

<b>Cabinet</b>	
27 June 2018	
<b>Report of:</b> Debbie Jones, Corporate Director for Children's Services	<b>Classification:</b> Unrestricted
<b>Securing the future of early years services – local authority day nurseries</b>	

<b>Lead Member</b>	Councillor Danny Hassell, Cabinet Member for Children, Young People and Schools
<b>Originating Officer</b>	Christine McInnes, Divisional Director for Education & Partnerships
<b>Wards affected</b>	All wards
<b>Key Decision</b>	No
<b>Forward Plan Notice Published</b>	28 November 2017
<b>Reason for Key Decision</b>	Not applicable
<b>Community Plan Theme</b>	<b>A fair and prosperous community</b>

## REASONS FOR URGENCY

This report was published late as it was necessary to undertake further legal due diligence around the proposals. The report needs to be considered at this meeting due to the need to launch the consultation process on Thursday 28 June.

### 1. Executive Summary

- 1.1. Securing a successful start and the best opportunities for our youngest children, particularly those from disadvantaged backgrounds, is at the heart of this administration.
- 1.2. Raising standards whilst narrowing the gap between the most and least disadvantaged children and their peers are key priorities. In Tower Hamlets, early years is a success story, and we have clear evidence of a steady

trajectory of improvement in performance in both these priorities over a number of years.

- 1.3. These improvements are underpinned by consistently implementing evidence-based practice and supported by streamlining Council services to form one Integrated Early Years Service (IEYS), which became fully operational in 2017.
- 1.4. The IEYS has established a strong multi-agency approach by actively participating in the Tower Hamlets Integrated Provider Partnership through the Children's Vanguard (Tower Hamlets Together), this is an approach which supports the holistic development of the child and removes barriers to learning.
- 1.5. The Council is committed to meeting its duty to provide sufficient and high quality childcare, recognising the benefits to children, families and the wider community. For example, since the Government set a target of a place for every eligible two year old in 2013-14, the Council has successfully created 976 early years places, of which 695 are Early Learning for two year olds (EL2) places with up to a further 1000 places planned for roll out by 2020. Childcare enables parents to access employment, which is the most effective way to lift families out of poverty in the longer term. The Council wants to ensure, within the context of reducing resources, that best use is made of the funding available and decisions are fair and equitable with regard to supporting the needs of approximately 22,000 children under the age of 5 years and their families in Tower Hamlets. This is a requirement under the Best Value duties, but it also is the right thing to do. To achieve this, it is necessary to consider difficult financial decisions within the context of potential benefits to the whole early years system.
- 1.6. The current delivery of childcare, education and other early years services in Tower Hamlets is through a range of private, voluntary and independent (PVI) providers, school nurseries, nursery schools, 12 Children's Centres and three Local Authority Day Nurseries (LADNs).
- 1.7. Within the current context of government cuts, this paper proposes a consultation on its proposal to make best use of resources to secure a range of financially sustainable high quality early years provision, meet its duty to provide sufficient places and provide best value.
- 1.8. Of the circa 22,000 children under the age of 5 years in Tower Hamlets just under 1/3 (circa 7,000) use childcare services. Of those 7,000 children, 71 (May 2018) use the three Council-run early years child care nurseries (LADNs) which, with the current delivery model, are generating a significant budget

pressure. The requirement to make savings in the use of the General Fund by the IEYS, reductions in the Dedicated Schools Grant (DSG) and the introduction of the National Early Years Funding Formula (which severely restricts previous flexibilities in the use of the budget) are all contributing to financial pressures in the Council and also in schools.

- 1.9. Currently, the LADN provision is supported through the Dedicated Schools Grant (DSG), which is funding controlled by schools. This funding model has enabled an equivalent amount of the Council's General Fund to be used to meet costs in other parts of the Early Years Services. There has been a clear decision by the Schools Forum (the statutory body which makes decisions about the use of centrally-retained school funding) to cease the funding from September 2018 on the basis that the current delivery does not represent value for money, which could be used more effectively elsewhere to the benefit of significantly more children.
- 1.10. For example, the Council also has six maintained nursery schools, all of which are judged Outstanding and have a well-established expertise in supporting vulnerable children and those with SEND. Changes in national funding have meant that these nursery schools are under severe financial pressures and may have to close. The Schools Forum, in collaboration with the Council, is considering how best to secure the future of this provision, which would benefit from a contribution from the DSG, an option which is not currently possible.
- 1.11. Should the LADN provision continue and the DSG funding cease, this would mean that Children's Services would face a significant additional budgetary pressure from this provision which would fall on the General Fund.
- 1.12. The previous business case CHI003 / SDM013 "Increasing the Involvement of partners in Early Years" included the proposal to commission private, voluntary Sector or independent (PVI) providers from September 2018 and was strongly opposed during the public consultation. The Mayor deferred a decision and asked for analysis and exploration of options of the impact of the cost of childcare on low income families.
- 1.13. The Council has now identified a new option which is a phased closure of the LADNs from late July 2018 to (at the latest) July 2019. If this option was followed the Council would locate suitable alternative places for any affected children that will be attending the LADNs from September 2018.
- 1.14. If taken forward, this option would reduce costs and enable the IEYS to continue supporting the growth of childcare places for parents who need them, by instead investing to support the range of childcare providers to

enhance both the quantity and quality of their services and to support new providers that will create additional places. This would allow a focus on affordability, especially promotion of access to EL2 funding from government which gives 15 free hours for 2-year-olds from low-income families, for which approximately half of the 4000 two year olds are eligible. This option would also support the development of additional specialist provision for SEND children.

