

**Manchester City Council
Report for Resolution**

Report to: Resources and Governance Scrutiny Committee – 22 June 2021
Children and Young People Scrutiny Committee – 23 June 2021
Executive – 30 June 2021

Subject: Early Years – Tendered Day-care settings

Report of: Strategic Director for Children and Education Services

Summary

The vision for all children in Manchester is that they are happy, safe, healthy and successful and that they are able to fulfill their potential through having the best possible start in life and accessing high quality education. Currently 97% of the 133 registered early years settings in the City are judged to be good or better and there are no inadequate settings. Ensuring that young children continue to access the highest quality early years provision has never been more important than now as we start to recover from the pandemic and recognise the impact that it has had on our youngest children.

This report outlines a set of proposals to support the continued provision of high quality Early Years settings across the City. The report specifically provides Executive with an overview of the impact of the current Early Years tendered day-care model (whereby providers offer day-care from a Council owned building), on the Council's duty to oversee sufficient day-care for preschool children across Manchester; the Early Years Budget and ongoing maintenance of Early Years buildings which remain part of the corporate estate.

All 56 buildings in the Early Years estate were in scope for this exercise. This includes 37 buildings which currently offer day-care in either stand alone buildings or in a shared site with a Children's Centre, in addition to play centres in parks and standalone Children Centre buildings. It is proposed that capital investment is required for 55 sites of these over the next 15 years to address the current condition of the buildings. In addition, a review for each site has been undertaken to ascertain if tendered day care is still the correct use of the building or if a different approach should be explored. In carrying out this review, all the current leases due to expire/ have expired/in need of a review due to the change in approach will need to be re-negotiated with the current provider. Improving the present condition of the buildings and changes to the arrangements of the tendering of day-care sites will ensure that going forward buildings are maintained to a high standard whilst at the same time sustaining the quality of settings and sufficient early years provision across the City.

Local Authorities under the Children Act 1989 have a duty to oversee 'day-care for preschool and other children as appropriate'. Subsequently whilst the closure of 17 daycare settings since 2015 has been successfully mitigated albeit creating a financial pressure due to loss of income from the building, there are 37 settings which are subject to these arrangements and the risk that other providers will withdraw from

Manchester. This potentially presents a significant risk to the Council’s ability to meet its sufficiency duty and increase further the financial pressure on the Early Years budget.

In addition, there are further issues this with model which include reputational damage to the Council especially where some buildings are not statutorily compliant, as parents/carers still associate these building as being part of the Council’s estate with the Council being responsible for poor upkeep. The loss of high-quality childcare providers to the City because they are unable to work to the original terms and conditions or afford to make the significant capital investment that some of these building may now require is also a risk.

Recommendations

The Resources and Governance Scrutiny Committee and the Children and Young People Scrutiny Committee are asked to note and comment on the report.

Executive are recommended to:

- 1.0 Note 17 of 37 leases have been surrendered since December 2015 and the potential impact on the council’s ability to meet its ‘sufficiency duty’.
- 2.0 Note the continued negative budget implications on the Early Years budget which continues even if the status quo is maintained.
- 3.0 Approve the recommendation for the use of each building moving forward.
- 4.0 Approve the re-negotiation of the current leases by corporate estates with day care providers, making clear the responsibility of the lease holder and the corporate landlord in the re-negotiated lease.
- 5.0 Support the proposal to include the Early Years estate portfolio in the Council’s future Asset Management Programme, at an estimated cost of £0.7m per year.
- 6.0 Approve a budget increase of £3m, funded by capital receipts, to fund the priority works.

Wards Affected: All

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Early Years childcare is essential to enable families to access employment opportunities.
A highly skilled city: world class and home grown talent sustaining the city’s economic success	The Early Years sector offers significant employment to support the Manchester economy.

