

Report of the Enterprise and Learning Committee

Arrangements for school funding in Wales

Introduction

1.

The Committee commenced an inquiry into arrangements for school funding in Wales in November 2007. The aim of the inquiry was to consider progress made in implementing the recommendations in the report of the Committee on School Funding in the second Assembly.

During the period of the inquiry, we took oral evidence from, amongst others, the Minister for Education, Lifelong Learning and Skills, the Wales Audit Office and Estyn, Her Majesty's Inspectorate of Education and Training in Wales. We also undertook a consultation, seeking the recent experience of stakeholders at all levels in Wales.

The second Assembly's Committee on School Funding, a time-limited committee established to consider the "transparency, objectivity and fairness of the way in which education funding is distributed" in Wales reported on 14 June 2006 and made 27 recommendations, 25 of which were to the then Assembly Government. A full list of the recommendations of the second Assembly's Committee on School Funding is included at Annex A to this report.

The Government's response to the report (accepting 23 of the 25 recommendations) was made on 19 September 2006. The second Assembly's Education, Lifelong Learning and Skills Committee considered an update on progress on 7 December 2006.

The inquiry

2.1 We scrutinised the Minister for Education, Lifelong Learning and Skills ("the Minister") on the progress made in implementing the recommendations at our meeting on 21 November 2007.

2.2 We felt that whilst progress had been made in some areas, like the introduction of three-year funding, little progress had been made in others and we decided to seek the views of practitioners in the field on this issue. We conducted a consultation (between December 2007 and February 2008) to consider the views of stakeholders, seeking evidence on progress made in key areas since the publication of the School Funding Committee's report.

2.3 The Assembly Government had commissioned a report from Heriot-Watt University ('The Bramley Review') to look at the deprivation and sparsity factors within the existing funding formula and specifically whether the current formula could be less reliant on historical spending. The report had been issued in November 2007. We held a meeting with one of the review report's authors, Professor Bramley via video link and discussed a number of areas of

concern. Additionally, Professor Bramley responded in writing to a number of specific issues.

2.4 We then considered evidence from key organisations – the Wales Audit Office and Estyn, Her Majesty’s Inspectorate of Education and Training in Wales. Both gave evidence at the meeting on 12 March 2008.

The evidence-gathering was completed by a second scrutiny session with the Minister on 12 March 2008.

Key areas

3.

Having considered all the evidence, we considered the key areas of concern to focus around:

- **Effective information** – guidance, comparability and availability
- **The effective use of funding**
- **The effectiveness of School budget fora**
- **The quality of school buildings, specifically toilets**

We noted that whilst the availability of good quality information was key to aiding transparency, the issue of effective expenditure was fundamental to an effective education service.

Effective information

4.

- *WHERE SOME OF THE FUNDING FOG HAS LIFTED IT IS STILL FAR TOO DENSE
– consultation response*

4.1 Almost all respondents to the consultation, which included the teaching unions, local authorities, school budget fora and the Welsh Local Government Association (WLGA), felt that the funding process is not transparent and is difficult to understand.

Amongst the responses we received, issues considered important to aid transparency included:

- meaningful, comparative statistical data at a national and local level;
- clear and understandable information on the funding process;
- a central portal for a range of funding information

4.2 In evidence, the Wales Audit Office (WAO) highlighted a number of areas where they felt that Assembly Government guidance to authorities for completion of returns was not clear enough. Local authorities made legitimately different assessments of how to report planned expenditure and, as a consequence, published data was of limited use for comparability purposes.

We discussed the specific case of financial reporting standard 17, or FRS 17, which is concerned with the way in which pension liabilities are reported. The WAO reported that although local authorities are obliged to adopt this

convention when reporting their outturn expenditure (the figures audited by the WAO) — authorities are not obliged to do so in reporting their budget statements. The WAO noted that 10 authorities complied with FRS 17 this year, and 13 did so in 2006-07. We were concerned by the WAO's observation that the way authorities choose to report can be enough to adjust the net education budget either above or below the indicator-based assessment (the IBA). The WAO stated that "Given that the IBA figure was used almost as a target last year that is undoubtedly a contributory factor as to why some authorities have reverted from using FRS 17 to not using it in 2007-08".

4.3 We noted that whilst the Assembly Government had issued revised guidance to authorities, the WAO remained of the view that further improvements could be made to improve the consistency of published data, noting that "inconsistent compliance with accounting standards means that education budgets cannot be compared on a like-for-like basis"

4.4 In terms of comparable reporting of capital expenditure, the WAO noted that Capital Expenditure charged to the Revenue Account (CERA) distorts the comparisons of net education budgets and of expenditure on schools. The WAO noted that some authorities use capital finance to pay for repairs and maintenance of school buildings. In such cases, this expenditure would not appear on the Revenue Account (RA) form. In other authorities, the WAO reported that this type of expenditure is charged to the revenue account and is recorded in Line 6 of the RA form. We were concerned with the WAO's observation that both approaches to the reporting of an authority's planned expenditure on repairs and maintenance are valid and consistent with RA Guidance. These different approaches clearly impact on the comparability of published data.

