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School Funding Analysis

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I have prepared this report for presentation to the National Assembly under the Government of Wales Act 1998.

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Summary

- 1** The Welsh Assembly Government analyses the variation in councils' education budgets and, in particular, comparative funding levels for schools. The Assembly Government commissioned the Wales Audit Office to support this work by providing an objective analysis of the financial information available.
- 2** The Principal Key Question we sought to answer in conducting this work was *'Why is there a variation of about £1,000 per pupil between the highest and lowest local authority average levels of school funding in Wales?'*
- 3** We concluded that the differences in the level of Education IBA calculated by the Welsh Assembly Government and, subsequently, the differences in councils' net¹ education budgets per pupil account for much of the variation in ISB per pupil.
- 4** The Welsh Assembly Government provides funding to local authorities for the provision of all services, including education, through the Revenue Support Grant (RSG). Each council's Standard Spending Assessment (SSA) determines its allocation of RSG each year. The SSA is broken down into several service-specific Indicator-Based Assessments (IBA). However, service-specific IBA are not spending targets. Councils are free to set their service budgets at levels above or below IBA and overall SSA in accordance with their priorities.
- 5** Each council's annual budget-setting process determines how much resource is allocated to its education service. The education budget is then further divided between the provision of central education services within the council and the sum

to be delegated to schools maintained by the council. This latter sum is called the Individual Schools Budgets (ISB). Each council has a funding formula to determine each school's share of the ISB.

- 6** These inter-relationships are set out opposite in [Exhibit 1](#).
- 7** As a result of these budget-setting processes within the Welsh Assembly Government and, subsequently, at two levels in local authorities, individual schools are funded at different levels.

For the most part, the factors used to determine Education Indicator-Based Assessment are suitable

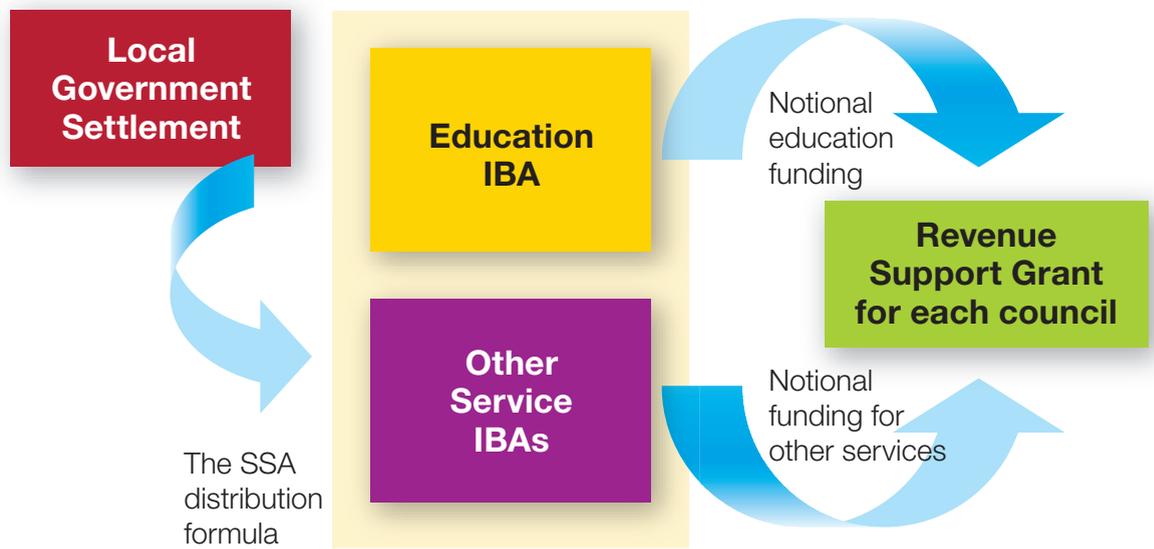
- 8** The Welsh Assembly Government funds councils' education services at different levels in order to reflect local circumstances. There is a close link between the amount of money distributed by the Indicator-Based Assessment and the collective past level of education spending by councils at the all-Wales level. Funding to cover new responsibilities is treated separately. In other respects, the proportion of total Standard Spending allocated to education is determined by referring to the previous year's aggregate of the net education budget estimates provided by each council.
- 9** The factors used to determine authorities' shares of the Education Indicator-Based Assessment (IBA) are pupil numbers and population of school age; sparsity²; and deprivation. These factors are, for the most part, sensible. In 2005/2006, the IBA formula produced a difference of £670 per pupil between the local authorities with the highest and lowest levels of school-related Education IBA. We have excluded some elements of Education IBA

¹ The net education budget excludes income from specific grants.

