



# Research Briefing

## A quick guide to school funding

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Author: **Michael Dauncey**  
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National Assembly for Wales  
Research Service

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Author: **Michael Dauncey**

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## Contact Us

**Research Service**  
**National Assembly for Wales**  
**Tŷ Hywel**  
**Cardiff Bay**  
**Cardiff**  
**CF99 1NA**

 : 0300 200 6293

 : [Michael.Dauncey@Assembly.Wales](mailto:Michael.Dauncey@Assembly.Wales)

 : [Assembly.Wales/InBrief](http://Assembly.Wales/InBrief)

 : [@SeneddResearch](https://twitter.com/SeneddResearch)

 : [Assembly.Wales/Research](http://Assembly.Wales/Research)

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## Research Briefing

# **A quick guide to school funding**

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This Research Briefing explains how funding is allocated to schools. The Welsh Government provides money for schools through the local government settlement. Local authorities decide how much to spend on education, according to their own priorities and local circumstances, and then allocate budgets to individual schools. This paper includes some statistics on current and recent school funding levels, as well as commentary of the policy context.

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# 1. Introduction

Funding for school budgets has been a stated priority for the Welsh Government since Carwyn Jones became First Minister in late 2009. In the Fourth Assembly, the Welsh Government had a policy of protecting school budgets at a level of one percentage point higher than the change in the Welsh block grant. The new Welsh Government has said it will invest an additional £100 million on school improvement during the Fifth Assembly.

In Wales, maintained (ie state funded rather than independent/private) schools are funded by local authorities rather than directly by government. This means that general funding for schools comes from the Welsh Government's local government budget, rather than its education budget.

In 2016-17, local authorities have budgeted £2.519 billion for expenditure on schools. This paper explains the process for allocating money to individual schools and expenditure on school services centrally provided by local authorities.

## 2. Process for setting school budgets

The large majority of funding for pre-16 provision<sup>1</sup> in maintained schools comes from the Welsh Government's local government budget, specifically through the Revenue Support Grant.

There are several stages to the process for setting school budgets.

- Firstly, the Welsh Government provides each local authority with its **Revenue Support Grant**. Each local authority uses this to fund the range of services it provides, including education.
- Secondly, local authorities set **three tiers of education budget**, one of which is the money that is given directly (delegated) to schools.
- Thirdly, the local authority sets the **individual budget for each school** it maintains.

A school's headteacher and governing body are responsible for organising how the school spends its delegated funding.

On top of the budget each school receives from their local authority, the Welsh Government uses a number of funding streams from its education budget to support the implementation of certain policies and priorities (eg the Education Improvement Grant) or target additional funding, for example the **Pupil Deprivation Grant** and the **Schools Challenge Cymru** programme.

### Local Government Revenue Support Grant

The Revenue Support Grant (RSG) is allocated to local authorities to deliver the services for which they are responsible, using a commonly agreed formula. The other main sources of funding for local authority education budgets are council tax income and non-domestic rates income.

The amount of RSG each local authority in Wales receives is announced annually in the **Local Government Settlement**. This is **un-hypothecated**, meaning that the amount of money within the RSG that local authorities should use to provide individual budgets to schools is not stipulated. However, the Welsh Government does include in the settlement **an Indicator-Based Assessment (IBA)** for each service area, which is a notional calculation of the money each Council needs to spend to provide a standard level of service. The Welsh Government says **IBAs are not spending targets** and it is for each local authority to determine its own spending priorities from its overall funding allocation and what it can raise from council tax<sup>2</sup>.

In 2016-17, the Welsh Government has given local authorities a total of £4.102 billion (£4,101,551,000) of un-hypothecated funding through the RSG. This is a **1.3% decrease** (£54 million) from 2015-16, after adjusting for transfers into the settlement, meaning local authorities have less money to provide their services. Within this context, they were asked by the Welsh Government to pass on the 1% protection for school budgets.

Although the vast majority of local government resource (revenue) funding is un-hypothecated, there remain some specific grants<sup>3</sup> which the Welsh Government pays to local authorities for a specific purpose. These have reduced in number over recent years as part of an agreed approach between the

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<sup>1</sup> Funding for post-16 provision in schools is by specific grant from the Welsh Government.

