

**National Assembly for Wales
Children, Young People and Education Committee Report:
School Funding in Wales
Welsh Government response**

Recommendation 1

That the Welsh Government commission an urgent review of how much funding is required to fund schools sufficiently in Wales, particularly given the level of reform currently being undertaken. The review should:

Consider, as its basis, what the basic minimum cost is of running a school and educating a child in Wales, before allocating additional resources required for other factors such as deprivation and sparsity and local circumstances; and provide an estimate of the current funding gap between the amount currently spent on schools and the amount required to deliver on all that is required of them - including the considerable reform agenda.

Recommendation – Accept

I agree that a review of this nature has merit. My officials, working with officials in local government, will start discussions with key stakeholders and experts to consider the scope of such a review. I will provide the Committee with a further update in due course.

Financial implications: The costs of any review will be met from existing budgets within the Education Main Expenditure Group (MEG).

Recommendation 2

That the allocation of spending across the Welsh Government’s budget should be balanced in favour of preventative spend. In doing so, the Welsh Government should keep under review the priority it gives to funding for local government and within that, the funding available for schools, in both its annual budget-setting process and in-year re-allocations of resources.

Recommendation - Accept

We fully recognise the importance of preventative spend and its potential to have a transformative impact on public services. Preventative spending remains an important consideration in the allocation of Welsh Government budgets.

Local government is at the forefront of delivering public services and is a priority area for the Welsh Government. We took steps last year to mitigate the reductions in local government funding and we are committed to provide the best possible outcome to local government from this year’s budget process.

Financial implications: None.

Recommendation 3

That the Welsh Government continue to keep under review the cost/rates of payment across maintained and non-maintained settings for childcare, early years education, and the childcare element of Flying Start. Particular attention should be given to increasing the consistency between the hourly rate paid for early years education and childcare and the pilot that has been established in Flintshire should inform this approach.

Recommendation – Accept

We continue to keep these rates under review and are in regular discussion with the childcare and education sectors. Working with Flintshire County Council we have recently piloted aligning the funding rates for Foundation Phase Nursery and childcare funded under the Childcare Offer for Wales. The evaluation of that pilot is due in the autumn. In addition, we have committed to review the rate for the childcare funded under the Childcare Offer ahead of September 2020. The provision of high quality, part-time childcare is integral to the Flying Start programme but the rates of payment made to childcare settings commissioned as part of the programme are not prescribed by the Welsh Government and are negotiated by each Local Authority.

Financial implications: The costs associated with this review are being met from existing programme budgets within the Education MEG.

Recommendation 4

That the Welsh Government consider how the allocation of resources for local authorities can be determined by a needs-based approach, rather than one based on historic methodology. Such a needs-based approach, when considering the education element of local government's overall funding, should start from the basis of considering how much it costs to educate a child (see recommendation 1) and applying indicators reflecting local circumstances such as deprivation and sparsity on top of that basic minimum cost.

Recommendation – Accept

The Education sub-group of the Distribution Sub-Group (DSG) are considering the potential for developing an alternative approach to the education formula within the local government settlement model. The theory behind this different distribution approach, would be based on building a formula up using unit cost measures for the main components of education spending.

The Education sub-group are currently at early stages of this project and are working with ADEW finance representatives to help with the work stream. The group are currently investigating a sub-set of recently reviewed local authorities' funding formulas, to derive a list of the determinants of the need to spend and the cost drivers of those determinants for schools. Once this list has been compiled, the

group will then have to agree the value/ratios ascribed to the cost drivers going forward. This will then be evaluated by ADEW and other key stakeholders to ensure they agree with the principles before investigating the full financial impact of these changes.

Due to the way in which the overall local government settlement funding formula is constructed, it is not possible to update the education part of the formula in isolation from the other areas (such as social care, transport and other services).

The work on the education part of the formula is, essentially, a pilot that will need to be tested thoroughly before the methodology is, potentially, rolled out to other areas and the overall formula updated. As the funding is unhypothecated the education component of the formula is not intended to set an Authority's education budget.

Financial implications: None.

Recommendation 5

That the Welsh Government monitor more closely the level of priority local authorities give to education in the way they set their budgets, in order to help ensure that process is more transparent and robust and to assure itself that sufficient funding is being provided to enable schools to improve and deliver on its reform agenda.

Recommendation – Accept

The local government settlement is unhypothecated meaning that it is up to authorities how they spend this funding according to local needs and priorities. The settlement funding formula takes account of the relative need for authorities to spend across all services, given the amount of funding available for distribution and the relative ability of authorities to raise income locally, through council tax.