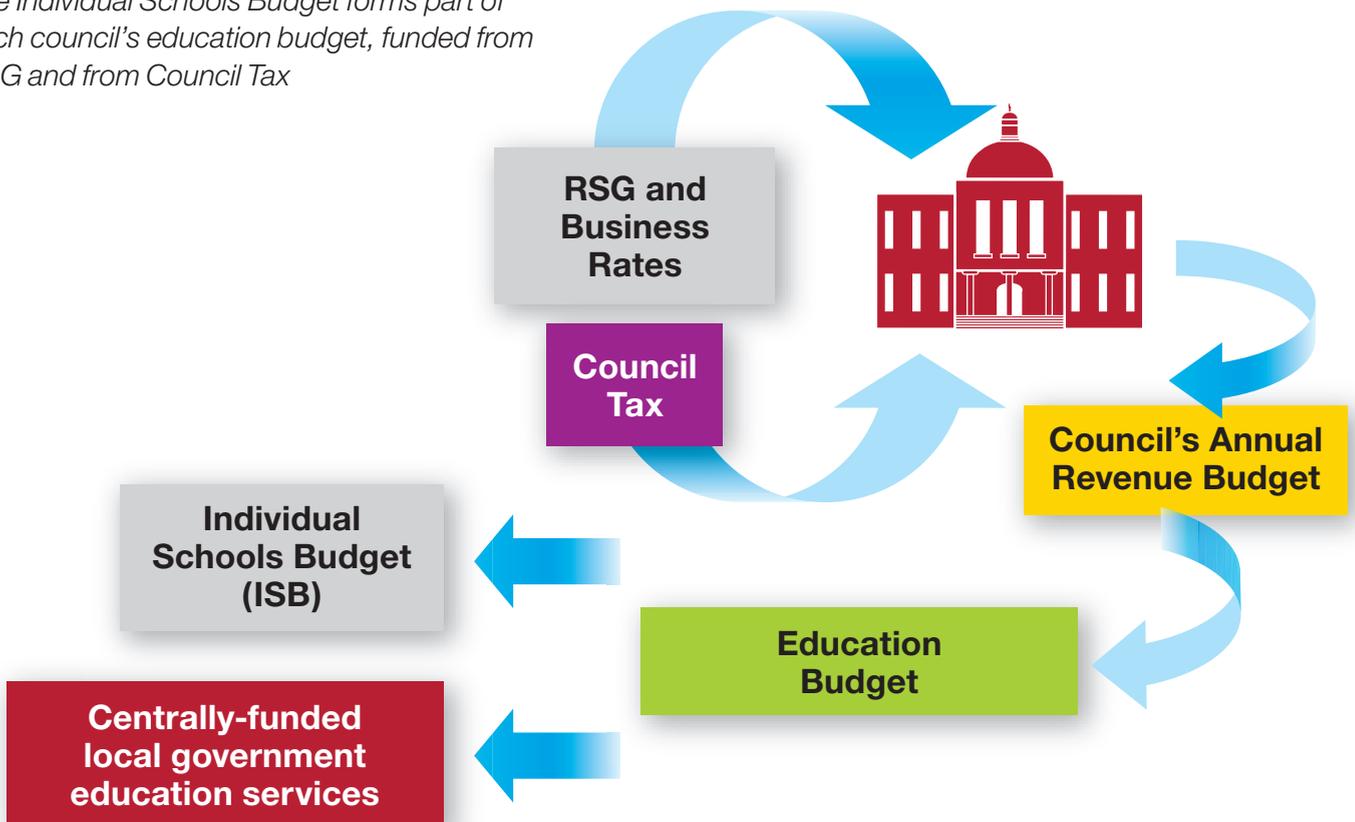
² 'Sparsity' refers to the distribution and density of population in the area served by each council.

Exhibit 1: The Education Budget Setting Process

The Welsh Assembly Government distributes Revenue Support Grant to councils



The Individual Schools Budget forms part of each council's education budget, funded from RSG and from Council Tax



to arrive at 'school-related' Education IBA.³ We have excluded home-school transport from these and subsequent calculations in this report because home-school transport budgets are not delegated to schools and therefore do not contribute to the variation in funding received by schools.

- 10** The IBA formula broadly reflects the local circumstances that drive local policies to fund school provision at different levels. There is a very close match between the sum distributed by the Education IBA and total council spending on education.
- 11** The Welsh Assembly Government introduced the current Education IBA formula in 2001/2002 following the independent review of the SSA formulae by Swansea University and Pion Economics. A full review of the current Education IBA formula has not been carried out to date. When a review takes place, the use of pupils' eligibility for free school meals as an indicator of the level of deprivation in local authorities needs to be reviewed. Consideration should also be given to including an indicator to reflect the additional costs of bilingual provision in secondary schools. We discuss the reasons for this later in this report.

The basis of funding decisions by local authorities is not always well understood by schools

- 12** Councils can set their education budgets at levels above or below Education IBA in accordance with their priorities although the range in net education budgets per pupil is very similar to that produced as a result of the Assembly's funding distribution.

In 2005/2006, net education budgets⁴ per pupil for school-related provision differed by £647 per pupil between the highest and lowest levels.

- 13** Overall, members of Schools Budget Forums have too little understanding of the way in which the level of funding available to schools depends on a range of factors. These include the council's Standard Spending Assessment, the Education IBA, the size of the education budget set by the council, the competing financial demands of other council services and the formula to allocate individual schools' budgets. All of the 12 councils visited as part of this study report that budget-setting is largely incremental in nature, with only limited reflection of the council's stated priorities.
- 14** Greater understanding of the budget-setting process and the content of budgets is necessary so that schools and other stakeholders are better able to debate what is funded and to what levels and how this changes annually. Such openness and transparency about the budget-setting process will contribute positively towards reinforcing and, where necessary, establishing the trust that should underpin the relationship between councils and their schools.

The variations in Individual Schools Budget (ISB) per pupil between councils and within each council are not unreasonable

- 15** The ISB is the portion of a council's education budget that is delegated to schools.⁵ It includes any Better Schools Fund grant income that is delegated or devolved to schools and the grant provided by ELWa for the provision of post 16 education in schools.