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Early Years SSCC at hubs of the community offering opportunities to access local support when needed.
A liveable and low carbon city: a destination of choice to live, visit, work	The capital investment in the Early Years portfolio will allow the outdated buildings to be in line with modern building expectations.
A connected city: world class infrastructure and connectivity to drive growth	Early Years childcare at a local level allows families to connect with employment in the right location

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

In 2012, the Council took the decision to withdraw from the direct provision of day-care services in order to move to a new model, with the Council acting as commissioner of day-care services within Council owned building. The condition of the Manchester City Council estate for tendered day care is in a poor state, which is having an impact on the environment Manchester children are experiencing. The cost of maintaining the buildings is prohibitive with providers requesting that the Council takes responsibility for repair and maintenance of the property whereupon they would be willing to pay a higher market rent. Over the last 3 years the existing arrangement with providers has led to 17 settings withdrawing from the market. With lease income being lower than expected and running costs of maintained tendered day care sites being higher than budgeted for there is a £400k recurring pressure on the budget; with a risk this may increase should ‘provider income’ reduce further.

This report also sets out the financial support offered early years providers during the pandemic.

Financial Consequences – Capital

The proposals in this report would increase the capital budget by £3m, funded by capital receipts, for the priority works, and would widen the scope of the future Asset Management Programme to include the sites where the Council will have landlord responsibilities.

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1.0 Introduction

- 1.1 The vision for all children in Manchester is that they are happy, safe, healthy and successful and that they are able to fulfil their potential through having the best possible start in life and accessing high quality education. Over the last 6 years there has been a significant improvement in the quality of our Early Year settings and currently 97% of the 133 early years settings in the City are judged to be good or better and there are no inadequate settings. Early years day-care is provided across the City by 108 different private voluntary and independent providers (PVI) of which 25 providers operate 2 or more settings. The vast majority of these providers work with our Local Authority Quality Assurance team within Children and Education Directorate who provide support and challenge on practice, ensure that providers are meeting the City's priorities and are compliant with OFSTED requirements. Over the last year much of this support has focused on supporting the sector to respond to the pandemic.
- 1.2 During the pandemic Manchester's early years sector has been essential in continuing to make childcare provision available with the majority remaining open throughout. Although the number of children attending settings is increasing now, take up of childcare places throughout this year has been much lower than previous years even though during the most recent period of lockdown Early Years settings were allowed to remain open for all children. Feedback from our schools and settings is that the pandemic has particularly adversely impacted our youngest children and this will be a priority focus of our recovery plan. Consequently, ensuring that young children continue to access good and outstanding early years provision in high quality environments fit for purpose has never been more important than now.

2.0 Background

- 2.1 In 2012, the Council took the decision to withdraw from the direct provision of day-care services in Council owned buildings in order to move to a new model, with the Council acting as commissioner of day-care services. As a result of this decision, the Council entered into a tender exercise seeking day-care operators who would take leases of 37 properties across the City.
- 2.2 The opportunity to lease a building was determined following a competitive tender process with potential tenants submitting a bid outlining their preferred lease term, rental to be paid and their proposed capital investment into the building. All leases included a full repair and maintenance responsibility for the buildings.
- 2.3 Many providers when submitting their bids had assumed a level of income would be generated to cover their costs including maintaining the building based on the Early Years market at the time. Subsequently, the Government has introduced free early years provision for children aged 2, 3 and 4 but the rates of funding for this free entitlement has reduced the overall income for providers and also reduced the opportunity to income generate by offering additional hours particularly in the most deprived neighbourhoods in the City which has meant that many providers no longer have enough income to cover

unexpected costs associated with the building. Further to this, the impact of the pandemic has provided further financial challenges for day-care providers. In late 2015, the Council was approached by an operator who was experiencing financial difficulty due to several factors including the condition of the building, increased wage bills and other financial factors. A decision was taken to permit the early surrender of the lease with the building being subsequently re-tendered.

2.4 Following this initial surrender, there has been a further 16 leases surrendered with the reasons cited as:

- Building in poor condition
- Increased staff costs
- High utility costs
- High business rates
- Increased competition
- movement of 3 and 4 years old to Primary schools
- 2 year old funded places at DfE hourly rate
- Additional 15 hours for 3 and 4 years olds at DfE hourly rate

2.5 Each re-tender exercise takes approximately 5 – 6 months with the Council responsible for the property in the interim period, along with this, families with children displaced from the settings are required to seek alternative childcare provision.