The WAO went on to note that comparisons between total expenditure on education in general and on schools in particular have limited validity when the authorities concerned use different conventions for the reporting of this type of expenditure. The WAO suggested that the issue could be resolved by insisting on a common approach to the reporting of local authority expenditure on repairs and maintenance, or by adapting the RA Form so that it shows CERA separately from other planned expenditure reported in Line 6.

The WAO also noted that charges to the education budget for corporate services can distort the net education budget and its comparison with the education IBA. The WAO noted that "It is possible for councils to increase their spending on education relative to IBA by increasing the corporate charges to the education budget".

We note the WAO view that the differing ways authorities deal with corporate charges could be made clearer simply by requiring authorities to report corporate charges separately within Line 14 of the RA Form.

4.5 We recognise that authorities may, quite legitimately, make different assessments of how to report planned expenditure but consider that wherever possible, published data should be comparable across authorities and

Assembly Government guidance should aid this goal. Where this is not possible, clear footnotes in published tables should state this.

4.6 Capital expenditure and asset management

In the area of transparency of information on capital expenditure, we noted one consultation response which stated that capital funding streams were not always clearly identifiable. In this context, we consider that clarity of information is crucial in terms of stakeholders being aware of the various roles played by central and local government.

4.7 We felt that whilst ultimate responsibility lies with local government to deliver school buildings that are fit-for-purpose, there was strength behind the argument that each county council's asset management plan should be published, and readily accessible, to aid such transparency. We noted the Minister's statement in terms of capital funding that "We have to open this up much more to ensure robust engagement at the local level by parents, governors and schools."

During the scrutiny session with the Minister in November, she acknowledged that local authorities' asset management plans should be publicly available and undertook to explore the issue with the WLGA.

4.8 The grant process

We received evidence that some stakeholders' experience of the grant process was that it was "complex" and "disproportionately time consuming". One school forum noted that in some cases, "unrealistic deadlines prevent proper consultation".

The WLGA noted that there were too many small grants in the education sector and suggested a more streamlined and coherent approach was needed. The WLGA suggest that increased support from the Assembly Government for local authorities on how to access and maximise the available funding could make the process clearer.

We noted that there remained strength of feeling that the grant process was cumbersome and recognised the difficulties that a less-than-efficient grant system could have on authorities and schools.

We noted that the Assembly Government has a grant protocol with the WLGA and we were pleased to note the Minister's statement that "in terms of reviewing grants during 2008, we will be looking at the issue of administrative burden, and bureaucratic bidding mechanisms, in order to help money get to the learner."

4.9 Dedicated web-pages

During both her scrutiny sessions, the Minister provided an update on the development of a dedicated school funding area on the Assembly Government's website. After a disappointing delay to the original timetable, we were reassured that the pages would be available in early 2008.

We recognise that, amongst the wide range of interested parties, the complexity of education funding can add to the perception of a funding fog but we also recognise the potential offered by the development of the dedicated school funding web pages.

5. The effective use of funding

5.1 In their written evidence, Estyn, Her Majesty's Inspectorate of Education and Training in Wales noted that "Generally, the strategic leadership of school reorganisation across Wales is weak".

5.2 In discussion, Estyn noted that, in terms of local authorities expenditure on buildings and accommodation, existing funds are not managed effectively. They noted that in an environment of falling school rolls, they would expect authorities to look not only at their school estate, but at all council buildings and plan appropriately.

5.3 On the issue of asset management, Estyn further noted that the best instances they saw "are where the education plans link in with the wider asset management plans of the local authority, so that the amenities and resources in an area are considered for the benefit of learners, citizens and communities in the wider sense of the word".

Estyn also noted that "in some areas, you have the surplus places in small schools managed by making schools more community focussed, and by having a one-stop shop, where you might have health facilities in the same building as the school, as well as youth facilities and broader community facilities".

5.4 However, Estyn did note a positive impact in cases where schools had appointed bursars or finance officers, noting that in these cases, they were seeing "better, more effective use of the funding available to schools"

5.5 We consider that the effective use of expenditure is of paramount importance and feel that Estyn, as Her Majesty's Inspectorate, provided us with compelling evidence of areas for significant improvement which could have a direct impact on the resources available for education.

5.6 During scrutiny, the Minister noted that one of the conclusions of the Bramley review was that "there is a direct and measurable relationship between school resources and pupil attainment", particularly at a secondary school level. The Minister also noted that the key points that came out of the Bramley review were that the most important drivers of educational attainment are poverty and special educational needs.

