

## **Finance Committee**

**FIN(3)-01-10 paper 2**

**Inquiry into Funding Post 16, Further and Higher Education -  
Evidence from the Welsh Local Government Association**



# National Assembly for Wales Finance Committee

Inquiry into funding post-16, further  
and higher education  
January 2010



WLGA • CLILC

## **Introduction**

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities, the three fire and rescue authorities, and four police authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.
3. The WLGA welcomes the opportunity to submit evidence to the National Assembly Finance Committee for the inquiry into funding for post-16 education in Wales. This response has been produced in partnership with the Association of Directors of Education in Wales (ADEW), their sub-group the ADEW Finance Group and in consultation with the Society of Welsh Treasurer (SWT).
4. In presenting local government views on post-16 funding this paper will: summarise the process through which pre and post-16 learning is funded within local government, examine the current financial pressures facing education and post-16 learning and finally identify key areas of concern.

## **Background**

5. There are three million citizens living in Wales – 570,000 are under sixteen, 630,000 are retired and 1.8 million are of working age<sup>1</sup>. They are served by the twenty two local authorities and three fire authorities, which between them provide a wide range of statutory and non statutory services. In expenditure terms the principal area is education followed closely by social services, waste management and housing support.
6. The aim of local government in delivering education and lifelong learning services in Wales is to enable citizens to fulfil their potential as individuals, to equip them to

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<sup>1</sup> Mid Year population estimates, 2007, Stats Wales website

contribute effectively to vibrant sustainable communities and to help them create a prosperous and confident society. During a time of economic recession there is more demand than ever for these services and if Wales is to emerge successfully from the current recession, then it will need a highly skilled and highly trained workforce to take advantage of the opportunities during the economic recovery. Wales has suffered traditionally from lower levels of GDP than other parts of the UK, closely linked to lower levels of skills and productivity. As the demand for highly skilled labour increases, investment in training and education can help create and sustain future employment and contribute to higher levels of GDP. In addition, better educational outcomes also deliver benefits in other public policy areas with potential improvements in health, crime rates and other socio-economic indices.

7. Local authorities are responsible for planning and delivering education for children and young people in partnership with schools, governing bodies, children and young people's partnerships, the further education sector and the Welsh Assembly Government. The education service works together with other agencies such as social services to provide comprehensive services for children with special needs and looked after children. The service also contributes to economic and social well-being, with a particular focus on deprivation and child poverty, and is a key component of the *One Wales Learning for Life* programme.
8. In 2008/09 there were a total of 28 nursery schools, 1,478 primary schools, 223 secondary schools and 44 special schools maintained by local authorities in Wales. Together these schools catered for a total of 444,298 full-time pupils across the country being taught by 27,702 teachers. The average gross schools expenditure per pupil in Wales for 2009/10 is £5, 212 with between 70% and 83% of that funding being delegated to schools. In the secondary sector the average delegated gross individual school budget (ISB) for the secondary sector is £4,119 compared to £3, 577 in the primary sector and £16, 014 for special schools.
9. Of the 223 secondary schools in Wales, as the table shows, 169 of these cater for years 12 and 13 which are post statutory school age. This number has remained fairly constant over the last 10 years.

<b>No. of Secondary Schools in Wales 08/09</b>	<b>223</b>
<b>No. of Pupils in Secondary Schools in Wales 08/09</b>	<b>167,294</b>
<b>No. of Secondary Schools with years 12 and 13 08/09</b>	<b>169</b>
<b>No. of Pupils in years 12 and 13 08/09</b>	<b>18,062</b>

10. In addition to provision in schools in 2008/09 there were 44,135 learners taking part in local authority adult community learning in Wales. As part of the Welsh Assembly Government's Transformation policy local authorities in Wales were asked last year to form a recognised adult and community learning partnerships to effectively plan ACL. These partnerships would bring all providers of ACL together, including FE, HE and local authorities to build on existing relationships and harmonise services.