## **Recommendations:**

The Mayor is recommended to:

1. Note the proposal to undertake a phased closure of the council's three childcare day nurseries.
2. Agree that consultation take place in respect of the said proposal(s) and that the feedback of the said consultation to be brought back to the mayor for consideration.
3. Note what further actions will be undertaken to improve the availability of affordable and accessible childcare.

## **1. REASONS FOR THE DECISIONS**

- 1.1. Securing a successful start and the best opportunities for our youngest children, and particularly those from disadvantaged backgrounds, is at the heart of this administration.
- 1.2. Raising standards whilst narrowing the gap between the most and least disadvantaged children and their peers are key priorities. In Tower Hamlets, early years is a success story, we have clear evidence of a steady trajectory of improvement in performance in both these priorities over a number of years.
- 1.3. This administration is committed to playing a key role in lifting families out of poverty, ensuring good stewardship of resources and fair and equitable decision making. This will mean at times there will be a need to make difficult judgements about which services to prioritise over others and decisions which benefit the system as a whole.
- 1.4. In January 2017, Cabinet approved business case CHI003 / SDM013 "Increasing the involvement of partners in Early Years" which sought annual savings of £2.057m by finding new operators for the council's three day nurseries (LADNs) at Overland in Bow, John Smith in Whitechapel and Mary Sambrook in Stepney. An option was developed and put out for public

consultation in the Autumn of 2017, with findings considered by MAB in January 2018. The Mayor deferred a decision on the proposal, and subsequent events have brought about the development of a new proposal for a phased closure of the LADNs.

- 1.5. The LADNs are funded from three main sources: the bulk of the costs come from the retained funding element of the DSG which is allocated by the Schools Forum; government funding of free places; and partly from fees paid by some parents. The balance of the LADN costs are being met by pressure on Children's Services budgets.
- 1.6. In March the Schools Forum decided to reduce the amount of its funding for LADNs with no more to follow after September 2018. The Schools Forum strongly felt that the LADNs do not provide value for money and there are more effective uses for that funding with the early years system and schools. The consequence of this decision for Children's Services is that the majority of the costs for the LADNs become a budget pressure on the Integrated Early Years budgets. The cessation of the DSG support will make the already unsustainable finances of the LADNs even worse. There is no ring-fenced General Fund budget for the LADNs, the saving identified in the original business case cannot be achieved from the LADNs and equivalent savings will have to be found elsewhere in service budgets.
- 1.7. This double financial blow to the budget means that there will be significantly fewer resources available to run other services such as Children's Centres and undertake other key tasks. This will actively undermine the Council's early years priorities, stated above and its ability to create new childcare places to meet the needs identified in the Sufficiency Assessment.
- 1.8. As a result, the Council is now seeking to consult on a phased closure of the LADNs and supporting families to access existing empty places at maintained nurseries and other providers.

## **2. ALTERNATIVE OPTIONS**

- 2.1. The recommended option in the consultation is a phased closure of the LADNs, allowing for an orderly transition for children moving between the LADNs and, when specialist capacity is available, to other childcare providers. The Council will in any event continue to support Children's House maintained nursery school to expand the capacity and scope of its services for deaf children and their families together with childcare. This would therefore be the natural place for children from Overland LADN to go, if a decision is taken to close the nursery. Currently there are 12 children with hearing impairment or deafness at Overland. 8 will return in September and there are 8 more that will require a place from September and these families are being invited to view the provision

at Children's House nursery as a possible option for them to attend. This will assist those families to be able to give an informed view during the consultation.

- 2.2. The consultation will set out the proposal that Mary Sambrook LADN would close at the end of July 2018, followed by John Smith LADN and finally Overland in the first half of 2019.
- 2.3. The main alternative under consultation is to do nothing and continue to operate the LADNs within the Council. This would not address the issues of equity and financial pressures detailed in this report and alternative savings totalling £953K would need to be found from other services funded by General Fund.
- 2.4. Whilst options to transfer operations to other providers were consulted on, initial scoping with potential providers identified that they would not proceed if staff were TUPE'd as part of the arrangement.