2.6 The Council's approach when presented with a request to surrender has been until recently, to accept the surrender rather than seeking to work with the provider to explore whether a period of financial assistance may enable providers to remain within the property. The current position has been to work with the provider to consider different options in order to maintain the day-care places. However, this also impacts on the budget for the Early Years.

2.7 All day care sites that have not been re-tendered in the last three years are due for renewal of leases in the next 10 years. This will cover a total of 24 sites.

2.8 As part of an exercise commissioned to understand the risks and costs going forward, all 56 buildings within the Early Years portfolio have been subject to a condition survey to identify the structural condition of each site and the costs of addressing any issues. This includes 37 buildings which currently offer day-care in either stand alone buildings or in a shared site with a Children's Centre, in addition to play centres in parks and stand alone Children's Centre buildings. All buildings which are designated as a Sure Start Children's Centres will provide a core purpose which supports school readiness, delivery of health and wellbeing services, parenting skills and parenting aspirations.

3.0 Results of stock condition surveys

3.1 Through the completion of stock condition surveys of all settings, we now have a clear picture of the current condition of building within this portfolio. The current market capital rebuild value of the portfolio is £53 million. The condition

surveys have identified a capital investment requirement of £30 million over the next 15 years, more immediately the capital investment for the next 5 years would be £12 million. This is broken down into three spend priority groups;

- Priority 1 - Assets which have a strict legal statutory compliance.
- Priority 2 - Assets which are deemed to have a “business critical” impact – i.e. affect operation of the building or its functional use or increase reputational risks to the Council due to the overall condition.
- Priority 3 - Assets which could be deferred, low risk or non-critical to the Council.

3.2 Through prioritisation of group 1 and 2, the capital investment requirement over the next 15 years would be £13 million, with the more immediate capital requirement over the next 5 years of £5.2 million.

4.0 Review of early years buildings within the portfolio

4.1 Each site has been reviewed considering condition survey; ward sufficiency data; current lease arrangements; clawback funding with the DFE where the building is designated as a Children’s Centre and early years locality requirements for the building.

4.2 Input from colleagues in education, social care, early years, finance and procurement and corporate estates have recommended the following use of each building moving forward;

4.3 Lease re-negotiation – 24 sites. These building have been identified as required to support sufficiency and early years core purpose. All these sites are currently tendered by early years day-care providers. It is proposed that for these sites the Council will engage in renegotiation of the lease arrangements for these sites. Through this re-negotiation it will be made clear the responsibility of the lease holder and the landlord in maintaining the building. A clear asset management plan will be needed to oversee the maintenance of the site. A review of re-charges where the building is shared for early years core purpose will also be required. The lease re-negotiations will be with 13 different provider groups.

4.4 Removal from portfolio – 1 site – Fulmead has been transferred to housing and no longer in scope for this portfolio.

4.5 Sale of site – 2 sites – Scout Drive Children’s Centre is at an advanced stage of sale to the current lease holder and is currently progressing with corporate estates. Royal Green Children’s Centre is currently leased as a standalone building. Due to the significant capital investment required over the next 5-years, sale of the site to the current leaseholder should be explored. These sites do not incur de-designation or clawback as they are stand-alone sites.

4.6 Re-tender of site – 2 sites – Slade Lane Children’s Centre and South Gorton Sure Start Centre are currently vacant due to leases being surrendered in Spring 2020. Sufficiency assessments for each locality indicate both sites need

to be re-tendered to identify day-care providers under the same lease arrangements covered in 5.2.1.