³ The elements of Education IBA that we have excluded from our definition of 'school-related IBA' are:

- primary school transport services;
- secondary school transport services;
- adult and continuing education and related transport;
- youth services and their extra resources; and
- education administration.

⁴ We have excluded from net education budgets the planned expenditure on home to school transport; home to college transport; further education and training for young persons and adults; and strategic management. This provides a better comparison with 'school-related Education IBA', as set out in paragraph 9.

⁵ The figures used for Individual Schools Budget (ISB) include grant income. The data available in Revenue Account (RA) Forms in which councils submit their annual budget estimates do not permit the separate analysis of ISB for primary and secondary schools net of grant. The figures that we use are also those that the Welsh Assembly Government uses to report levels of ISB.

- 16** The variations in Individual Schools Budget per pupil between councils and within each council are not unreasonable. Much of the variation results from Education IBA and the education budgets set by councils. Further variation reflects differences in the level of funding delegated to schools by each council as well as decisions to spend at different levels to reflect the circumstances of individual schools within each council.
- 17** In 2005/2006 the range in councils' average ISB per primary school pupil was £918 between the highest and lowest levels. For secondary school pupils the range was £824. However, comparisons between average levels of ISB are unreliable because they do not take account of different approaches to the delegation of funding permitted by the funding regulations and mask variations in the extent to which schools of different size are funded. School funding data reported by the

Welsh Assembly Government should include clear references to the limited comparability of the ISB figures that are currently available.

- 18** There is scope to improve some council funding formulae in order to increase their clarity and to ensure that, particularly in councils containing a wide range of socio-economic diversity, more funding is targeted to schools with the highest levels of deprivation.

Differences in the recording of education expenditure impede comparability and contribute to a perception of limited transparency

- 19** Variations in accounting practice further limit the comparability of ISB data taken from councils' Revenue Account (RA) returns. There is uncertainty that the education budgets reported to the Welsh Assembly Government on RA Forms reflect the costs of the same range of services and functions in all councils in the same way.

Recommendations

The Welsh Assembly Government should:

- R1** In its next review of the distribution of Education IBA, with local government, assess whether the level of eligibility for free school meals represents the best indicator of deprivation.
- R2** State clearly the limitations as a basis for comparison of the education finance data that is reported annually.

The Welsh Assembly Government and council officers should:

- R3** Work together to achieve consistency in the way in which the 2007/08 Revenue Account Forms are completed and the Welsh Assembly Government should subsequently issue revised guidance.

Councils should:

- R4** Issue a concise annual summary that shows, for each of the primary, secondary and special school sectors, a breakdown of the factors that have influenced the forthcoming budget. The summary should show the previous year's Individual Schools Budget for each sector, and the increases and decreases caused by each of the factors contributing to the new budget.
- R5** Work with the School Budget Forum to review the school funding formula and, where necessary, to:
- explain the way in which funding is allocated more clearly; and
 - assess whether the school funding formula reflects adequately the additional costs incurred in schools serving deprived areas.

For the most part, the factors used to determine Education Indicator-Based Assessment are suitable

20 Councils spend at different levels in order to maintain their schools. In brief:

- local authorities that are sparsely populated have to maintain smaller schools than those authorities where population density is higher. Small schools are more costly to maintain because they demand higher pupil-teacher ratios in order to deliver the National Curriculum;
- schools serving areas of comparatively high deprivation tend to incur higher costs as a result of working more intensely with the community and higher levels of individual pupil support required.

21 In its strategic plan, 'Betterwales.com', the National Assembly for Wales set out its intention that a new SSA formula for distributing the

Revenue Support Grant to Local Government should be agreed. Following a thorough review based on the latest statistical techniques available at that time, the changes were implemented in April 2001. These changes included modifications to the notional education element within the SSA, the Education IBA.

22 The factors taken into account in calculating the Education IBA broadly reflect those aspects that cause councils to spend at different levels, and are:

- pupil numbers and population of school age;
- sparsity; and
- deprivation.

23 The vast majority (about 94%) of the Education IBA relates to the provision of education in schools. In 2005/2006, these school-related elements (excluding home-school transport) amounted to £1.71 billion. The school-related elements are set out in [Exhibit 2](#).

Exhibit 2: The elements of Education IBA relating to school provision for 2005/2006

IBA Element	Amount of total SSA allocated (£ thousand)	Proportion of total school-related Education IBA
Pre & primary school teaching and other services	762,824	44.5%
Secondary school teaching and other services	653,673	38.1%
Special education	160,419	9.4%
Teachers' workload agreement	57,917	3.4%
Teachers' pensions	36,494	2.1%
School meals	33,383	1.9%
Teachers' performance management	4,612	0.3%
Key stage 3 improvement	4,400	0.3%
Music development	1,140	0.1%
TOTAL	1,714,862	100%

24 Of this school-related aspect of the Education IBA, about 81% was distributed on the basis of pupil numbers and a further 11% on the basis of various indicators of deprivation. The remaining 8% was distributed according to measures of sparsity, reflecting the density and distribution of population in each council.