### 3. **DETAILS OF THE REPORT**

#### 3.1. **Context**

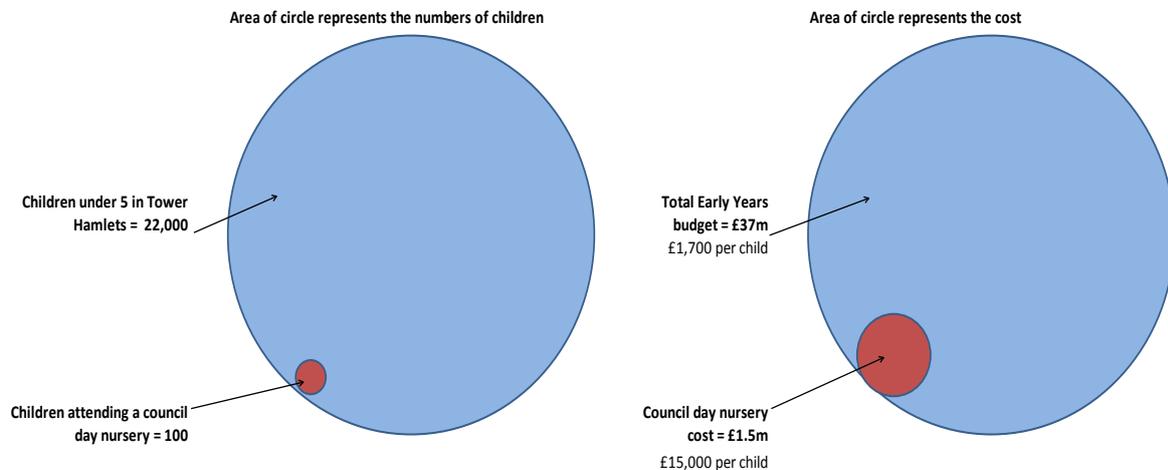
- 3.2. The work of the Council is very successful in early years. Assessment on entry to education shows Tower Hamlets children as a whole are the lowest performing nationally, a reflection of the high levels of deprivation in the borough. When assessed at the age of 5, at the end of the Early Years Foundation Stage, 68.4% of children achieved the national benchmark of a 'Good Level of Development' in 2017 compared with 71% nationally. The difference between the local and national outcomes is reducing year on year and the service is aiming to exceed the national indicator. A strong partnership approach to developing early years provision involving education, health and employment support is embedding and this is contributing to the improvements, as is the work of, for example, the Council IEYS Quality Advisory team.
- 3.3. Of the circa 22,000 children under the age of 5 in Tower Hamlets, 7,000 use childcare services and all can access a range of early years services through the council's 12 Children's Centres. The Council's commitment to securing this range of services within the context of significant reductions in national funding means there is a need for careful stewardship of resources and consideration of how individual funding decisions impact on the early years system as a whole.
- 3.4. The key tensions that must be balanced include action which is affordable by the Council, promoting childcare which is affordable to families (within the constraints of government funding policy) and ensuring centrally retained funding is put to best use to maintain a range of high quality provision.

- 3.5. In order to both achieve the statutory requirements as well as meet the needs of families, the Council is committed to:
- Supporting the health and the development of a thriving childcare sector
  - Investing in affordable childcare and increasing childcare spaces
  - Supporting the development of new facilities for under 5s, through planning and development.
- 3.6. There are a number of factors which limit what the Council can achieve in early years provision. The impact of the government's national early years funding formula introduced in April 2018, is putting all early years education provision at risk as the funding is set at a level appropriate for childcare rather than education and the level of funding that can be retained centrally has been severely curtailed.
- 3.7. There are approximately 22,000 children under the age of 5 years in Tower Hamlets. Of these, 15,000 will be with their family all day and 7,000 use childcare services (day nurseries, nursery schools or childminders). Of these, about 900 attend playgroups, 600 are with child minders, about 3,400 attend nursery classes in primary schools or nursery schools, and about 2,600 attend a day nursery with 2,500 of them at a private or independent nursery. Fewer than 100<sup>1</sup> attend a LADN, roughly 1.55% of the total under-5s provision.
- 3.8. The LADNs have a current capacity of 71 FTE places (May 2018) with the current staff numbers. 49 of these children will be of school age and move to attending a primary school from September, reducing the number of children to 22 in total.
- 3.9. Whereas school based nursery places are an early education provision, LADNs are not education settings but a childcare service. Any specialist services they provide, for example to children with special needs, can equally be provided in other settings.
- 3.10. The LADNs have a very high cost per child, and are heavily subsidised for parents. Providing these facilities to a relatively small cohort of children is costly and inequitable. There are different ways of calculating per capita costs but all calculations show a significantly higher per capita cost for the LADNs. Notes on the calculations made are included in Appendix B. Averaged across all under-5s within Tower Hamlets, the Early Years budget gives an approximate benefit of £1,700 per child per year. In contrast, LADNs give a benefit of around £15,000 per child attending them per year. At full occupancy of 100 children

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<sup>1</sup> This number fluctuates, with fewer children attending LADNs during school holidays. The figure of 100 used in this report is an approximation of the number of children. It is near the top of the range of attendance in 2017 and higher than attendance so far in 2018.

(assuming a mix of two, three and four year olds amongst the additional 27 children) four additional staff would be needed at a cost of circa £113K increasing the annual deficit by £28k as the costs rise to £1.69m.



3.11. A careful consideration of all of these factors has informed the proposal for the future of the LADNs. The current model of provision by the LADNs, where the childcare cost for a small group of families is far in excess of the national early years funding formula available, is putting pressure on school budgets and reduces opportunities for that funding to be used equitably and transparently to benefit early years provision as a whole. In order to ensure fairness across the borough and to enable all families to have the same opportunities for access to childcare, as well as ensuring the council is doing all that it can to support the small businesses and voluntary sector providers that run childcare, the council needs to take action to maximise value for money. This means that there is a pressing need to make a decision regarding the LADNs.

