Authorities, the DfE published further advice and guidance for Local Authorities on simplifying the EYSFF for 2013/14 to make it more transparent and easier for a setting to calculate what their funding would be if actual numbers were different to predicted numbers.

2.6 The EYSFF in Waltham Forest was simplified, after consultation, so that all funding both AWPU and any supplements was expressed in terms of funding per pupil per hour. For MNSs this included consolidating all the additional funding, other than rates, into a premium hourly rate of **£5.85** which was **£2.10 per** hour higher than that paid to primary nursery classes of **£3.75** per hour representing a **35%** premium over the basic funding applied to all settings.

2.7 College Gardens Nursery School has now been absorbed into Parkside Primary School and therefore there are now three MNSs. Overall funding per pupil between 2012-13 and 2013-14 has risen by approximately **3%** to **£6.84** per hour but the level of additional funding has fallen by **3%** to **£2.38** per hour.

2.8 **Appendix F** shows how the revenue balances of the three MNS have changed since 2003/04. These figures are inclusive of other sources of income for the MNS and the balances include funds for extended services in the local community. The data shows significant variations between the three MNSs and in recent years a worsening in total revenue balances held as a percentage of their total budget from **18%** to **10.2%** between 2009/10 and 2011/12. This downward trend is also reflected in comparable data for all MNSs in England where the percentage has actually risen from **13.3%** to **15.4%** over the same time period.

2.9 There is no doubt that the MNSs are facing cost pressures - funding per pupil over the last 5 years has risen by **4.4%** - at a time when inflation would have added about **10%** to expenditure. However, this is a problem faced by all EYSFF settings. However, recently whilst the total number of 3-4 YO pupils receiving free education has risen, there has been a **7%** fall in hours provided in the three remaining MNSs which has added to the difficulties they face.

3. Comparison with other Maintained Nursery Schools in London:

3.1 This year, for the first time it is possible to benchmark EYSFF funding arrangements across all Local Authorities, and in particular with those in London, our neighbours which includes Essex and our Statistical Neighbours which includes Birmingham and Luton. **Appendix E** summarises key data. Although the DfE prescribed what could be in the EYSFF, this still left a fair amount of freedom on how Local Authorities implemented it locally. This means that whilst every Local Authority filled in the same template this still makes it difficult to directly compare whether MNSs in Waltham Forest are funded less well than MNSs located elsewhere.

3.2 **Appendix E** gives details of all the relevant London LAs and our neighbours. Some LAs do not have nursery schools but overall there are 77 MNSs in London according to the S251 worksheets. Columns A-C show whether the LAs are Inner or Outer London and whether they are a statistical neighbour / neighbour.

3.3 Columns D- H show the hourly rate paid to MNSs compared to Nursery classes attached to primary schools and the difference between the two expressed both as an hourly rate and as a percentage premium.

3.4 Column F shows any additional funding paid to MNSs other than through the formula which applies to all settings. Some Local Authorities prefer to supplement funding for MNSs not through a higher AWPU rate but through add-ons e.g. lump sums, additional hours for vulnerable children, rates, mainstream grants etc.

3.5 Columns G to I show total funding for MNSs, the total number of hours being funded and the hourly rate for all funding. This provides the best comparator of funding between MNSs.

3.6 Columns J to L show the total funding per FTE pupil and how this compares to the funding per pupil that Local Authorities receive through the Early Years Block GuF. Clearly the size of the GuF is a control total on how much funding can be allocated. Local Authorities with a higher GuF than Waltham Forest are more able to pay higher funding to their MNSs.

3.7 What do we learn from the data available? There are a few messages that emerge:

- At **£3.75** per hour, the rate paid to our nursery classes attached to primary schools is broadly in line with the average of £3.77. So comparing MNSs to nursery classes is a fair.
- Using the difference between the hourly rate paid to MNSs and nursery classes is not a useful tool for comparison as many Local Authorities supplement MNS funding through add-ons.
- Taking the overall funding per hour and total funding per FTE pupil are good comparators but even these have to be seen within the context of the overall funding allocated to a Local Authority.

- Funding varies considerably between Inner and Outer London Local Authorities reflecting higher levels of funding and in some case how Local Authorities use their MNSs.
- That the average size of funding for an MNSs is £540,481 based on annual hours of 65,376 whereas in Waltham Forest the average is smaller e.g. £372,735 and 54,496 hours.