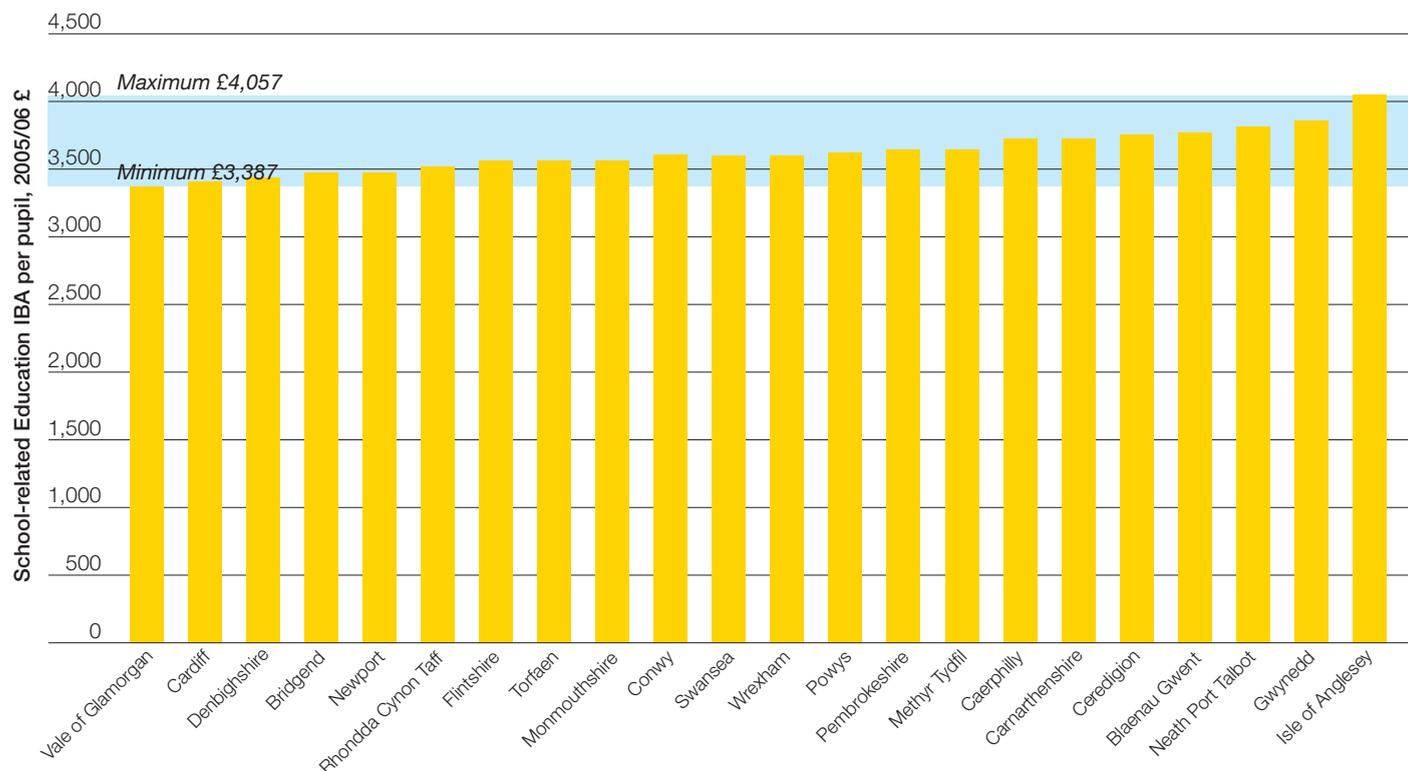
25 Even though over 80% of the funding was distributed on the basis of pupil numbers, the formula for 2005/2006 produced a difference of £670 per pupil between the local authorities with the highest and lowest levels of school-related Education IBA, as set out in Exhibit 3. This difference accounts for a significant proportion of the approximately £1,000 variation in levels of per pupil funding received by schools. We discuss the reasons for the remaining variation later in this report.

26 The factors controlling the distribution of funding and their weightings were unchanged in 2005/2006. While the Education IBA relating to school provision increased by about £96 million⁶ (5.9%) compared with the previous year, the proportions calculated according to pupil numbers, deprivation and sparsity remained constant.

There is a close link between the amount of money distributed by the Indicator-Based Assessment and the collective past level of education spending by local authorities

27 The Welsh Assembly Government reviews the proportion of the total SSA allocated to each major service block annually as part of the budget-setting process. Funding to cover new responsibilities is treated separately. In other

Exhibit 3: School-related Education IBA per pupil for each council (2005/2006)



⁶ Education IBA for 2005/06 includes about £5.5 million for Music Development and Key Stage 3 Improvement. In 2004/2005, funding for these aspects was distributed outside the RSG as specific grant.

respects, the proportion allocated to education is determined by referring to the previous year's all-Wales aggregate of the net education budget estimates provided by each council. If, for example, councils have estimated that they will, collectively, spend 42% of their total net budgets on education, then the following year's Education IBA will form 42% of the total SSA. There is a risk, therefore, that Education IBA calculated in this way will be out of line with the true requirement if individual council budgets do not reflect what actual expenditure is needed or if there are inconsistencies in the way such budgets are reported.