<sup>2</sup> Welsh Government website, **Standard Spending Assessments** [accessed July 2016]

<sup>3</sup> These grants are listed in Table 9 of the Local Government Settlement **Excel tables** available on the Welsh Government's website.

Welsh Government and Welsh Local Government Association (WLGA) of a general move towards less hypothecation of funding.

## Local authorities' education budgets

Following receipt of their settlement allocation from the Welsh Government, local authorities set budgets for the services for which they are responsible, including education, according to **local needs and priorities**.

Under the provisions of the *School Standards and Framework Act 1998*, the Welsh Government sets the legal framework within which local authorities allocate their education expenditure to schools. This framework is set out in the *School Funding (Wales) Regulations 2010*, as amended. The regulations require local authorities to allocate expenditure to the following **three budgets**, the first two of which are retained and administered centrally by local authorities.

- The **Local Authority Education Budget**<sup>4</sup> is for central local authority functions relating to education. This includes expenditure on schools, for example some Additional Learning Needs (ALN)<sup>5</sup> provision, school improvement, school transport and strategic management. These elements are included in the school expenditure referred to in Tables 1-3 in section 3 of this paper. However, the local authority budget also includes other education expenditure such as further education and training for young persons and adults, college transport, youth services and non-school strategic management.
- The **Schools Budget** covers expenditure which is directly aimed at supporting schools. It comprises expenditure on services for which the local authority may retain funding centrally, such as other ALN funding, school meals and milk.
- The amount of expenditure retained centrally is deducted from the Schools Budget and the remainder makes up the **Individual Schools Budget (ISB)**, ie funding delegated to schools. The proportion of gross budgeted expenditure on schools that comprises the ISB is known as the delegation rate. (The ISB does not include any hypothecated grant funding from the Welsh Government's education budget or elsewhere, although such grant forms part of an individual school's overall delegated budget.)

## Individual Schools Budget (ISB)

The *School Funding (Wales) Regulations 2010* specify that the ISB must be allocated amongst schools maintained by the authority in the form of budget shares, using a locally determined funding formula. The regulations require that **70 per cent of the funding must be distributed on the basis of pupil numbers**. In their formula, local authorities may weight pupil numbers according to any or all of the following factors:

- age, including weighting according to key stage or year group;
- whether a pupil is provided with nursery education by a school;
- in the case of pupils under five, their exact age when admitted to school;

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<sup>4</sup> The actual term in legislation is 'Non-schools Education Budget', as it refers to funding that is not delegated directly to schools. However, it is commonly known as the Local Authority Budget and was formerly called the LEA Budget. The term 'local authority' has been **used instead** of 'local education authority' since 5 May 2010.

<sup>5</sup> The term 'Additional Learning Needs' is used relatively interchangeably with 'Special Educational Needs' which, until future planned legislation replaces it with ALN, is the legally defined term.

- in the case of pupils aged under five, hours of attendance;
- Special Educational Needs;
- whether a pupil at a school is also attending an institution within the Further Education sector;
- whether a pupil is being educated through the medium of Welsh.

Local authorities have **discretion to distribute the remaining 30 per cent** of funding on the basis of a range of factors in the regulations, eg the size and condition of buildings and grounds, rates, utility costs, cleaning, and salaries etc.

The *Schools Forum (Wales) Regulations 2003* require every local authority to have a local schools forum (also known as a **schools budget forum**). Local authorities are required to consult their schools forum annually on matters relating to their Schools Budget and changes to their Scheme for Financing Schools (see below). They can also consult their forums on other matters concerning the funding of schools, for example the financial implications of arrangements for free school meals, arrangements for insurance and arrangements for the use of pupil referral units and the education of children otherwise than at school.

Each local authority must have a **Scheme for Financing Schools** which sets out the financial relationship between the authority and the schools within its area. It contains requirements relating to financial management and associated issues and may specify where responsibilities on certain issues lie. The scheme should state the responsibilities of the head teacher and governing body in respect of the annual budget plan. The first formal budget plan of each financial year must be approved by the governing body. The Welsh Government issued *Supplementary guidance on schemes for financing schools* in 2002.

### 3. School funding levels in 2016-17

The Welsh Government publishes annual statistics on the amount of money local authorities allocate to expenditure on schools. The latest edition, *Local authority budgeted expenditure on schools 2016-17*, was released on 7 July 2016.