### 3.12. Alignment with key council strategies and manifesto commitments

The statutory duties of the Council in early years education are prescribed the Childcare Act 2006 and these include the requirements to:

- work with partners to improve the outcomes of all children up to five years of age and reduce inequalities between them
- secure sufficient childcare for working parents
- provide a parental information service
- provide information, advice and training for childcare providers.

The Council's duties around inclusion are detailed in the Children and Families Act 2014, Special educational needs and disability code of practice: 0 to 25 years 2014 and the Equality Act 2010.

The Council is committed to improving and developing the range of early years provision in the borough. High quality early years provision prepares children to be school ready, raises educational standards and meets the needs of families including contributing to supporting parents into training and employment. It benefits individual children and their families and also contributes to the council's anti-poverty and social cohesion priorities.

Reflecting the importance of these services, the Council is committed to securing the sustainability of the sector as a whole, and this is reflected in a number of manifesto commitments:

- Use planning powers to secure long-term affordable space for childcare provision, including providing business support to groups that want to expand childcare and nursery provision in the borough
- Continue to invest capital funding to expand existing nurseries and offer more places, particularly for disadvantaged 2 year olds eligible for Government funded places. The Government has set a target of a place for every two year old and since 2013-14 the Council has successfully created 976 places of which 695 are EL2 places with up to a further 1,000 places planned for roll out by 2020. Despite an ongoing generic and targeted campaign (currently featuring in Our East End to encourage families to take up the EL2 places), the existing places exceed parental demand which means currently there are a number of vacant places available.
- Continue to protect and invest in our network of children's centres to ensure a high quality universal service, with additional targeted support and outreach to the most vulnerable/ those with additional needs.
- Protect and strengthen the support for children with special educational needs and their families through Children's Centres.

Securing affordable places for childcare provision in the right places is key and the Council will continue to take account of the Childcare Sufficiency Strategy and implement the Draft Local Plan in order to do all that is possible to support local providers to create places. Existing providers are supported through the IEYS to ensure provision meets safeguarding requirements, is of high quality and delivers the national Early Learning Goals. There is also a commissioned specialist service to advise and support on financial sustainability. The pressures to develop housing, other building and infrastructure development within the borough, as well as the transition to charging market rents does impact on the creation of financially sustainable childcare places and these are pressures which are difficult to mitigate.

While closure of the LADNs would mean the loss of some places in the short term, current and planned activities would ensure there would be no shortfall over the medium and longer term. For example, the IEYS is working closely with the six maintained nursery schools to improve their financial viability, which includes the development of hybrid models of education setting providing childcare. With the support of the service, Children's House maintained nursery school has recently created eight new childcare places and will be able to take 12 additional deaf children from September 2018. More generally, the service is promoting the uptake of vacant places in all the maintained nursery schools. There are currently 122 vacant places available this September (enough for up to 244 children attending for half a day throughout the week).

In headline terms, this could be enough to accommodate all of the current and prospective LADN children, and if the provision is not appropriate for other reasons then other childcare places are available and so there is effectively no risk that parents wishing to use a LADN would not be able to access local childcare. The number of children attending the LADNs in September will be circa 22.

A concern raised in the previous consultation on the LADNs was in relation to the highly regarded provision for hearing impaired and deaf children at Overland LADN. Children's House maintained nursery school, whose headteacher is a trained audiologist, is offering specialist provision for this cohort from September 2018, easing any pressure on specialist deaf provision at Overland LADN. With capital investment from the Council, Children's House plan to develop a 24 place assessment and learning environment, including deaf children, which will be fully operational in 2019 and playing a key role in developing a more robust system for deaf and hearing impaired children than currently exists, helping with consistently earlier diagnosis and intervention prior to statutory schooling.

In the longer term, as early years provision is such an important area for the new administration, planning is underway for an Early Years Summit, which will help to define a clear vision for early years in the borough, as well as a process to identify and address the key barriers for the development of affordable childcare locally. Priority areas for development will cover:

- Sector Growth: The IEYS service has funding and expertise to support all childcare providers to enhance both the quantity and quality of their services and to facilitate new providers.
- Affordability: There will be a focus on affordability, such as enabling both families and providers to maximise access to government-funded free hours, especially EL2 which gives 15 hours for 2-year-olds from low-

income families. The Council will explore options for supporting families with childcare costs, for example with the Mayor of London's promotion of low-cost loans to cover up-front term fees.

- Wrap-around and holiday childcare: Government guidelines for school-age children (Wrap-around and holiday childcare: responding to requests 26<sup>th</sup> May 2016) empower parents to request schools to provide services before and after the school day and outside term-time. The Council will seek to support schools in providing this service, including primary and nursery schools with childcare for children under 5.
- Special Needs: Early years childcare is particularly important for children with special needs and their families, helping them to socialise and develop their full potential before starting school. It is also a way for any undiagnosed needs to be identified and addressed at the first opportunity. For these reasons, the Council will continue to encourage parents to take up their entitlement to free childcare and additional support available to children with SEND, and will continue to support providers with the advice they need to identify and care for these children.

With a young and growing population and with a drive to support parents getting back into work, these will be priority activities for the Council.