### **Local Government Education Funding**

11. The majority of local government revenue funding is provided by the Welsh Assembly Government (WAG) through the Rate Support Grant (RSG). Local government also receives funding through a large unhypothecated grant – the Performance Improvement Grant – along with a wide range of other specific grants that are in the main service related. Local government funding is supplemented by revenue raised by individual authorities through the Council Tax but this forms a relatively small part of authorities' total revenue. Finally, post-16 learning is funded by a specific grant through the National Planning and Funding System (NPFS). The NPFS was derived from the 1999 Education and Training Action Plan (ETAP) and was developed to standardise and rationalise the planning and funding of post-16 learning. The intention was that it should focus on the needs of learners rather than institutions and reflect learning activity or learner volume.

12. Local government's capital funding is derived from WAG in the same way with a general capital allocation in the form of an unhypothecated capital grant and specific capital grants that are service focused. In addition, authorities receive unhypothecated revenue support for capital borrowing.
13. The funding of local authority education services and schools is set within this context with the core funding for pre-16 education being provided through the RSG and post-16 training and learning, various national strategies and other policy initiatives being funded through specific grant. It is also worth noting that there are elements within the Performance Improvement Grant and the Deprivation Grant that relate to education and children's services.
14. This approach to the funding of education, and local government services as a whole, is based on a longstanding consensus between the WLGA and WAG. There is a fundamental and shared understanding between local and central government in Wales that local government is best placed to decide on how resources are allocated and services are delivered locally, within the context of the strategic direction set by WAG. At its simplest, this philosophical approach can be summed up as WAG setting the strategy nationally and local authorities delivering services locally. This understanding is underpinned by the principle that authorities are free to manage the resources available to them, to respond to local circumstances and to set their own priorities as long as they work within this strategic framework and are sensitive to the needs and expectations of their stakeholders. There is also an underlying assumption that resources are used as effectively and efficiently as possible and that the norms and conventions of public accounting and governance apply at all times.
15. This agreement at the level of principle was established under the Essex-Jones Agreement and has been reaffirmed more recently by the *New Understanding* between WAG and the WLGA. The approach is also underpinned by the Protocol on Hypothecated Grants, and structures deriving from the Partnership Council, including the Consultative Forum on Finance (CFF) and various sub-committees such as the Expenditure Sub Group (ESG) and the Distribution Sub Group (DSG). These

mechanisms and structures build on and support the shared principle that the RSG should be unhypothecated.

16. There is also a shared understanding that in some circumstances, funding through specific grant is appropriate. The Grants Protocol has been developed to deal with such circumstances and is based on the understanding that specific grants should be kept to a minimum; that they should have specific and defined objectives; that they should provide as much clarity of funding as possible and that there should be a clear exit strategy.
17. This Protocol and the approach to funding through specific grant applies to education just as much as to other local government service areas and there is a consensus between the WLGA and WAG on this approach and the philosophy and principles by which it is supported. There has been considerable debate however over recent years concerning the proliferation of specific grants within education and there is now an acceptance that the scope and number of specific grants needs to be reduced. The WLGA is working with WAG to rationalise the grants process in parallel with on-going work on Outcome Agreements. Post-16 funding is somewhat idiosyncratic in that it operates outside of this grants regime but is not formally part of the ESG process either. This is in part a legacy of the demise of ELWa and the reintegration of responsibility for the planning and funding of post-16 learning within WAG. More importantly, it means that post-16 funding is not subject to the same scrutiny and rigorous analysis as other aspects of education funding. In operating outside of the ESG process, it means that the shared understanding between WAG and local government that underpins that process is absent and that the prevailing pressures within the system are in danger of being overlooked.

## **Current Funding Pressures**

18. The current recession has had a significant impact on local government finances as income levels have reduced and demand for services have increased. Although there is speculation that the economy may be stabilising, real economic growth is unlikely for some time to come. At the same time the Welsh Assembly Government's Budget for 2010-11 is set to reduce by an estimated £416 million. Overall, councils saw an

average increase of 2.1% (£81.5 million) on their previous settlement. This is the lowest increase since before devolution, but more than the 1.3% increase that would have been received had WAG's budget reductions been applied equally across all its departments. In the context of public spending constraints, there has been support for the approach to the budget process that WAG has taken however Councils will have to make difficult decisions in order to make their budgets balance.