- 28** Having determined the size of the total Education IBA, the Welsh Assembly Government also reviews annually the proportion allocated to each of the component elements. For this process, the latest available aggregate out-turn data is used to estimate the proportion of total education spending by local authorities in each of the areas covered by the Education IBA. If, for example, local authorities together used 36% of their total education spending to maintain secondary schools, then 36% of the total Education IBA for the year in question would be allocated to this element.
- 29** As a consequence of the annual reference to both actual and estimated spending patterns, there is a close match between Education IBA and aggregate council spending on education. In 2004/2005, councils across Wales set education budgets that differed in total by only £21 million (1.2%) from the Education IBA. In 2005/2006, this variance increased only slightly to £23 million (1.3%).
- 30** This close link between Education IBA and aggregate council spending on education provides a valuable degree of stability in funding levels. Though it tends to perpetuate historical spending patterns, the methodology is also responsive to changes instigated by the local authorities. If, for example, a significant proportion of councils began to transfer resources from education to services for older people in response

to changing demographic patterns, this shift would gradually be reflected in a reduction in the Education IBA and a corresponding increase in the IBA for Personal Social Services in later years.

- 31** The Welsh Assembly Government also has arrangements for the periodic review of the factors governing the distribution of IBA and the relative weighting of these factors and some aspects have been reviewed. Such reviews would take account of the variation between councils in their spending relative to IBA and aim to match more closely the distribution of funding to existing patterns of expenditure. However, there has been no full review of the Education IBA formula since the implementation of the current distribution methodology in 2001.

The use of pupils' eligibility for free school meals as an indicator of deprivation within the IBA mechanism needs to be reviewed

- 32** The Welsh Assembly Government allocates about 11% of the school-related Education IBA on the basis of various indices of deprivation. The majority of this funding – we estimate about £160 million for 2005/2006 – is calculated on the basis of the number of pupils in each council who are eligible to receive free school meals.
- 33** number of pupils eligible to receive free school meals is fairly easily measured. Eligibility is related to the award of a number of social security benefits. However, it is possible that not all families with low incomes, who are eligible, will have applied for benefits and it is also the case that some low income families are not eligible for free school meals. Therefore, there are limitations on the use of the free school meals as an indicator of deprivation.
- 34** The allocation of funding on the basis of deprivation indices is intended to recognise the additional demands on services in those councils with higher levels of deprivation. For example, it is reasonable to expect schools serving deprived

areas to spend proportionately more than other schools on providing small teaching groups and on liaison with parents and the community. Schools serving deprived areas are also likely to make higher demands on council services such as behaviour and attendance support.

The IBA mechanism does not reflect all the additional costs facing some councils

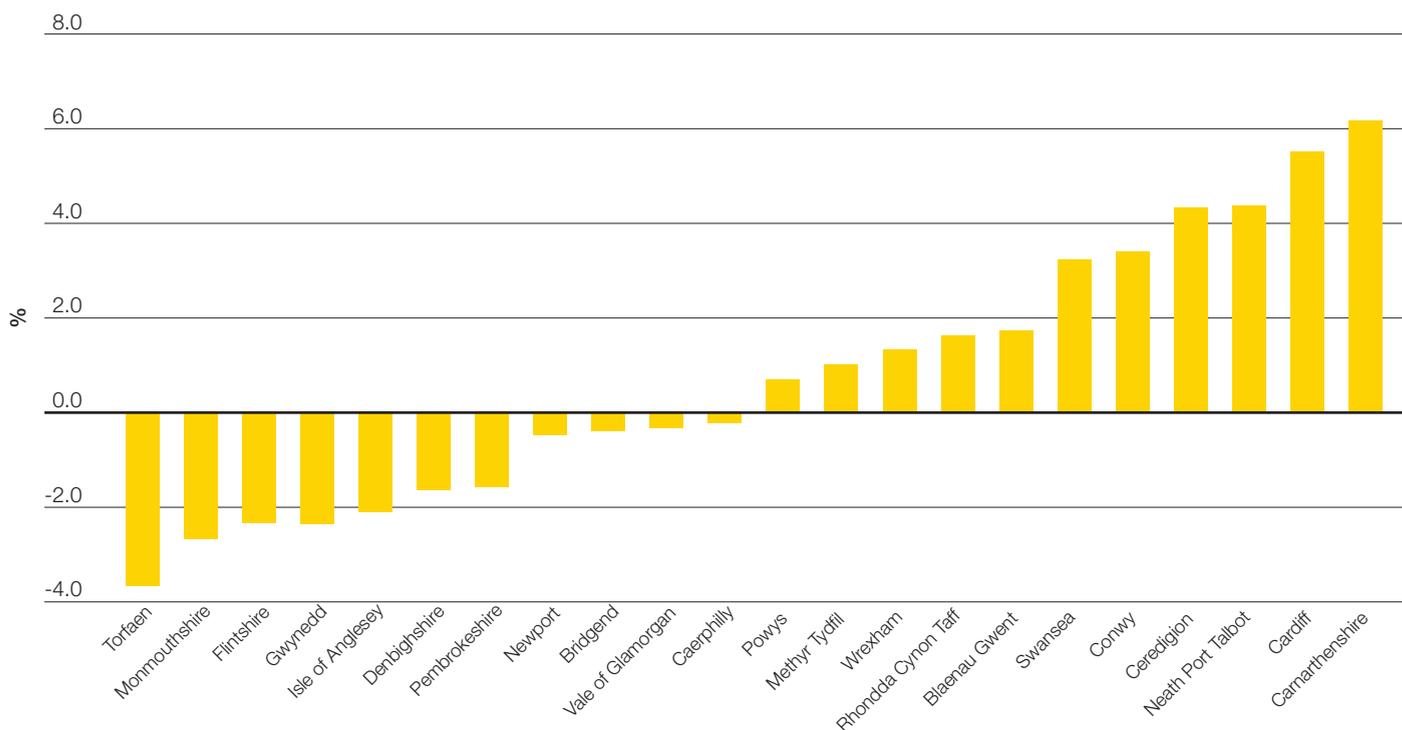
35 Councils serving areas with a high proportion of Welsh speakers often maintain bilingual secondary schools. These schools tend to be small, and costs are further increased by teaching in both English and Welsh. We estimate that 15-20% of all secondary schools spread across approximately one third of councils are affected by this, up to 40 schools in 7 councils. Bilingual provision is not a factor within the Education IBA mechanism, although councils reflect these costs in their funding formulae for schools' individual budgets.