### **3.13. Staffing issues**

There are currently 22 staff employed in the LADNs. As described above, there are under Ofsted requirements insufficient management staff to run three provisions and so additional capacity is being provided by one of the central EY teams.

Following requests from staff, opportunities for training and professional development support have been offered to enable suitably qualified staff to take up redeployment opportunities in other parts of the Council's IEYS workforce.

By closing the LADNs, the staff would have the opportunity to be offered VR or redundancy under the council's terms and conditions, which would not have been available if staff were TUPE'd to a new provider. Following TUPE, a new employer could immediately choose to restructure resulting in a worsening in staff terms and conditions.

### 3.14. Current LADN issues

- Child safeguarding: A recent safeguarding incident one of the LADNs led to Ofsted judging it as “Requires Improvement”, which restricts the number of children it can accommodate. A further incident at the same LADN was brought to light by a whistle-blower, and although outcomes of the investigation were inconclusive, there are still concerns.
- Staffing: The running of the LADNs is governed by Ofsted requirements and despite frequent attempts at recruitment there are insufficient senior staff and on-site management staff to run all three day childcare nurseries. The incidents described above have strengthened the case for additional capacity. Currently staffing is being supported by another team from the IEYS the Quality Advisory Team (QAT). The substantive role of the QAT is to work with the 87 childcare providers and 112 childminders across the borough to support the development of statutorily compliant and high quality childcare. Using this team to provide additional support and guidance as well as to challenge existing gaps in practice in the LADNs can only be an interim measure as it results in risks in other parts of the early years child care system, and it is planned to cease this support after August 2018. As discussed above, this is another example of how the LADNs are drawing on resources at the expense of other parts of the system.
- Premises: Mary Sambrook LADN requires an IT upgrade to bring it in line with LBTH standards and accessibility. We await details of costings and timelines from Agilisys following an initial estimate of £150,000.

### 3.15. Financial Analysis

See **Appendix A** for a detailed analysis of the costs and benefits of the main options.

The financial reasons impacting on the consideration of LADN closures are:

- Reduction in DSG received from Central Government.
- Introduction of the national Early Years Funding Formula restricting the maximum proportion of the DSG that could be centrally retained from 13% down to 7% and further down to 5%.
- Lack of available funding allocated by Schools Forum from DSG post August 2018 to fund LADN.
- High running costs of operating LADN in comparison to similar day nurseries run by the private and voluntary sector. The average annual cost

per place in the LADN is significantly higher than those in the private, voluntary and independent sector.

The LADNs' current operating costs amount to £1.66m (cost of operating the LADN in 2017/18) with a substantial amount (£953k) funded from DSG. From September there is no DSG funding available to continue supporting LADN operations in light of the Schools Forum decision to withhold funding on the basis that the current delivery does not represent value for money, which could be used more effectively elsewhere to the benefit of more children.

If the phased closure is adopted following consultation, there may be some cost reduction to be realised early, although this amount is insignificant. The early closure of Mary Sambrook could realise £9K whilst John Smiths may realise £4.5K. The real cost reduction of £1.66m would only be achieved once all three LADNs close. Otherwise the cost would have to be met within the council's General Fund once DSG funding stops. This would be new spending for the General Fund and would require alternative savings to be found from other services.

There would be some one-off costs associated with closing LADNs. 'Redundancy & Severance' would need to be paid to all eligible staff at the time of the final closure. We will support any staff affected into alternative employment, applying the Council's usual procedures.

Lastly, Children Services intends to increase the capacity of Children's House maintained nursery school in the event that it is necessary for them to take on deaf and hearing-impaired children currently attending the LADNs which would incur some capital cost for increasing space. No estimate is available yet.

The Do Nothing option would load costs onto the Council. It cost circa £1.66m to run the LADNs in 2017/18 whilst a budget of £953K funded by DSG was provided. In 2018/19, the Schools Forum only approved £542K funding from the DSG until August 2018. With similar activity and cost levels as 2017/18, Children Services will be heading for a deficit of £876K in 2018/19. The only way to continue operating the LADNs is for Children Services to fund it from its General Fund. We would need to find equivalent savings from other services.

The option of increasing fees was considered and this could be done with Cabinet approval. The annual process is to propose and explain the change as part of the Fees & Charges report which is approved by Cabinet in January for implementation in April. Outside of this, a report requesting a change can be presented at Cabinet. However, an increase in fees to the market rate

would need to be made alongside a number of other changes. There would also need to be a change of policy with regard to charging different rates according to the age of the child (under 2s cost more) for any child absence such as sickness, holidays etc. and for early morning and evening attendance. It is also likely that opening hours would need to be extended and standard session times offered, but there would still be a significant deficit.

### **3.16. Conclusion**

The Council is committed to supporting a thriving and diverse early years sector. The cessation of DSG funding to support the LADNs will have implications across the Council's early years services if the LADNs continue to run. The Council wants to ensure, within the context of reducing resources, that best use is made of the funding available and decisions are fair and equitable with regard to supporting the needs of approximately 22,000 children under the age of 5 years and their families in Tower Hamlets. This is a requirement under the Best Value duties, but it also is the right thing to do. To achieve this, the Council is proposing to stop the provision of early years childcare through the LADNs.