The settlement formula makes an assessment of authorities' relative need to spend by calculating 'Standard Spending Assessments' (SSAs) across notional service areas known as Indicator Based Assessments (IBAs). The Wales total for each of these IBAs is set by looking at the total amount of funding available, adding an assumed element of council tax income and then apportioning across the notional services by using local authorities' budgeted and actual spend data, at a Wales level.

Each IBA is then distributed across the 22 authorities using formulae developed and agreed with local government through the Partnership Council for Wales and its Sub Groups.

Welsh Government publishes all the data on local government expenditure including schools in our statistical releases.

Local authorities are entirely responsible for determining how much funding is allocated to each individual school, and in line with their statutory function to provide appropriate education provision for all learners in Wales. Each Local Authority sets its own formula for funding schools in consultation with schools through their schools budget forum, and in line with the legislative framework provided by the School

Funding (Wales) Regulations 2010. The School Funding (Wales) Regulations 2010 provide the framework within which local authorities set their funding for schools.

The Regulations ensure consistency with the requirement for 70% of schools budgets to be set based on pupil numbers. Local authorities have discretion to distribute the remaining 30% on the basis of a range of factors so that they can take account of individual school circumstances. Local authorities must consult their schools budget forums and all schools in their area when setting a funding formula.

Additional factors or criteria such as the size and condition of buildings and grounds, rates, cleaning, school meals and milk, salaries, a school which has a split site, special educational needs of learners, and so on, may also be taken into account in the Local Authority formula. This can affect the amount of funding that each individual school receives.

Financial implications: None.

Recommendation 6

That the Welsh Government publish guidance to clarify the exact purpose of the Indicator Based Assessments (IBAs), including whether or not they are a guide to how much a local authority needs to spend on education to provide a standard level of school services

Recommendation – Accept

The purpose of the Indicator Based Assessments (IBAs) are clearly defined in the Green Book Publication: https://gov.wales/sites/default/files/publications/2019-06/welsh-local-government-revenue-settlement-green-book-2019-2020_0.pdf (paras 4 and 5 (top of page vii)).

Officials will continue to look at ways of clearly explaining the purpose and function of the IBAs working closely with the DSG.

Financial implications: None.

Recommendation 7

That the Welsh Government clarify why it publishes local authorities' expenditure on education directly alongside the Indicator Based Assessments (IBAs) in its annual statistical release, if IBAs are not to be regarded as spending targets.

Recommendation – Accept

I recognise that this may be confusing. The Chief Statistician will action this recommendation for future statistical releases.

Financial implications: None.

Recommendation 8

That the Welsh Government work with local authorities to balance how the principles of local decision-making and democratic accountability can be

upheld while achieving greater transparency, consistency and fairness in the way schools across different local authorities are funded.

Recommendation – Accept

We will continue to work with our middle tier and through the DSG to look at how we can collectively ensure there is greater transparency, consistency and fairness in the way schools are funded. This links closely with recommendations 4 and 5. However, there is a balance to be struck here, ultimately local authorities are responsible for determining how much funding is allocated to each school.

Financial implications: None.

Recommendation 9

That the Welsh Government review the operation of Section 52 budget statements, to ensure that the data submitted by local authorities is comparable and consistent. The Welsh Government should also ensure that Section 52 budget statements are more easily accessible.

Recommendation – Accept

Section 52 of the School Standards and Framework Act 1998 requires each Local Education Authority (LEA) to prepare a budget statement containing information on its planned expenditure on maintained schools. Currently we collect part 1 of the S52 return which is comparable and consistent. Every cell of this is data collection at both the budget and outturn stage is published to StatsWales and is easily accessible.

We will review part 2 and 3 of the section 52 Regulations to consider if there is a way of providing a more consistent approach to collecting the data.

Financial implications: None.

Recommendation 10

That the Welsh Government keep under review the balance it strikes between providing hypothecated funding for specific objectives, and the funding it provides local government to finance schools' core budgets. The Welsh Government should also regularly assess the value for money of allocating such funding.

Recommendation – Accept

Any new funding made available is allocated on a case-by-case basis, to ensure the most appropriate delivery mechanism is used. However, if funding comes through late then timing does not always allow for this. Teachers' pay is a live example of this, UK Government agreed to provide the funding in September, which was too late for the money to go into the RSG it therefore had to go through a grant to local authorities in the first instance.

I am always keen to provide funding through the Education MEG to deliver specific initiatives, such as the work we are doing on ITE and embedding the Digital

Competence framework (DCF) across the school curriculum. The DCF funding for example, based on regional needs, is designed to provide our learners with high level digital skills in line with Our National Mission. Whether this is developing resources, cluster training or action research to develop case studies. Another example is the Initial Teacher Education Programme.