3.8 Table 1 below provides a summary of the data broken down into types of local authorities

Table 1: Comparison of Waltham Forest compared to other relevant local authorities

Type of LA	Hourly Rate	Total funding	EY Block GuF	Total funding as % of GuF
Inner London	£8.98	£8,528	£6,795	125.5%
Outer London	£7.61	£7,228	£4,697	157.3%
London	£8.32	£7,906	£5,792	137.0%
Statistical Neighbour	£8.03	£7,630	£5,216	175.6%
Neighbour	£7.86	£7,468	£5,295	167.4%
Waltham Forest	£6.84	£6,498	£4,884	133.0%
WF as % of London	82.2%	82.1%	84.3%	

3.9 What this summary table shows is that there is a limited case for stating that the MNSs in Waltham Forest are underfunded in comparison to other MNSs. Our EY Block GuF is £4,884 per pupil compared with £5,792 for other London Boroughs with nursery provision e.g. 84.3% of the London average. However, our hourly rate / total funding per FTE pupil is 82.2% of the London average – a shortfall of 2.1%.

3.10 Another way of looking at it is that the funding rate per FTE pupil in Waltham Forest is 133% of GuF compared with the average of 137% for London as a whole –a 4% deficiency. The London average is a better comparator than outer London boroughs since our statistical neighbour LAs consist of 4 outer and two inner London boroughs as well as Birmingham and Luton.

4 Options for the short-term:

4.1 In the short-term e.g. for 2014/15, Waltham Forest could seek to ensure that the three MNSs are funded in line with other London boroughs given the level of our EY GuF. An enhancement of the hourly rate paid to MNSs in Waltham Forest to £6.04 per hour e.g. an extra £0.19p would restore equity of funding with the average for London. On current hours provided by the three MNSs this would cost £30k.

- 4.2 However, it is unlikely that this in itself would remedy the financial position that the three MNSs now find themselves in. As the data shows our three MNSs are smaller than the average size MNS in London by some 8% on pupil numbers and 31% on overall funding for 3-4YOs.
- 4.3 Although the number of available 3-4 year olds is still rising our three MNSs face increasing competition from new settings both PVI and schools. As free 2YO provision increases, parents will increasingly want their child to stay in the same setting for 3-4YO provision. Parents with pupils who have high special educational needs are seeking to place their child locally and not necessarily at a MNS even though they have the expertise. The location of the three MNSs in relation to increased capacity of other providers and where the growth in 3-4YOs is taking place also limits their ability to grow numbers in the traditional 3-4 YO market.
- 4.4 Thus in the longer term, structural solutions need to be found that increase income and reduce the proportion of total budget which is accounted for by management overheads. This is examined in section 5.

5. Options for the long-term:

- 5.1 There are a range of options to consider for the future of MNSs in Waltham Forest and these are influenced by their role within the local childcare programme maintained by the Local Authority. There is no getting away from the fact that Maintained Nursery Schools cost the Local Authority considerably more than similar size nursery classes attached to mainstream schools and PVI settings. This is illustrated in Table 2 below which summarises the funding allocated to the three types of settings for 2013/14 for free education for 3-4YOs.

Table 2: Cost to the Local Authority of free education provision for 3-4YOs

Setting	Hours provided	Total funding	Hourly rate
Low Hall Nursery School	43,385	292,481	£6.74
Church Hill Nursery School	57,577	380,380	£6.61
Acacia Nursery School	62,527	445,345	£7.12
Barclay Primary	72,056	309,048	£4.29
Newport Primary	58,249	246,887	£4.23
South Grove Primary	46,044	206,692	£4.49
Redwood Pre-school	44,382	206,931	£4.66
The Lloyd Park Centre	45,866	202,661	£4.42
Shernall Pre-school	40,176	166,732	£4.15

- 5.2 This table reflects the cost to the Local Authority through the EYSFF. When comparing with nursery classes attached to mainstream schools it is important to remember that rates and SF grants are paid through the LFF 5-16. Primary schools also receive a lump sum of £125,000 (although Waltham Forest is currently consulting on this being reduced to £75,000 which is broadly the same as the management payment of £73,851 previously paid as a lump sum to MNSs.
- 5.3 MNSs are constrained by the size of their sites which are small compared with even 1FE primary schools. Apart from offering free education for 3-4YOs, MNSs may also offer:
- childcare facilities for 0-2YOs (although less so than in the past)
 - free education for 2YOs
 - wrap around care
 - act as a local hub for children centres
 - provide outreach support for other early years settings e.g. as centres of excellence for SEN
 - training facilities
- 5.4 Thus, their overall sources of income are far wider than 3-4YO provision. However, some of these activities are dependent on fees being paid by parents and this is a higher risk than income paid through the Local Authority for free education for 2, 3 and 4 year olds, especially as in some areas, parents cannot afford the fees which need to be charged to break even. MNSs need to review their funding streams and determine which funding streams give them greater certainty on income and stop providing services that could be provided by other early years' settings at a lower cost, even if this narrows their range of childcare provision.
- 5.5 Whilst the space constrains the maximum income that can be generated on-site, this does prevent MNSs from providing additional income generating activities off-site. The small size of MNSs leaves them vulnerable to changes in both income and cost pressures. Overheads – e.g. buildings and leaderships costs are significantly higher than for bigger primary schools and there is a limit to the extent that the Local Authority can or would want to supplement their funding.
- 5.6 Therefore, one avenue to explore is the franchise model where an MNS either directly provides childcare services – such a free education for 2YOs on another sites or franchises another organisation to do so. In the latter case, the setting pays an annual fee to the MNS which provides specific support to the setting and ensures that standards are at an acceptable level. Expansion of such provision increases economies of scale enabling services to be provided at a lower cost than by the MNS and fees paid