36 Councils facing factors such as a high incidence of Traveller pupils or pupils from minority ethnic groups with little or no English also incur additional costs. However, these costs are largely covered by specific grants and, while these grants continue, there is therefore no need to recognise these additional costs within the Education IBA.

The basis of funding decisions by local authorities is not always well understood by schools

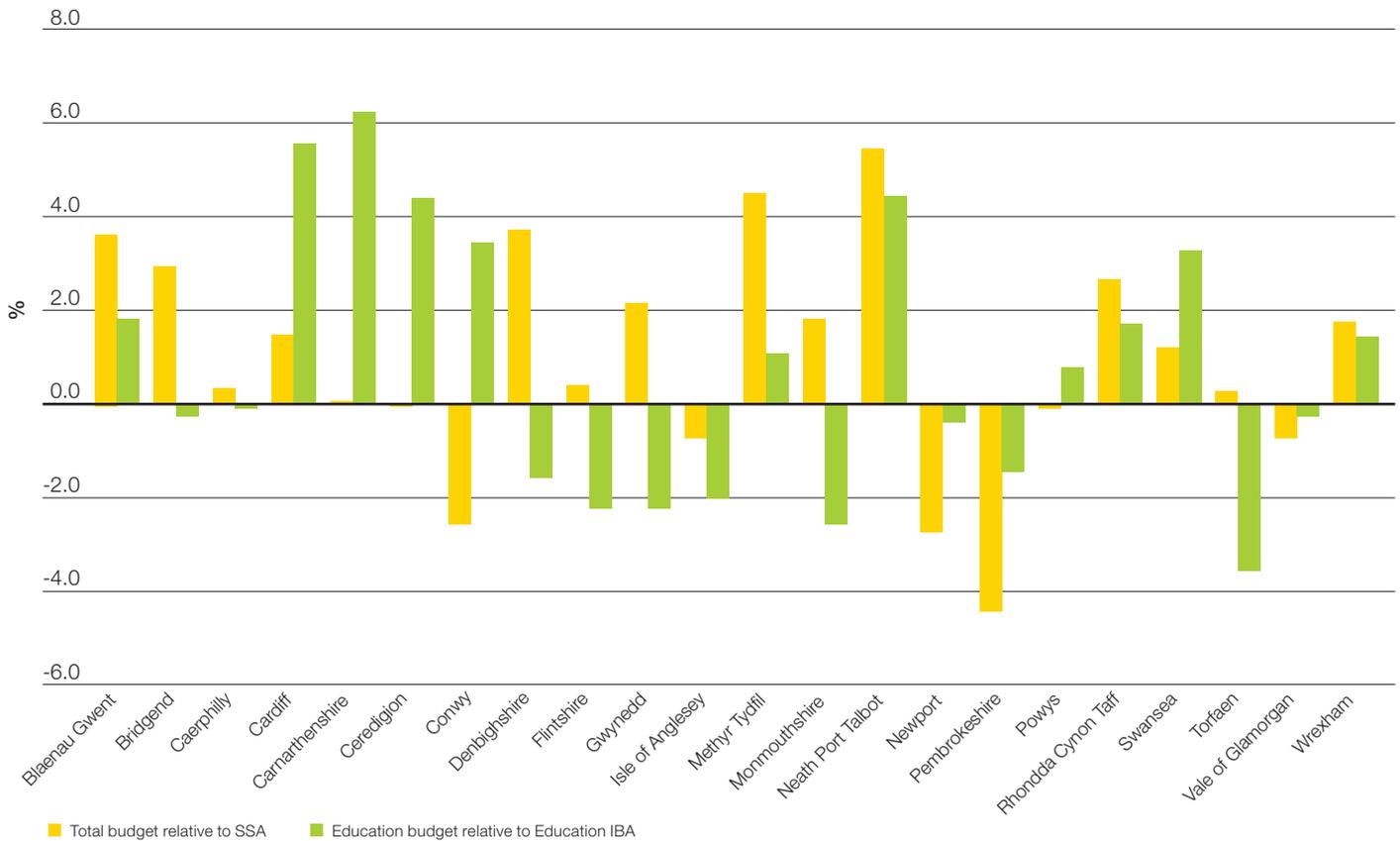
37 Councils can set their education budgets at levels above or below Education IBA in accordance with their priorities. In 2004/2005, local authorities set their education budgets at levels varying from 95.8% to 105.4% of Education IBA. There was a similar range in 2005/2006, with education budgets ranging between 96.4% and 106.2% of Education IBA, as set out in [Exhibit 4](#).