The Minister went on to state that she will consider, with the Local Government Minister, how the evidence from Professor Bramley's report is taken forward with local government.

We noted, with some disappointment, the Minister's advice that any adjustments to the funding system as a result of recommendations in the

Bramley review would take a considerable time to implement, particularly in the light of the Minister's acceptance that the recommendations would bring about "a radical change in school funding". We remain concerned for the equality of opportunity for those school children whose educational prospects are limited by the delay in implementation of such recommendations.

We would wish to consider the Minister's conclusions and proposals based on this evidence at the earliest opportunity.

6. The Effectiveness of School budget fora

6.1 In terms of the consultation, we received broad support for the principle of schools fora, although a number of concerns were raised about the membership and function of fora generally.

Some respondents felt that schools fora provided a valuable function. Others noted that their effectiveness varied between authorities whilst other respondents focussed their attention on the composition of fora. Responses from teaching unions called for a compulsory presence for a union representative on fora. Governors Wales noted that governing bodies are responsible for the overall management of school budgets and noted that, on occasion, governors tend to be under represented on fora.

A number of respondents felt the effectiveness of fora could be improved by a defined role and membership, and increased transparency. Without a defined role, there was a perception that they could become talking shops. One forum suggested that there may be merit in an all-Wales forum.

6.2 During scrutiny, the Minister recognised the important role of schools fora in improving the dialogue and understanding between schools and local authorities on school budget matters. The Assembly Government are reviewing the role and responsibilities of schools fora, and, in evidence, the Minister noted that "we will look at whether we need to make any changes in regulations in relation to fora as a result of the review". We will scrutinise the Minister on her proposals as a result of this review.

7. The quality of school buildings

7.1 In evidence, Estyn referred to the link between good school buildings and positive learning, saying that, in their view, shortcomings in school accommodation were having a direct impact on the wellbeing of learners.

7.2 Estyn are shortly to publish a report on healthy living which will state that toilets were criticised in 54 per cent of their inspection reports on primary schools. Estyn noted that the issue of the quality of school toilets had been a continuing concern in their annual reports for several years. We were concerned that the issues surrounding health, hygiene and safety in school toilets, raised by the Children's Commissioner in his 2004 report "Lifting the Lid on the nation's school toilets" and repeatedly raised by Estyn in their annual reports, remain issues of concern in 2008.

We would wish to see evidence of improvement in the cleanliness, hygiene and safety of all school toilets as a matter of urgency.

8. Committee recommendations

Where possible, the Committee's recommendations are cross-referenced with the recommendations of, and the Welsh Assembly Government's response to, the Second Assembly's Committee on School Funding.

The Committee:

(i) **recommends** that, in the light of evidence from the Wales Audit Office, the Assembly Government considers further revising guidance and/or regulations in respect of section 52 returns and revenue account (RA) forms. [This recommendation refers to previous recommendations 9 and 10]

(ii) **recommends** that the Assembly Government ensures that the school funding area of the website, currently under development, is clearly advertised by the Assembly Government to parents; teachers; governors and school fora etc [refers to response to previous recommendation 11];

(iii) **recommends** that the school funding area of the website include a section on capital funding aimed at providing local authorities and other stakeholders with information on national initiatives and links to local decision-making [refers to response to previous recommendation 11]; .

(iv) **recommends** that the Assembly Government actively seeks feedback from all stakeholders on the content, currency, and usefulness of the school funding area of the website and acts on that feedback [refers to response to previous recommendation 11];

(v) **invites** the Minister to present her proposals for action to the Committee (at an appropriate time) in respect of the Bramley report's conclusions [refers to response to previous recommendation 2];

(vi) **recommends** that the Assembly Government should review the role of bursars and finance officers and consider producing best practice guidance to be shared amongst all stakeholders [a new recommendation, not based on previous recommendations];

(vii) **recommends** that the Assembly Government issues guidance to local authorities to ensure that education asset management plans are considered as part of wider authority asset management plans [a new recommendation, not based on previous recommendations];

(viii) **recommends** that the Assembly Government undertakes an immediate survey of all schools to establish the current state of pupils' toilets; and publishes a report on their condition [a new recommendation, not based on previous recommendations];

(ix) **recommends** that, on completion of the survey and publication of a report on the condition of school toilets, the Assembly Government takes urgent action with local authorities to make any necessary improvements [a new recommendation, not based on previous recommendations];

(x) **recommends** that the Minister ensures that all authorities' asset management plans are published, are monitored and are *accessible* [a new recommendation, not based on previous recommendations];