## **4. EQUALITIES IMPLICATIONS**

- 4.1 Information collected from the application process and through analysis of numbers of EL2 children show that families from a range of income brackets access the LADN provision. It is very likely that parents who pay for childcare would experience an increase in costs from the current rates which are below the local average. This could impact low-income families and those with young children, who are more likely to be women and / or from a BAME background. See Appendix B for a comparison of LADN and other provider costs for half- and full-day childcare, broken down by the age of the child and the family's circumstances.
- 4.2 EQIAs will be completed alongside a report on the outcome of consultations.
- 4.3 If the proposal is progressed, the intention would be to redeploy as many staff as possible within the Council, and a further EQIA will be carried out as part of the staff consultation.

## **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 The Council is not required to provide childcare services directly.

5.2 However, the Council does have a duty to ensure that there is sufficient childcare provided locally. This proposal preserves the quantity of childcare provision and seeks to increase it.

## **6. COMMENTS OF THE CHIEF FINANCE OFFICER**

6.1 DSG has been the main source of funding for LADN in the last four financial years. Based on the 2017/18 outturn, it costs circa £1.66m to run the LADNs.

6.2 The DSG funding of the LADNs has reduced significantly over the last 3 financial years in line with government constraints on the amounts local authorities are able to retain centrally: £2.057m in 2016/17, £953K in 2017/18 and £542K in 2018/19. With the decision taken by the Schools Forum to stop the funding of LADNs from the DSG, alternative funding have to be found if the LADNs are to continue operating.

6.3 There are other potential one-off costs associated with the option of closure of the LADNs which may include up to £553K in respect of redundancy severance and early retirement costs. Some of these costs will be avoided if staff are redeployed within other early years settings.

6.4 The capital investment necessary to expand provision at Children's House Nursery will need to be considered alongside the Council's other capital priorities and the funding available.

## **7. COMMENTS OF LEGAL SERVICES**

7.1. The proposal to undertake a consultation in respect of the closure of LADN nurseries is consistent with a number of general duties of the Council. The Childcare Act 2006 ("the 2006 Act") imposes a number of duties on local authorities, including to work with partners to improve the outcomes of all children up to five years of age and reduce inequalities between them. The Council must secure, so far as is reasonably practicable, that the provision of childcare (whether or not by them) is sufficient to meet the requirements of parents in their area who require childcare in order to enable them to work, or undertake education or training. The report sets out that the Council would continue to comply with these duties if a decision was taken to progress the proposal to close the nurseries following the consultation.

### ***Public Consultation***

7.2. There is no statutory duty to undertake a public consultation in relation to closure of a day nursery, however, a previous public consultation was carried out for the purposes of assessing the impact of the original proposal to identify

private providers to take over the nurseries that did not include the option of a phased closure that is now being proposed. A further consultation exercise is therefore required to ensure fairness in the decision making.

### ***Employment and Equality Considerations***

- 7.1. Changes to the staffing structure will require consultation and compliance with the Council's Handling Organisational Change procedure. The Council will need to consult with staff before applying any proposed changes to contracts, redundancies or redeployment to other services.
- 7.2. When deciding whether or not to proceed with these decisions Cabinet must also have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristics and those who do not (the public sector duty). An equality analysis is proposed to consider the impact on service users, as well as the impact on staff.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- None

#### **Appendices**

- A Financial analysis
- B Day childcare costs, April 2018

#### **Background Documents – Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2012**

- None

#### **Officer contact details for documents:**

- Christine McInnes, Divisional Director, Education & Partnerships  
[christine.mcinnnes@towerhamlets.gov.uk](mailto:christine.mcinnnes@towerhamlets.gov.uk) 020 7364 3114
- Jon Graham, Project Manager, Corporate Programme Office  
[jon.graham@towerhamlets.gov.uk](mailto:jon.graham@towerhamlets.gov.uk) 020 7364 2783

**Financial Analysis****1. Analysis of Options****1.1 Do nothing**

The premise of this option is for the status quo to be maintained i.e. Children Services to continue running the LADNs. Whilst this appear laudable, the reality is that there is no funding available to continue running the LADNs in its current form.

It cost circa £1.66m to run the LADNs in 2017/18 whilst a budget of £953K funded by DSG was provided. In 2018/19, the Schools Forum only approved £542K funding from the DSG until August 2018. With similar activity and cost levels as 2017/18, Children Services will be heading for a deficit of £876K in 2018/19. There is an opportunity cost in this option as equivalent savings would need to be found elsewhere in the Council's budgets and the chance to find capacity for service enhancements elsewhere in the IEYS would be reduced.