Exhibit 4: Variation in net education budgets in relation to Education IBA for councils in Wales, 2005/2006



- 38** Despite these variations between councils, the range in net education budgets per pupil is very similar to that produced as a result of the Assembly's funding distribution. In 2005/2006, net education budgets per pupil for school-related provision (excluding home-school transport) varied between £3,213 per pupil and £3,860 per pupil. There is a difference, therefore, of £647 per pupil between the highest and lowest levels of net education budget per pupil for 2005/2006.
- 39** In general, a council can set a total revenue budget at the level of SSA only if it sets Council Tax at the level assumed by the Welsh Assembly Government. Councils wishing to spend at levels above SSA, but where Council Tax rates are at or below the expected level, can do so only by using reserves or by raising income from other sources. However, in deciding on increasing levels of Council Tax, councils have to take account of the views, and possible actions, of the Welsh Assembly Government. As might be expected, there is a very strong correlation between the level at which Council Tax is set and the extent to which total revenue budgets exceed or are lower than total SSA.
- 40** However, those councils setting high total budgets relative to SSA do not, in all cases, set high education budgets relative to Education IBA. Conversely, the 'lower spending' councils are not necessarily 'low spenders' on education. For example, in 2005/2006, one council set a total revenue budget about £5 million (3.7%) above SSA but set an education budget £1 million (1.6%) below education IBA. In contrast, a neighbouring council set a total revenue budget about £4 million (2.6%) below SSA while its education budget was set £2.3 million (3.4%) above Education IBA. This is set out in [Exhibit 5](#).
- 41** This approach reflects the fact that the collective budget priorities of local authorities drive the Welsh Assembly Government's distribution of funding, rather than being driven by it. However, a decision by a council to set the education budgets at a level relative to IBA which differs significantly from the wider level of spending clearly has implications for other council services. Local authorities that choose to spend well above Education IBA while spending at or below SSA overall are very likely to be spending well below IBA on some other services.
- 42** Councils vary in the extent to which they refer to the level of IBA when setting budgets. Overall, members of Schools Budget Forums have too little understanding of the way in the size of the budgets for schools depend on a range of factors. These include the council's Standard Spending Assessment, the Education IBA, the size of the education budget set by the council, the competing financial demands of other council services and the decisions taken about the level of delegation to schools of funding.
- 43** Schools Budget Forums are making a positive contribution to the understanding of budget-setting processes. However schools and other stakeholders need to understand more fully the budget-setting process and the content of budgets in order to be able to debate and influence what is funded and to what levels. Such openness and transparency about the budget-setting process will contribute positively towards reinforcing and, where necessary, establishing the trust that should underpin the relationship between councils and their schools.
- 44** All of the 12 councils visited as part of this study report that budget setting is essentially incremental in nature, and based on historical spending patterns. For the most part, councils allocate a similar inflation-based increase to all services, the size of which is determined by the council's RSG allocation. Elected members then debate the affordability of bids for growth, with individual services competing against each other for priority. Though a pragmatic approach, this might not adequately ensure that budgets are aligned closely enough to the council's stated priorities. Councils see little scope for any

Exhibit 5: Total net revenue budget relative to SSA and net education budget relative to Education IBA, 2005/2006



significant transfer of resources between service budgets so as to significantly increase or decrease the net education budget relative to its Education IBA. Only one of the councils visited has undertaken a needs-led analysis as a basis for education funding, and, even here, the outcomes of the analysis were ultimately rejected as being unaffordable. Another council is currently undertaking a review of base budgets across all services.

45 In a minority of cases, increases in the education budget represent a planned attempt by councils to change levels of school funding to a pre-determined level. However, the use of the 'Wales average' funding level as a target is not helpful, because the figure is merely a statistical average and does not reflect the levels of expenditure which might be most appropriate.

46 Annual changes in net education budgets generally represent each council's response to a range of external and internal pressures. Over the last two years, for example, schools have been required to implement the teacher workload agreement, necessitating above-inflation growth in Education IBA and education budgets. In many cases, councils have also increased education budgets in response to internal pressures such as over-spending on special educational needs and home-to-school transport budgets. There have also been downward pressures such as falling pupil numbers and the requirement for all councils to make annual efficiency savings.

47 As a result of the various pressures outlined above, the net education budgets set by local authorities for 2005/2006 increased by an average of 5.9% in

cash terms. However, the different approaches taken by individual councils to these pressures resulted in the increases varying between 3.3% and 8.3%. Three of the four councils with the highest percentage increases in budget for 2005/2006 were among those with the lowest net education budgets relative to Education IBA in 2004/2005.

The variations in Individual Schools Budget (ISB) per pupil between councils and within each council are not unreasonable