ANNEX A

School Funding Committee's (2nd Assembly) Recommendations *

*** Recommendations from the report published in June 2006:**

1. We recommend that the Assembly Government should investigate the reason for differences in funding between the key stages, in particular for Year 6 and Year 7 pupils and report to the ELLS committee.
2. We recommend that the Assembly Government should immediately set in train a review of the weight given to factors such as transportation, sparsity and deprivation in allocating education resources within the local government settlement, to ensure that weightings are based on objective need.
3. The Committee fully supports the Wales Audit Office recommendation to the Assembly Government that there should be a review of whether eligibility for free school meals represents the best indicator of deprivation and recommends that it be implemented as soon as possible
4. To improve transparency and budget scrutiny, we recommend that the Assembly Government should make arrangements to permit relevant committees to scrutinise the local government finance budget as part of the annual budget setting procedure
5. We recommend that the Assembly Government should immediately set in train a review of the local government distribution formula so that the education element is based on the current and future costs of providing education services rather than on historic costs
6. We recommend that the Assembly Government should commission detailed research on the effect that variations in funding have on pupil attainment after taking account of other variables such as deprivation and sparsity.
7. We recommend, in line with the Wales Audit Office's recommendation, that the Assembly Government should require all local authorities to issue concise annual summaries to schools in their area, showing the factors that have led to changes in school budgets
8. We recommend that the Assembly Government should issue guidance to local authorities to ensure that these annual budget summaries are

comparable across local government boundaries and that clear, consistent audit trails are set up and monitored

9. We recommend that the Assembly Government should issue a single set of unequivocal guidance to authorities on completion of Section 52 budget statements to ensure consistency of reporting

10. We recommend that, in reviewing the “RA” accounting return, the Assembly Government should ensure that it becomes easier to compare across authorities the proportion of education funding spent directly on education and on central and other administration services

11. Irrespective of any other changes, we recommend that the Government should work closely with local government to improve schools’ understanding of the funding process and funding streams.

12. We recommend that the Assembly Government requires authorities to prioritise in their distribution formulae the provision of targeted support to the most deprived schools in their area, and demonstrate this in the proposed schools budgets reported to the Assembly Government.

13. We recommend that the Assembly Government should publish, at the lowest level of disaggregation possible, meaningful comparisons of education spending in Wales, the other nations and regions of the UK and internationally and that it should work with other parts of Government to increase the level of detail available

14. We recommend that the Minister for Education, Lifelong Learning and Skills should, at the timing of receipt, inform the ELLS Committee of any education-related Barnett consequential funding that is received by the Assembly Government

15. We recommend that the Assembly Government should establish and publish minimum common basic funding requirements for school staffing, accommodation and equipment and that this information should be used to benchmark and inform decision-making at national and local levels on school funding. The Assembly Minister for Education and Lifelong Learning should report regularly to the ELL committee on progress towards establishing a minimum common basis funding requirement for schools.

16. We recommend that the Assembly Government should require authorities to report annually on any difference between the funding they allocate to schools and the minimum common basic funding requirement published by the Assembly Government.

17. We recommend that the Minister for Education, Lifelong Learning and Skills and the Minister for Local Government and Public Services should work closely with those local authorities who are funding schools below the minimum common basic funding requirement, to ensure that funding is brought up to this level within an agreed timescale. Until a minimum common

basic funding requirement can be established, education IBA's should be used as a target indicator.

18. We recommend that the Minister for Education, Lifelong Learning and Skills should report regularly to the ELLS Committee on the progress made by local authorities in meeting the minimum common funding requirement for schools or in the interim their education IBA target.

19. We recommend that the Assembly Government should avoid initiating unsustainable policy actions through short-term specific grant programmes and should aim to provide longer-term funding (in alignment with the three-year budgeting proposals) to allow better financial planning by schools

20. The Assembly Government should ensure that the benefits of new grant schemes and streams of funding are not compromised by excessively onerous and bureaucratic bidding mechanisms.

21. To help schools plan, we recommend that when new grant schemes are implemented, the Assembly Government prepares a report on its sustainability and on an exit strategy for each scheme as part of the guidance to authorities on the continuation of schemes.

22. We recommend that the Assembly Government considers amending the guidance on local education authority funding formulae to ensure greater consistency across Wales and to dampen year to year changes in funding arising from variation in pupil numbers

23. We recommend that an evaluation of the function and responsibilities of school budget fora is undertaken by the Assembly Government with a view to improving the communication between authorities and schools

24. We recommend that 3-year budgets for schools should be introduced as a priority

25. We recommend that the Assembly Government should require authorities to report annually on their adherence to the budget-setting timetable and that this information is reported annually to the ELLS committee

26. We recommend that the Assembly Government should require that funding allocated to authorities for capital purposes is fully utilised on education capital spending and should consider making available additional resources if it remains committed to its target to make all schools fit for purpose by 2010

27. We recommend that the ELLS Committee and the LGPS Committee's should follow up progress in responding to our recommendations, initially, within 6 months of the Government's initial response.