Table 1 below provides a financial breakdown of this option:

<b>Option - Do Nothing</b>						
		<b>2017/18</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2018/19</b>	
		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	
<b>Income funding stream</b>						
LBTH Budget funded via DSG	-£	953,140.14		-£	542,001.00	
Government Free Childcare Funding	-£	181,878.32		-£	136,408.74	
Cash & Childcare vouchers from parents	-£	142,446.69		-£	106,835.02	
			-£	1,277,465.15	-£	785,244.76
Employees	£	1,088,054.98		£	1,088,054.98	
Premises-Related Expenditure	£	48,938.44		£	48,938.44	
Supplies & Services	£	44,590.45		£	44,590.45	
Support Services	£	474,280.86		£	474,280.86	
Third Party Payments	£	5,538.00		£	5,538.00	
Transport-Related Expenditure	£	125.00		£	125.00	
			£	1,661,527.73	£	1,661,527.73
Deficit			£	<b>384,062.58</b>	£	<b>876,282.97</b>
Average weekly occupancy			<b>77</b>		<b>40</b>	
Average annual cost per place			£	<b>21,578.28</b>	£	<b>41,538.19</b>
Average weekly cost per place			£	<b>449.55</b>	£	<b>865.38</b>
Average daily cost per place			£	<b>89.91</b>	£	<b>173.08</b>

## 1.2 Phased closure of LADNs

This option involves the closure of all three LADNs adopting a phased approach to minimise the disruption. The children currently attending the LADNs will be referred to alternative provisions locally. Deaf and hearing-impaired children requiring specialist support will be referred to Children's House Nursery School.

The intention would be to close Mary Sambrook (MS) in August 2018 and the current children attending MS who are not placed elsewhere will be temporarily moved to Overland, John Smith or a nursery school according to parental choice.

- 1.3 John Smiths (JS) would be expected to close in December 2018 and the current children attending JS who are not placed elsewhere will be temporarily moved to Overland.
- 1.4 Overland would be expected to close by June 2019. Between January and June 2019, efforts will be made to find alternative nursery places locally for the children attending this day nursery. Deaf and hearing impaired children attending Overland will be referred to Children's House Nursery (a specialist day nursery able to cater for their needs).
- 1.5 Table 2 below shows the projected costs of the LADNs up to June 2019. The projected expenditure is based on 2017/18 outturn as it is assumed that the expenditure will be similar in 2018/19.

<b>Phased closure of LADN</b>						
	<b>2018/19</b>		<b>2018/19</b>		<b>2019/20 (3 months)</b>	
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Income funding stream</b>						
LBTH Budget funded via DSG	-£	542,001.00		£	-	
Government Free Childcare Funding	-£	136,408.74		-£	34,102.19	
Cash & Childcare vouchers from parents	-£	106,835.02		-£	26,708.75	
<i>Total Income</i>			-£	785,244.76		-£ 60,810.94
<b>Expenditure</b>						
Employees	£	1,088,054.98		£	272,013.75	
Premises-Related Expenditure	£	48,938.44		£	12,234.61	
Supplies & Services	£	44,590.45		£	11,147.61	
Support Services	£	474,280.86		£	118,570.22	
Third Party Payments	£	5,538.00		£	1,384.50	
Transport-Related Expenditure	£	125.00		£	31.25	
<i>Total Expenditure</i>			£	1,661,527.73		£ 415,381.93
Deficit			£	<b>876,282.97</b>		£ <b>354,570.99</b>

- 1.6 Based on the projections in table 2, a deficit of £1.23m is anticipated for 2018/19 and the first three months of 2019/20. The magnitude of the deficit is partly due to limited DSG funding of £542K approved by Schools Forum for 2018/19. It is likely that the numbers of children attending will reduce further in light of the closure so the income from parents and free care funding will reduce accordingly.
- 1.7 There is the likelihood of some potential cost reduction due to the phased closure of the LADNs. The 'Employee' cost estimate is the pro-rata cost from September 2018 – March 2019. This is unlikely to be realised as the consultation and changes to staffing may not conclude until the end of the financial year.
- 1.8 Cost reductions may be achieved for 'Premises-Related Expenditure' and 'Suppliers & Services' as these costs are directly controllable and the early closure of the LADN will mean these costs may not be incurred.
- 1.9 There is unlikely to be any cost reduction for 'Support Services' as a result of early closure of the LADN. The corporate landlord costs and directorate recharges are set at the beginning of the year so early closures would not necessarily release any cost reduction.

## **2. Long-term financial benefits of closure**

- 2.1. The closure of the LADNs should provide some long-term financial benefits. There is the avoidance of £1.66m which is the current LADN operating cost. This is crucial as DSG funding for LADN operations will no longer exist going forward. The closure will prevent Children Services having to find savings from other services in order to find the £1.66m required to fund LADNs.
- 2.2. The closure of LADNs would present LBTH with opportunities to use the vacated buildings for other purposes either saving on alternative accommodation costs or generating an income.

## **3. One-off financial costs**

- 3.1. The closure of LADNs will trigger some contractual obligation that needs to be met by LBTH. One of such obligations is the 'Redundancy & Severance' that may need to be paid to all eligible staff. All staffing changes would be subject to a consultation and redeployment process.
- 3.2. Lastly, Children Services intends to increase the capacity of Children's House Nursery School in order for them to take on deaf and hearing-impaired children

currently attending the LADNs. However costs relating to this have the potential to be met by capital funding, rather than being a revenue cost to the council.