19. Local government recognises the scale of problem and has called for all parts of the Welsh public sector to work together to meet the difficult financial challenges ahead. Local and central government in Wales have a shared agenda - local government is dependent upon the Welsh Assembly Government for the majority of its funding, while the Welsh Assembly Government is dependent on local government to deliver the majority of its policy objectives outside of the National Health Service.
20. This common interest underlines the need for both parties to recognise that the days of significant budget growth are over. There needs to be a shared understanding of what funding is available, where that funding is needed most and where it will have greatest impact for Welsh citizens. It involves having a substantive debate about the state of local services and understanding fully the consequences of any budget reductions - recognising the risks to vital core services and the potential that national and local priorities will not be delivered.
21. The vast majority of local services are provided by local government year after year and their costs may vary depending on three factors:
  - Pay and price changes – where providing the same service costs more or less than it did the previous year (inflation);
  - Changes in the level of demand for the service or changes in the level of service provided; and/or
  - Efficiency measures to ensure that public money is put to best use in providing services.



22. Over 160,000 people work for local government – 52 per cent of all public sector employees in Wales. The local government workforce includes teachers, social workers, home helps, refuse collectors and road maintenance staff and their employment costs amount to over £2.8 billion per annum - more than half local government annual net expenditure. Of this £1.2 billion represents teachers' pay, the rest funds other local government employee pay. Annual pay increases are negotiated at an "England and Wales" level and are inescapable.
23. 2010-11 will be the third of a three year pay deal for teachers, which was agreed in January 2008. At that time, the pay increase for 2009 and 2010 was agreed at 2.3 per cent. The National Employers' Organisation for School Teachers evidence to the School Teachers' Review Body recognises the indicative figures are not based on the current economic factors such as the recession and reduced pressure to recruit new teachers. It is our understanding that the UK Secretary of State for Education is likely to stick with the 2.3 per cent increase for 2009. In the absence of further detail the assumption must be that the uplift in 2010 will also be 2.3 per cent. Based on the latest Revenue Outturn (RO) form data, which is supported by information gathered directly from local authorities on 2009-10 budgets for teachers' salaries, NI and superannuation, an increase of 2.3 per cent equates to approximately £24.5 million additional cost in 2010-11.
24. While the local government settlement takes recognises these pressures and takes account of them, the same is not the case for the post-16 settlement. A lack of transparency and consultation in the process means that there are no formal mechanisms for ensuring that such information informs the decision making process. This is evident when considering the funding allocations for the current year.

### **Current post-16 Funding Position**

25. Overall, in the 2010/11 settlement, councils saw an average increase of 2.1% (£81.5 million) on their previous settlement. This is the lowest increase since before devolution, but more than the 1.3% increase that would have been received had WAG's budget reductions been applied equally across all its departments. In the context of public spending constraints, there has been support for the approach to the

budget process that WAG has taken however Councils will have to make difficult decisions in order to make their budgets balance.

26. The post-16 grant allocation for 2009/10 in January 2009 included an unexpected 7.43% funding reduction. As the grant information including the funding reductions was provided two months before the beginning of the financial year, most schools had to revisit and reduce significantly their planned budget proposals at short notice
27. The following summarises the 2009/10 post 16 Schools and FE College grant allocations as follows

	<b>Schools</b>	<b>FE Colleges</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Original 2009-10 allocation	116.6	304.9	421.5
7.43% cut	-8.7	-22.1	-30.8
Protection/Adjustments	<u>+0.6</u>	<u>+0.4</u>	<u>+1.0</u>
	108.5	283.2	391.7
Additional £8.9m	<u>+2.2</u>	<u>+6.7</u>	<u>+8.9</u>
Final 2009/10 allocation	<u>110.7</u>	<u>289.9</u>	<u>400.6</u>

28. Clearly the level of the 2009/10 post 16 grant allocation was a huge disappointment to both schools and FE Colleges. In effect, it meant that significant efficiency savings had to be delivered in 2009/10. This equates to having delivered significant efficiency savings of over 6% in 2009/10. The expectation is that the position in 2010/11 will be the same and that pay and price pressures, including the 2.3% teachers' pay increase, will not be met.