These statistics also contain details of the 'Delegation rate', the proportion of budgeted gross budgeted expenditure on schools that local authorities gives directly to schools themselves.

#### Gross budgeted expenditure

Table 1 shows how much local authorities have allocated for expenditure on schools in recent years. In financial year 2016-17, **£2.519 billion** (£2,518,768,000) gross is budgeted by local authorities for expenditure on schools.

- The 2016-17 level is **0.9% higher than in 2015-16**.
- However, it is **0.36% lower than its peak in 2014-15**.
- The amount allocated by local authorities in 2016-17 is **1.99% higher than in 2011-12**.

**Table 1: All-Wales local authority gross budgeted expenditure on schools**

	<i>£ Billion</i>
	Gross Budgeted Expenditure on schools
2016-17	2.519
2015-16	2.496
2014-15	2.528
2013-14	2.520
2012-13	2.495
2011-12	2.470
2010-11	2.458

Source: Welsh Government, Statistical Bulletin: *Local authority budgeted expenditure on schools* (several annual editions)

Notes:

- Covers all elements of local authority spending that relate to school provision, ie the school budget (including the ISB) plus the elements of the local authority education budget that relate to schools: ALN provision; school improvement; access to education; school transport; strategic management of schools; and other expenditure. The figures include the cost of educating pupils with statements of special educational needs who are educated out of county.
- Figures are on a 'gross' basis, i.e. including funding from all sources.

**Table 2: All-Wales per pupil local authority gross budgeted expenditure on schools**

	£
	<u>Per Pupil Gross Budgeted Expenditure on schools</u>
2016-17	5,570
2015-16	5,526
2014-15	5,607
2013-14	5,594
2012-13	5,520
2011-12	5,451
2010-11	5,418

Source: Welsh Government, Statistical Bulletin: [Local authority budgeted expenditure on schools](#) (several annual editions)

Notes:

- iii) Covers all elements of local authority spending that relate to school provision, ie the school budget (including the ISB) plus the elements of the local authority education budget that relate to schools: ALN provision; school improvement; access to education; school transport; strategic management of schools; and other expenditure. The figures include the cost of educating pupils with statements of special educational needs who are educated out of county.
- iv) Figures are on a 'gross' basis, i.e. including funding from all sources.

The Welsh Government publishes data on [StatsWales](#) giving the following breakdown in 2016-17:

- The **Local Authority Education Budget** (elements relating to schools): **£244 million** (£243,512,000) [Note there is also £58 million budgeted for non-school expenditure such as further education and training, and youth services.]
- The **Schools budget** (minus the ISB): **£152 million** (£151,937,000)
- **Individual Schools Budget (ISB): £2.123 billion** (£2,123,319,000)

## Delegation rate

The delegation rate represents the proportion of gross budgeted expenditure which comprises the Individual Schools Budget (ISB), ie money which is provided to schools themselves.

In 2016-17, on average across Wales, **84.3%** of local authorities' gross schools budgeted expenditure was delegated to schools themselves. This compares to 83.8% in 2015-16 and 75.0% in 2010-11.

In 2012-13, the Welsh Government made a commitment for local authorities to delegate 85% of all school funding directly to schools by 2014-15. Table 3 shows the rise in delegation rates over recent years.

**Table 3: All-Wales proportion of gross budgeted schools expenditure delegated to schools (delegation rate)**

	<u>Delegation rate</u>
2016-17	84.3%
2015-16	83.8%
2014-15	82.9%
2013-14	82.3%
2012-13	81.0%
2011-12	76.2%
2010-11	75.0%

Source: Welsh Government, Statistical Bulletin: **Local authority budgeted expenditure on schools** (several annual editions)

Notes:

- i) The delegation rate is calculated by dividing the amounts delegated to schools by the gross schools budgeted expenditure.
- ii) Delegation rates will vary based on the services provided centrally by local authorities. The statistical bulletin gives the delegation rate for each local authority.

Whilst it has reduced over recent years as a proportion of expenditure on schools, a substantial amount of money is still held and spent centrally by local authorities; **£395million in 2016-17**. Local authorities decide some services are best provided centrally by themselves for reasons of efficiency, economies of scale or because they are specialised or essentially central services.

On **27 January 2016** (PDF 460KB), the Fourth Assembly's Children, Young People and Education Committee asked the previous Minister for Education and Skills, Huw Lewis, about the **balance between delegated school funding and resources that local authorities control centrally**.