- 4.7 Transfer to school – 1 site – Chorlton Darley Avenue will be transferred to Barlow Hall Primary School through a memorandum of understanding.
- 4.8 Continuation of current arrangement – 13 sites – These sites are currently used for core purpose only or are a school/college/alternative provision/Maintained Nursery School site. Current arrangements are sufficient at the present time, with the addition of capital investment from stock condition surveys needs to be kept in scope.
- 4.9 Current community asset transfer (CAT) in place – 3 sites – Buildings are currently used by community groups under CAT arrangements. Arrangements can continue but capital investment from stock condition surveys needs to be kept in scope.
- 4.10 Consideration of alternative use – 8 sites (4 shared sites with Children’s Centres which deliver core purpose). These sites are all currently empty with no tendered day care provision and sufficiency assessments in locality indicate they do not need to be re-tendered for day-care. Through discussions with partner agencies different options have been explored including a community asset transfer process. Decisions regarding the use of vacant Early Years buildings will consider whether there is sufficient supply of early learning places in the local area, alternative options for use of the building and the City Council’s strategic priorities. Options will be considered on a case by case basis to ensure the best use of the premises to support strategic aims and to enhance services for local children and their families. In the event that childcare sufficiency isn’t an issue, Early Years will look to allow alternative partners to use buildings. For example, the charity Manchester Thrive whose programmes promote good physical and mental health for families with a focus on prevention, have recently begun operating from Sharston Children’s Centre. Work is progressing with 2 local primary schools who are interested in using empty day-care spaces within other Children’s Centre buildings with the intention they will offer community/early years and out of school activities in the building alongside the Early Years commissioned outreach provider. Working in partnership with schools is seen as an opportunity to make the best use of the space available to deliver high quality provision which meets the needs of local children and their families.
- 4.11 Move Sure Start Children’s Centre designation – 1 site. Moss Side Sure Start Children’s Centre is currently leased by an early year's provider. The sites stock survey has indicated that £340k will need to be invested over the next 5 years. In addition, the stock condition survey indicates in years 5-10 a further £800k investment would be required. The DFE claw back for this site is 144K.
- 4.12 Given the significant capital investment required the proposal is to de-designate Moss Side SSCC and move the designation of this Centre to St Mary's CE Primary School. The school is adjacent to the SSCC and as the designated children’s centre site, we would make use of the school bungalow to deliver

some elements of core purpose, along with other community assets in the neighbourhood.

- 4.13 Moss Side SSCC is currently run and managed by Martenscroft Nursery School. The school has long established relationships and collaborative partnership working with a number of key stakeholders which include local schools, childcare settings, Power House library and Moss Side Leisure Centre. Children's centre core purpose has been successfully delivered from these sites and has given the opportunity to bring services and programmes together for families and young children to have access to integrated, easily accessible early years and family support. This proposal will also support closer and more strategic working with the head teacher at St Marys and school partners from the Heart of Manchester Partnership to ensure children are better prepared to start school.

Given the minimal impact of the proposals there is no duty to hold a statutory consultation, however if proposals are agreed we will ensure that families are kept informed and supported whilst the changes take place.

There is also a provider who is interested in using the vacated part of this building to deliver services for young people in Moss Side and who may be able to access the investment required for this building. Discussions will be had with the current daycare provider to determine a way forward taking account of the changes proposed.

5.0 Financial implications – revenue

- 5.1 Due to the number of leases being surrendered and properties re-tendered since 2015, there are several financial risks associated with the current day-care tender model. When a day-care site closes, clearly there is no income and the costs related to maintenance and utilities are covered by MCC, with a typical time period of 9-12 months from the point retendering commences to the site being re-occupied.
- 5.2 The cost of maintaining the buildings is prohibitive with providers requesting that the Council takes responsibility for repair and maintenance of the property whereupon they would be willing to pay a higher market rent. Over the last 3 years the existing arrangement with providers has led to 17 settings withdrawing from the market. With lease income being lower than expected and running costs of maintained tendered day care sites being higher than budgeted for there is a £400k recurring pressure on the budget; with a risk this may increase should 'provider income' reduce further.