## **Local Government Concerns**

29. There are a number of concerns from local government regarding funding for post-16 education:-
- uncertainty regarding funding levels from one year to the next
  - variations in funding levels for schools from one year to the next which significantly impact on planning
  - the lateness at which funding levels are announced
30. In terms of the quantum there is no guarantee that pay awards will be met, and for 2010/2011 WAG have been quoting an efficiency reduction of 5%. The result of this will mean that schools will inevitably subsidize post-16 course costs from pre-16 allocations. In addition to this the lack of funding for transport costs and other related expenditure means that there is even greater pressure on the budget.
31. A further concern is that the post-16 funding system is complex which means that schools and governing bodies feel that there is a lack of transparency and clarity regarding post-16 funding.
32. What is needed in the post-16 sector is a funding system which is sufficiently flexible to accommodate the establishment of partnership provision, as required by the Assembly Government's Transformation policy. WLGA understands that there is a review of the NPFS underway and believes that this is much needed and that it needs to link to the wider policy agenda and in particular Transformation, the 14-19 Measure, 14-19 Learning Pathways, 21<sup>st</sup> Century Schools and the CPD review and other pedagogical developments. When the NPFS system was set up the Transformation agenda was not in existence therefore the current review of NPFS needs to establish how the system can best allow collaborative working to take place. This would need to include an acknowledgement of the additional cost of collaboration such as high transport cost within course provision. Similarly, the current system does not take into account the greater administrative costs associated with collaboration, e.g. governance, strategic groups, management groups.

## **Summary**

33. As is the case with other stakeholders within this sector, local government has embraced the efficiency and collaboration agendas with enthusiasm and there is considerable empirical evidence of the successes achieved. This will continue into the future but cannot in itself make up for the lack of growth in revenue funding year on year.
34. In conclusion, there is considerable anxiety within local government with the way in which post-16 learning is funded and the way in which the NPFS operates. At the outset the intention was that the NPFS placed the learner at the centre of considerations, that it was demand led, transparent, flexible, and able to allow providers to plan with security. The current position is that we have a funding arrangement that is not seen to deliver the best outcomes for learners, is neither clear nor transparent and does not enable any of the learning providers – colleges, schools and work based providers – to plan with security.

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## Annex 1

Local Authority allocations for 6<sup>th</sup> form funding in 2009 – 10, including adjustments made following the 7.43% reduction in funding for 2009 – 10.

<b>Local Authorities Sixth Form Allocations</b>	2009-2010 Allocations as published in January £	Revised 2009- 2010 Allocations £	Difference £
<b>Local Authorities</b>			
Isle of Anglesey County Council	2,850,430	2,850,430	0
Gwynedd Council	3,295,182	3,333,941	38,759
Conwy County Borough Council	4,444,365	4,456,717	12,352
Denbighshire County Council	3,952,882	4,073,262	120,380
Flintshire County Council	5,619,197	5,619,197	0
Wrexham County Council	1,148,623	1,148,623	0
Powys County Council	6,084,837	6,478,000	393,163
Ceredigion County Council	4,121,314	4,121,314	0
Pembrokeshire County Council	5,368,118	5,764,022	395,904
Carmarthenshire County Council	6,417,478	6,417,478	0
The City and County of Swansea	5,793,820	5,793,820	0
Neath Port Talbot County Borough Council	1,504,176	1,504,176	0
Bridgend County Borough Council	6,395,520	6,395,520	0
The Vale of Glamorgan County Council	6,138,903	6,138,903	0
Rhondda Cynon Taff County Borough Council	11,145,834	11,740,920	595,086
Merthyr Tydfil County Borough Council	2,477,256	2,477,256	0
Caerphilly County Borough Council	4,846,493	4,846,493	0
Blaenau Gwent County Borough Council	1,911,073	1,930,946	19,873
Torfaen County Borough Council	4,043,554	4,066,736	23,182
Monmouthshire County Council	3,597,547	3,745,552	148,005
Newport City Council	6,235,190	6,564,061	328,871
Cardiff County Council	11,101,705	11,189,508	87,803
<b>Totals</b>	<b>108,493,496</b>	<b>110,656,874</b>	<b>2,163,378</b>