There are also other considerations, such as whether the funding is a one-off, or a very specific distribution that would not lend itself to a distribution formula through the settlement. I am clear that grant funding should be there to support specific initiatives. Grants come with clear terms and conditions, sets of expectations and clear outcomes.

Financial implications: None.

Recommendation 11

That the Welsh Government put mechanisms in place to ensure that grant funding is provided to schools as early as possible in the financial year. If such funding cannot be provided earlier in the financial year, the Welsh Government should build in greater flexibility within the relevant grant conditions for how and/or when schools are able to spend it.

Recommendation – Accept

We will continue to work to provide grant funding allocations as early as possible. However much is dependent on final budget decisions and timelines. Grant funding must be spent during the financial year.

Financial implications: None.

Recommendation 12

That the Welsh Government provide an update on its work with local authorities to investigate the reasons for the high levels of reserves, and whether those have been adequately tested, and publish any findings from its investigations. In particular, the update should highlight any work undertaken in relation to the 501 schools holding reserves above the statutory thresholds, including any possible local authority intervention.

Recommendation – Accept

The School Funding (Wales) 2010 regulations specifies that a local authority's 'scheme for financing schools' should prescribe for a statement from the governing body on what they plan to do with a surplus school budget which exceeds 5% of the school budget share or £10k, whichever is greater.

It also provides authorities with the ability to take certain specific action when school surpluses reach certain levels. When surpluses are £50,000 or more in a primary school, £100,000 or more in a secondary school or special school, authorities will be able to direct schools to spend balances. If the governing body does not comply with the direction, the amount could be clawed back with the proceeds applied to the authority's Schools Budget.

Schools with surpluses should be subject to ongoing monitoring by local authorities to ensure that approved plans to spend their balances are delivered and within the timescales agreed with the authority. Through ADEW we will continue to work with local authorities to ensure this remains a priority. We will monitor the position and challenge those local authorities that are not effectively managing this.

Financial implications: None.

Recommendation 13

That the Welsh Government review the statutory powers available to local authorities under the School Funding (Wales) Regulations 2010 to establish if they are fit for purpose. In doing so, the Welsh Government should, in particular, investigate if the powers give adequate flexibility for local authorities to reallocate effectively any money they recover. Any review undertaken should also consider whether the thresholds of reserves should be a relative percentage of a school's budget rather than an absolute figure, to account for different schools' sizes.

Recommendation – Accept

The School Funding (Wales) Regulations 2010 provide the framework within which local authorities set their funding for schools.

The Regulations ensure consistency with the requirement for 70% of schools budgets to be set based on pupil numbers. Local authorities have discretion to distribute the remaining 30% on the basis of a range of factors so that they can take account of individual school circumstances. Local authorities must consult their schools budget forums and all schools in their area when setting a funding formula.

Additional factors or criteria such as the size and condition of buildings and grounds, rates, cleaning, school meals and milk, salaries, a school which has a split site, special educational needs of learners, and so on, may also be taken into account in the Local Authority formula. This can affect the amount of funding that each individual school receives.

We will look at the School funding (Wales) Regulations, working with key stakeholders to explore how these can be strengthened.

Financial implications: None.

Recommendation 14

That the Welsh Government continue to work closely with local authorities to address cases where schools have deficit budgets, particularly where there is no recovery plan in place.

Recommendation – Accept

The existing School funding (Wales) Regulations 2010 sets out that local authorities must have recovery plans in place, to manage school deficits. We will however

continue to work with local authorities and local government to explore the effective management of school deficits.

Local authorities should closely monitor school budgets to ensure that no school receives more than it needs, that expenditure is efficient and effective and that deficits are planned and managed properly. Local authorities must challenge schools with significant reserves to determine how they have arisen and to what purpose schools intend to use them.

I continue to challenge both regional consortia and local authorities with regard to ensuring that as much money as possible reaches the front line of our education system in to individual schools. I am always open to discussions as to how best we can ensure that more money makes it into our schools.

Ultimately, however, school funding is the responsibility of local authorities and it is up to them how they spend this funding.

Financial implications: None.

Recommendation 15

That the Welsh Government consider how it can take forward the long-standing aim of providing schools with three-year budgets, in the context of three-year funding settlements for local authorities, in order to enable schools to plan more effectively for the long-term. In doing so, the Welsh Government should factor in the trade-off between the benefits of long-term projections and the accuracy and certainty of those long-term budget allocations.