contribute to spreading the burden of overheads. Franchise could include partnership working with one or more existing PVIs.

5.7 Ultimately, tough decisions may have to be taken on structural solutions if the above options are not viable. A range of options are possible here including:

- Widening the services provided by MNSs
- Hard federation with another MNS or a primary school (or both)
- Absorbing the MNS into a primary school (without or with its own nursery provision)
- Relocating the MNS onto a larger site which may have primary provision
- Closing the MNS and inviting a PVI to operate from the site

Widening Services:

5.8 In some Local Authorities, an MNS has a service level agreement to provide additional services on behalf of the Local Authority. This is funded out of the Early Years Block funding but is paid for from centrally retained funding. This recognises that MNSs can be centres of excellence for early years' provision. Such activities can include responsibility for professional development, especially for support staff. The expansion by over 20% in the number of support staff employed in early years settings over the next few years as numbers of 2, 3 and 4 YO receive free education warrants increased capacity for new staff to gain recognised qualifications.

Hard federation:

5.9 Hard federation between 2 or more schools is a successful model of gaining economies of scale and sharing resources. Existing examples in the primary sector in Waltham Forest illustrate the savings that can be achieved, not only in leadership costs but also procurement of services. Existing hard federations in Waltham Forest include St Mary's C of E and St Saviours C of E primary schools which has been up and running for over 2 years and the more recent Davies Lane and Selwyn primary schools. Both sets of schools are several miles apart in the same way that any hard federation between MNSs would be. The St Mary's / St Saviours hard federation has enabled the schools to significantly expand early year's provision as well as childcare before and after school to their local community.

5.10 Hard federation retains the legal identity of both schools but enables common practices and a single management team to be introduced. It enables senior staff to be leads across particular stages of the national curriculum and makes succession planning

easier. There is a potential downside to hard federation between two MNSs, in that unless there is also a review of the childcare activities performed across both schools, there is the danger that while leadership costs and procurement costs can be reduced they still have the high risk of income fluctuations if too reliant on fee income.

Amalgamation with a neighbouring primary school:

- 5.11 Wellington Primary School and College Gardens Nursery School is an example of two schools which worked together on a shared site in a hard federation until the two schools amalgamated. This resulted in significant savings to the Local Authority as additional costs in excess of £135k were saved and the money used to plough back into improving funding for social deprivation in early years settings.

Relocating onto a larger site:

- 5.12 Again, this was the experience for College Gardens Nursery School in relocating to the then Wellington School site. However, there are few primary school sites where such a move is feasible.

Closure and re-opening under new management:

- 5.13 Ultimately, if an MNS is unable to address its budgetary problems which could include falling numbers, the Local Authority has the power to close the school. If there is sufficient demand in the area for childcare provision of a different mix to that provided by the MNS, it would be possible to consider leasing / selling the site to another early year's provider within the private or independent sector. Such a provider is likely to have lower costs but would also receive lower income. Complete closure with no alternative provider is a possibility but there may be constraints on alternatives uses.

6. Recommendations for action:

- 6.1 That Schools Forum considers adjusting the hourly AWPU rate for MNSs from £5.85 to £6.04 from April 2014.
- 6.2 That the Local Authority works with the three MNSs to review:
- Breakdown between overheads and operational costs (fixed and variable costs)
 - The extent to which the current mix of childcare activities effectively contribute to overheads
 - Opportunities to change the mix of childcare activities so that additional income can be generated – this to include the potential for expansion off-site and informal collaboration with other providers

- Potential structural changes that could reduce overhead costs and give the MNSs greater long-term sustainability – this to include formal collaboration such as soft and hard federation with other schools / early years settings
- Potential for providing additional services which support other early year's settings either through pooling arrangements with early years providers or through a SLA with the Local Authority.