<b>LADN</b>							
	Age of child	Free hour entitlement	Mornings or afternoons Hours of childcare per week	£ fee per week	Equivalent £ per hour	£ cost to parents per week	
	Under 2	0	25	72.50	2.90	72.50	
	2	0	25	72.50	2.90	72.50	
Low-income family	2	15	25	72.50	2.90	29.00	
Universal offer	3 or 4	15	25	72.50	2.90	29.00	
<b>Other nursery</b>							
	Age of child	Free hour entitlement	Mornings or afternoons Hours of childcare per week	£ fee per week	Equivalent £ per hour	£ cost to parents per week	£ up-front termly fees (13 weeks)
	Under 2	0	25	151.85	6.07	151.85	1,974.05
	2	0	25	122.29	4.89	122.29	1,589.77
Low-income family	2	15	25	142.50	5.70	57.00	741.00
Universal offer	3 or 4	15	25	142.50	5.70	57.00	741.00
<b>Childminder</b>							
	Age of child	Free hour entitlement	Mornings or afternoons Hours of childcare per week	£ fee per week	Equivalent £ per hour	£ cost to parents per week	
	Under 2	0	25	152.00	6.08	152.00	
	2	0	25	152.00	6.08	152.00	
Low-income family	2	15	25	152.00	6.08	60.80	
Universal offer	3 or 4	15	25	152.00	6.08	60.80	



Other factors which reduce the costs to parents accessing the LADNs include charging only one rate which is not varied for younger children or outside of core hours both of which are more expensive when using other providers, only paying for sessions used rather than paying in advance for an agreed length of time such as a term, flexible session times (i.e. 10am-2pm) rather than a standard morning or afternoon session.

Day childcare costs April 2018

50 hours per week

<b>LADN</b>							
			<b>Full day</b>				
	<b>Age of child</b>	<b>Free hour entitlement</b>	<b>Hours of childcare per week</b>	<b>£ fee per week</b>	<b>Equivalent £ per hour</b>	<b>£ cost to parents per week</b>	
	<b>Under 2</b>	0	50	145.00	2.90	145.00	
	<b>2</b>	0	50	145.00	2.90	145.00	
Low-income family	<b>2</b>	15	50	145.00	2.90	101.50	
Universal offer	<b>3 or 4</b>	15	50	145.00	2.90	101.50	
Working parents	<b>3 or 4</b>	30	50	145.00	2.90	58.00	
<b>Other nursery</b>							
			<b>Full day</b>				
	<b>Age of child</b>	<b>Free hour entitlement</b>	<b>Hours of childcare per week</b>	<b>£ fee per week</b>	<b>Equivalent £ per hour</b>	<b>£ cost to parents per week</b>	<b>£ up-front termly fees (13 weeks)</b>
	<b>Under 2</b>	0	50	303.70	6.07	303.70	3,948.10
	<b>2</b>	0	50	244.59	4.89	244.59	3,179.67
Low-income family	<b>2</b>	15	50	245.00	4.90	171.50	2,229.50
Universal offer	<b>3 or 4</b>	15	50	245.00	4.90	171.50	2,229.50
Working parents	<b>3 or 4</b>	30	50	245.00	4.90	98.00	1,274.00
<b>Childminder</b>							
			<b>Full day</b>				
	<b>Age of child</b>	<b>Free hour entitlement</b>	<b>Hours of childcare per week</b>	<b>£ fee per week</b>	<b>Equivalent £ per hour</b>	<b>£ cost to parents per week</b>	
	<b>Under 2</b>	0	50	304.00	6.08	304.00	
	<b>2</b>	0	50	304.00	6.08	304.00	
Low-income family	<b>2</b>	15	50	304.00	6.08	212.80	
Universal offer	<b>3 or 4</b>	15	50	304.00	6.08	212.80	
Working parents	<b>3 or 4</b>	30	50	304.00	6.08	121.60	

## Day childcare costs April 2018

### Notes

- a Source of figures** Weekly fees are taken from the Childcare Sufficiency Assessment. This uses data sourced by the LBTH Family Information Service from an annual review of childcare providers' prices
- b Calculations** The weekly fee is divided by the childcare hours to give the hourly rate  
The hours to be paid for by parents are the childcare hours minus the free entitlement  
The weekly cost to parents is the number of hours to be paid for multiplied by the hourly rate  
For PVI nurseries, the termly up-front cost is the weekly cost multiplied by 13 weeks
- c Out-of-term costs** 3- and 4-year-old children with working parents normally need childcare year-round. The 30 hours per week free childcare can be spread across a full year, at 22.8 hours per week, so that parents do not have to pay for a full 50 hours outside term times
- d Childcare element of Working Tax Credit** The amount available depends on the family income, working hours, benefits received and average weekly childcare cost

	<b>Rates (£ per week) 2018 to 2019</b>
Maximum eligible cost for 1 child	£175
Maximum eligible cost for 2 or more children	£300
Percentage of eligible costs covered	70%

- e Government funding** The amounts received by providers for free childcare used by families are:
- |                             | <b>Age of child</b> | <b>£ per free hour</b> |   |
|-----------------------------|---------------------|------------------------|---|
| Low-income family           | 2                   | 6.50                   | EL2   |
| Universal offer             | 3 or 4              | 6.30                   |   |
| Working parents             | 3 or 4              | 6.30                   |   |
| Disadvantaged children      | 3 or 4              | 0.53                   | additional EYPP for 10% of children                   |
| Children from deprived area | 3 or 4              | 0.50                   | additional deprivation supplement for 75% of children |