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*[322] Simon Thomas: (...) have you seen the need to retain some element of central and regional funding in order to support your priorities?*

*[323] Huw Lewis: Yes, most definitely, and most particularly in Wales, actually. I think we've got a number of large rural authorities in particular that, if left to direct funding for schools, those schools would find themselves in desperate straits almost immediately—within the first financial year. For schools in Gwynedd, Powys, Ceredigion and Pembrokeshire, school transport alone would cripple the budget. So, we do need that community of interest around schools, and we can argue then politically about how far it should extend.*

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## Local authority level data

The data the Welsh Government provides in the annual statistical release and on StatsWales is broken down by local authority. This is presented below in Table 4.

**Table 4: Local authority gross budgeted expenditure on schools and delegation rate**

	2014-15			2015-16			2016-17		
	Gross (£Million)	Per Pupil (£)	Delegation Rate (%)	Gross (£Million)	Per Pupil (£)	Delegation Rate (%)	Gross (£Million)	Per Pupil (£)	Delegation Rate (%)
Isle of Anglesey	57.325	6,184	81.8	56.140	6,058	82.8	56.475	6,077	83.1
Gwynedd	99.079	6,019	82.9	98.106	5,963	83.3	97.898	5,947	83.4
Conwy	92.957	6,010	83.6	91.796	5,942	84.2	92.167	5,960	84.8
Denbighshire	87.611	5,749	85.3	85.799	5,628	86.3	86.799	5,713	86.0
Flintshire	124.369	5,424	81.3	121.110	5,300	83.4	119.971	5,252	86.0
Wrexham	101.281	5,440	84.5	100.967	5,381	84.9	102.769	5,460	84.8
Powys	108.762	5,880	76.8	105.995	5,887	78.9	104.989	5,933	78.0
Ceredigion	59.589	6,302	78.7	59.513	6,322	78.2	59.580	6,349	78.0
Pembrokeshire	101.065	5,712	84.7	99.591	5,710	85.3	99.012	5,760	85.8
Carmarthenshire	152.757	5,693	83.6	151.534	5,630	83.5	151.837	5,637	83.4
Swansea	182.058	5,414	83.1	175.930	5,176	83.6	176.409	5,126	84.8
Neath Port Talbot	107.674	5,536	83.2	107.665	5,503	83.1	111.906	5,674	81.0
Bridgend	121.794	5,395	82.2	119.742	5,254	84.2	120.281	5,240	85.5
Vale of Glamorgan	109.520	5,145	85.9	109.059	5,083	85.8	109.105	5,051	87.2
Cardiff	273.404	5,468	85.6	277.908	5,475	86.6	288.422	5,604	88.2
Rhondda Cynon Taf	215.143	5,523	82.8	213.577	5,505	82.8	215.010	5,585	82.8
Merthyr Tydfil	48.634	5,722	85.1	48.019	5,795	84.9	48.879	5,723	86.1
Caerphilly	153.474	5,563	80.4	152.342	5,507	81.0	152.186	5,576	82.2
Blaenau Gwent	55.403	6,216	85.4	55.124	6,241	85.4	55.283	6,327	85.3
Torfaen	83.504	5,719	80.2	78.802	5,466	84.0	79.492	5,537	83.4
Monmouthshire	66.907	5,915	80.4	64.251	5,675	82.3	63.410	5,602	82.0
Newport	125.450	5,331	82.2	122.604	5,131	84.5	126.886	5,282	85.4
<b>Wales</b>	<b>2,527.761</b>	<b>5,607</b>	<b>82.9</b>	<b>2,495.573</b>	<b>5,526</b>	<b>83.8</b>	<b>2,518.768</b>	<b>5,570</b>	<b>84.3</b>

Source: Welsh Government, Statistical Bulletin: [Local authority budgeted expenditure on schools](#) (several annual editions)

Notes:

- i) Gross figure cover all elements of local authority spending that relate to school provision, ie the school budget (including the ISB) plus the elements of the local authority education budget that relate to schools: ALN provision; school improvement; access to education; school transport; strategic management of schools; and other expenditure. The figures include the cost of educating pupils with statements of special educational needs who are educated out of county. They are also on a 'gross' basis, ie including funding from all sources.
- ii) Changes in gross budgets between 2014-15 and 2015-16 are not wholly comparable due to the movement of Flying Start expenditure from Education to Social Services in 2015-16.
- iii) The delegation rate is calculated by dividing the amounts delegated to schools by the gross schools budgeted expenditure. Delegation rates vary based on the services provided centrally by local authorities.