Recommendation – Accept

We start this year with our current revenue settlement not extending beyond the current year, 2019-20, and a capital budget only until 2020-21. Having confidently stated that it would set budgets for three years through a Comprehensive Spending Review, the UK Government conducted a ‘fast-tracked’ one year spending round on 4 September, with a multi-year Spending Review to be carried out in 2020. This is a clear demonstration of the UK Government failing to provide the stability and certainty public services need. As a Government we will continue to call for long term financial planning for our schools.

We recognise – and are sympathetic to – the calls from our public sector partners for budgeting over a longer period whenever possible in order to support forward financial planning. Every Local Authority should have a medium-term financial plan using a range of sensible scenarios.

I continue to call for longer term financial planning. It is always our ambition to provide long-term clarity over budgets, whenever possible. However, this must be balanced with realistic and sensible planning assumptions. The UK Government’s austerity agenda coupled with the uncertainty regarding Brexit constrains our ability to do this.

Financial implications: None.

Recommendation 16

That the Welsh Government undertake work to communicate and explain clearly the respective roles of local authorities and regional consortia in providing education services, specifically services to schools. In doing so, the Welsh Government should consider how this can be taken forward within the work of the middle tier group led by Professor Dylan Jones.

Recommendation – Accept

Through the work of the evaluation and improvement group we are continuing to define and clarify the roles of the middle tier. This will feed into the work of Professor Dylan Jones' group and I will continue to keep the committee updated.

It is a shared endeavour that sees regional consortia working on behalf of local authorities to lead, orchestrate and coordinate the improvement in the performance of schools and education of young people. Together, they play a central role in delivering our ambition of a self-improving education system and continuing to promote and facilitate improved outcomes for all learners.

Financial implications: None.

Recommendation 17

That the Welsh Government urgently investigate what the £11 million budgeted by local authorities for school improvement is spent on, compared to the £11 million that local authorities pay the regional consortia for their school improvement services.

Recommendation – Accept

We will continue to work closely with local authorities, regional consortia and the WLGA to clarify the budgets for school improvement. We monitor the spend of local authorities and regional consortia on school improvement through the terms and conditions of grants and will continue to do so as we move forward. In education there isn't an exhaustive list of functions that are carried out by local authorities.

In the main, there are general duties for school improvement. However, the National Model for Regional Working does describe what activities we expect to be carried out regionally. Crucially, though, the funding and agreement for the delivery of these services are determined within each regional Business Plan that is agreed by each of the joint committees.

My officials have already started work to look at the level of funding local authorities and regional consortia delegate to schools and what is provided as core contributions. We will continue to keep the committee updated.

Financial implications: None.

Recommendation 18

That the Welsh Government work with local authorities and the consortia to ensure there is no duplication and inefficient use of resources when funding is allocated for school improvement.

Recommendation – Accept

I am absolutely clear that the regional consortia are not an additional layer in the system. In the most efficient cases, consortia support and work closely in partnership with local authorities and in the most efficient arrangements there is limited duplication and roles and responsibilities of the local authorities and Consortia are clearly communicated.

The leadership of the local authorities sit on the joint committee with the regional education consortia to ensure good governance and effective delivery. Local authorities retain statutory accountability for school improvement, together with the responsibility for the exercise of statutory powers of intervention and organisation of schools.

The regional consortia provide the school improvement activities on behalf of the local authorities and are accountable through their governance models for the delivery of the agreed priorities within the Business Plans.

It is clear that we have to work collectively to find additional ways in which we can avoid duplication and get more money to the front line. I will continue to challenge our middle tier, this includes local authorities to ensure that they are not hanging on to budgets that should be delegated to our schools.

Financial implications: None.

Recommendation 19

That the Welsh Government monitor the extent to which local authorities and regional consortia delegate funding directly to schools. In doing so, it should be recognised that some services are delivered more effectively and efficiently centrally.

Recommendation – Accept

We will continue to monitor the extent to which local authorities and regional consortia delegate funding directly to schools to ensure it is effective and efficient. This will also be considered as part of the scope of the review of school funding, set out in recommendation 1.

Financial implications: None.

Recommendation 20

That the Welsh Government investigate the effect of schools “buying back” services from local authorities, to ensure that the published delegation rates accurately reflect the level of funding which is genuinely delegated for a school’s core activity.

Recommendation – Accept

The level of buy back in some local authorities is of concern. I will continue to work with local authorities to look at this and how it is reported. This will also be considered as part of the scoping work in accepting recommendation 1.

Financial implications: None.

Recommendation 21

That the Welsh Government closely monitor delegation rates for its own hypothecated education grants to ensure the money is finding its way to the front line, for the purposes intended.

Recommendation – Accept

This will be picked up as part of the work on taking forward Recommendation 17.

Financial implications: None.