6.0 Financial implications - capital

- 6.1 It is proposed that the sites for which, following lease renegotiation, the Council will have landlord responsibilities are included within the Council's existing Asset Management Programme, which provides ongoing maintenance funding for the Council's corporate estate. It is forecast that this will require an average capital investment of £0.7m per annum. This will be included in future budget requests

for the Asset Management Programme.

6.2 However, it is recognised that the priority 1 and 2 works should be undertaken urgently, given the risks associated with them. These works are not included in the existing Asset Management Programme.

6.3 It is therefore proposed that these works, expected to cost c. £3m, are progressed within the next 2 years, and therefore a budget increase of £3m funded from capital receipts is recommended.

7.0 Further actions

7.1 Through the process of stock condition surveys, it has been recommended in addition that asbestos site surveys should be completed. Asbestos surveys would need to be completed for all 55 buildings and the costs associated will need to be factored into the asset management plan.

7.2 Through the process of re-negotiating/re-tendering 26 sites, rent appraisals should be conducted to ascertain if the correct market value is being applied and if there should be a change to the current terms and condition of the lease. Proposals to improve the terms and conditions of the leases connected to the delivery of day-care will be made in consultation with day-care providers. Day-care providers have been notified in writing/by email of the proposals to revise the current lease arrangements with a view to making them fairer to lease holders. The revisions will make roles and responsibilities around repairs and maintenance of the buildings much clearer. A reference group of day-care contract and lease holders has been established to assist in, and inform, the review process which is being progressed via a task and finish group.

8.0 Support Provided to Early Years Settings During the Pandemic

8.1 As mentioned earlier in this report the pandemic has created additional financial challenges to the Early Years day-care sector. Early Years providers were able to furlough staff and claim a grant to help them to continue paying part of their employees' wages who would otherwise have been laid off during this pandemic. To mitigate some of the sector's financial pressures and to ensure that providers were able to continue to support children throughout the crisis, support through business rates relief, protecting early years funding levels and additional grants has been provided.

8.2 Business rate holiday was applied to nurseries in 2020/21. A discount to business rates will apply in 2021/22.

8.3 The early years sector experienced challenges throughout the first national lockdown where a number of providers temporarily closed during the coronavirus pandemic. The council provided funding to those providers that closed and additional funding where settings remained open, to provide care for vulnerable children and the children of critical workers.

8.4 During the autumn term in acknowledgment that funding arrangements for

many early years settings did not cover normal income levels due to fewer children attending, settings were funded on the basis of level of attendance prior to the pandemic.

- 8.5 Funding was offered to private, voluntary and independent sector where support for these providers were not covered by other grant schemes. £1.5m of the Additional Restrictions Grant was paid to the sector.

9.0 Conclusion

- 9.1 The continued provision of high quality sustainable Early Years day-care as part of our Early Years offer is a priority for the Council and is more important than ever in our recovery from the pandemic. Manchester has a number of high quality Early Years day-care providers operating in the City from Council owned buildings who are at risk due to the market not generating enough income for them to pay for the full maintenance of the building as initially intended and more recently due to financial challenges linked to the pandemic. This is also impacting on the Early Years budget which is covering the costs of empty building. We also know that some of these buildings now require significant capital investment and are in poor condition. This is particularly evident in the most deprived areas of the City where income generation for day-care providers is more limited. It is important that the Council therefore intervenes to protect and retain high quality day-care in the City. This paper contains a number of recommendations which if taken forward will support this priority.

10.0 Recommendations

Executive are recommended to:

1. Note 17 of 37 leases have been surrendered since December 2015 and the potential impact on the council's ability to meet its 'sufficiency duty'.
2. Note the continued negative budget implications on the Early Years budget which continues even if the status quo is maintained.
3. Approve the recommendation for the use of each building moving forward.
4. Approve the re-negotiation of the current leases by corporate estates with day care providers, making clear the responsibility of the lease holder and the corporate landlord in the re-negotiated lease.
5. Support the proposal to include the Early Years estate portfolio in the Council's future Asset Management Programme, at an estimated cost of £0.7m per year.
6. Approve a budget increase of £3m, funded by capital receipts, to fund the priority works.