## 4. Policy context

### Protection of school budgets in the Fourth Assembly

In the Fourth Assembly (2011-2016), the Welsh Government had a Programme for Government commitment to protect school budgets. This was to increase spending on Wales' schools by at least **one percentage point higher than the change in the total amount of money coming from Westminster** for devolved functions (the Welsh Government, the National Assembly for Wales, Wales Audit Office etc), known as 'the Welsh block'.

Following scrutiny of the issue and calls for greater transparency, the Welsh Government provided an explanation of its approach to the '1% school budget protection' policy in the **narrative to the Draft Budget 2015-16 (Annex E)** (PDF 1.32MB). An update was then given by the **paper submitted by the then Minister for Education and Skills, Huw Lewis** (PDF 1.20MB), to the Children, Young People and Education Committee for scrutiny of the 2016-2017 draft budget in January 2016 (paras 95-101).

The Welsh Government reported the changes in the Welsh block and in schools budgets between 2010-11 and 2015-16, as well as the **average annual growth** during the period. This showed that the Welsh Government's budget grew by **0.02%** on average each year between 2010-11 and 2015-16. It also stated that funding for budgets which 'directly or indirectly support learners in school settings' rose on average each year by **1.02%**.<sup>6</sup>

The Welsh Government stated this resulted in an **additional £106 million for schools between 2010-11 and 2015-16**. £72 million of this was channelled through the local government settlement and £34 million of it came from education budget lines.

In the information he provided to the Committee in January 2016, the then Minister said that funding for schools was increasing by 1.85% in 2016-17, compared to 2015-16. This is one percentage point above the change in the Welsh block which is 0.85% in 2016-17. The then Minister reported this has resulted in an additional **£40 million for schools in 2016-17**. £35 million of this went through the local government settlement and £5 million of it was identified from education budget lines.

### Prospects for school funding in the Fifth Assembly

Welsh Labour's education manifesto for the 2016 Assembly election, ***Ambitious and Learning*** (PDF 1.84MB), pledged an **additional £100 million over the next Assembly term** (2016-2021) for improving school standards. Investing in the school improvement agenda will therefore continue to be a priority for the new Welsh Government.

**Raising standards across the board** through incentivising, recognising and promoting teaching excellence is one of the nine education **priorities** underpinning the Assembly's Welsh Liberal Democrat Member, Kirsty Williams' appointment as Cabinet Secretary for Education. Kirsty Williams told the **Children, Young People and Education Committee on 13 July 2016**:

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<sup>6</sup> The Welsh Government reported the outcome of its policy in terms of average annual growth in budgets over the 2010-11 to 2015-16 period, rather than changes between each individual year.

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*I recognise that many of the building blocks have been put in train to raise standards of education and training. I truly believe that Welsh education is on the up, but I acknowledge that there is much more to do. **We need to increase the pace of improvement and change.** There are challenging times ahead, but I look forward to that challenge. [my emphasis]*

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In the exchange of **letters between her and the First Minister**, published following her appointment to the Cabinet, Kirsty Williams indicated she expects additional money from outside the current education budget to deliver what they agreed.

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*I have emphasised in our discussions that a number of these priorities have **significant budget implications and will need to be reflected** as the Government's forward budget plans take shape. [my emphasis]*

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One of these priorities is to **reduce infant class sizes** from 30 to 25, which the Welsh Liberal Democrats' manifesto costed at £42 million during the Fifth Assembly. The First Minister was asked in **Plenary on 8 June 2016** if additional resources would be allocated to reduce infant class sizes or whether the estimated £42 million required would come from the £100 million that he pledged to invest in improving school standards. He answered:

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*'No, the commitment can be met outside the £100 million pot.'*

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The Welsh Government will publish its **2017-18 draft budget this autumn**. This should shed more light on how it intends to allocate the first portion of the £100 million for school standards; whether as in the Fourth Assembly, it will be through a combination of funding in the Revenue Support Grant for local authorities to finance school budgets as well as education budget streams that support learners in schools.