- 48** The Individual Schools Budget (ISB) is the portion of a council's education budget that is delegated to schools. In 2005/2006, the aggregate ISB across Wales accounted for 82.5% of the total education budgets.⁷ This figure ranges between 76.2% and 87.4%.
- 49** The ISB includes any Better Schools Fund grant income that is devolved or delegated to schools. It also includes the grant provided by ELWa for the provision in schools of post 16 education.
- 50** In 2005/2006, the average ISB per primary school pupil across Wales was £2,909. This figure ranged from £2,597 per pupil to £3,515 per pupil, as set out in [Exhibit 6](#). This gives a range of £918 per pupil between the highest and lowest levels of primary school ISB per pupil. This range is a little smaller than in 2004/2005.
- 51** For secondary schools, the average ISB per pupil in 2005/06 was £3,548. Secondary school ISB per pupil varies from £3,248 per pupil to £4,072, giving a range of £824 per pupil between the highest and lowest, as set out in [Exhibit 7](#). This is greater than in 2004/2005.
- 52** The differences in the level of Education IBA calculated by the Welsh Assembly Government and, subsequently, the differences in councils' net education budgets per pupil are accentuated by the inclusion within the ISB of grant income and by councils' differing policies relating to the delegation of funding to schools.
- 53** Differing approaches to the devolving of Better Schools Fund grant influence the reported levels of ISB per pupil. On average, we estimate that the ISB reported on RA Forms includes about £65 per pupil of Better Schools Fund income, but this varies, with the agreement of schools in each council, from about £6 to £105 per pupil. The reported level of ISB per pupil in secondary schools also includes the grant funding received from ELWa for post 16 provision. This tends to further distort the reported figure for secondary school ISB per pupil in those councils in which most schools do not have post 16 provision.
- 54** SEN funding is the area where there is greatest variation in delegation arrangements.⁸ If the average primary ISB is adjusted to take account of non-delegated SEN budgets apportioned to primary schools, the difference in the ISB falls from £918 per pupil to £775 per pupil. A similar adjustment to the secondary ISB reduces the difference from £824 to £729 per pupil.
- 55** Headteacher representatives of Schools Budget Forums we met as part of this study are broadly content with current levels of delegation by their local authorities. On the whole, they do not consider that councils are retaining funds that they would prefer to see in delegated budgets. In some councils, schools are resisting attempts to delegate

⁷ In order to improve the comparability with earlier analyses of the amounts calculated through the Education IBA and the size of councils' education budgets, we have included, as far as is possible, only those elements of the education budget that relate to schools. We have also excluded home-school transport budgets.

⁸ Authorities are permitted to retain centrally funding for centrally provided SEN services or to meet higher levels of need for individual pupils. To a greater or lesser extent authorities choose to delegate this funding to schools.

Exhibit 6: Average primary school ISB per pupil for each council in 2005/06

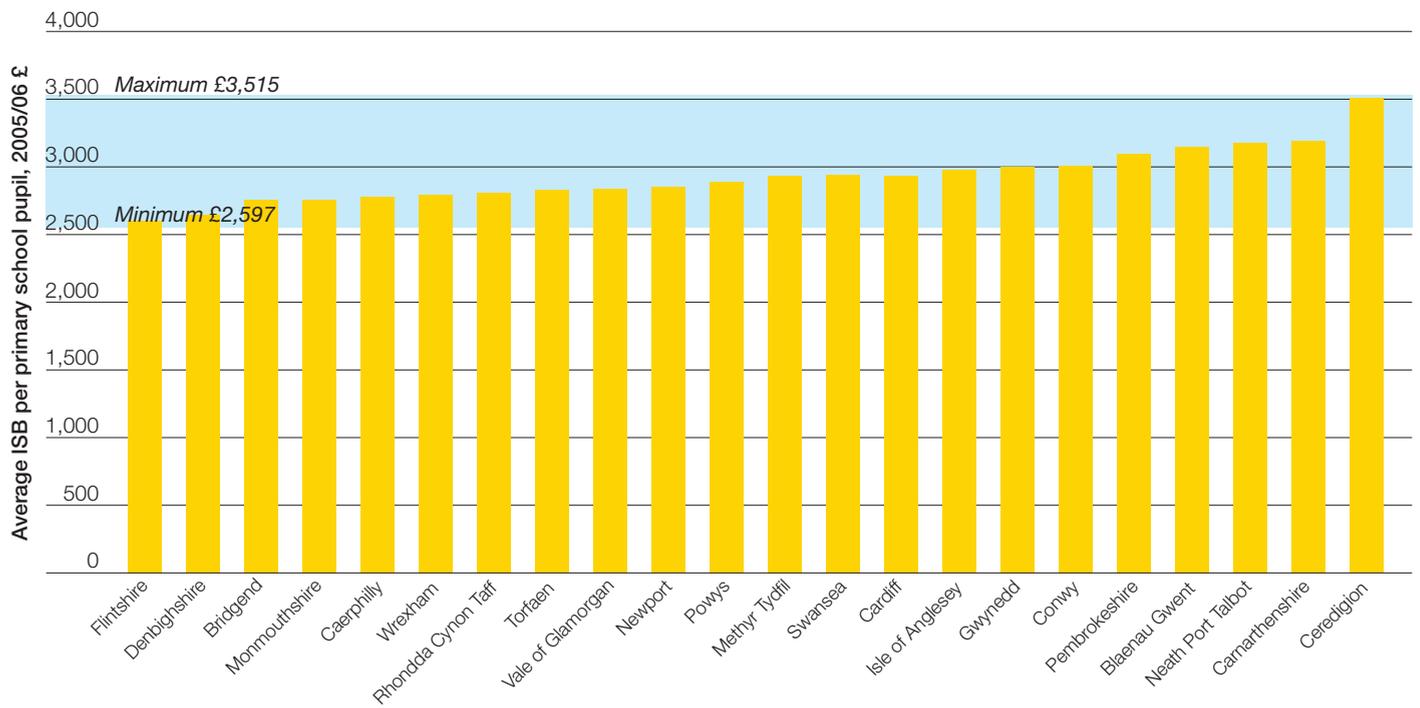
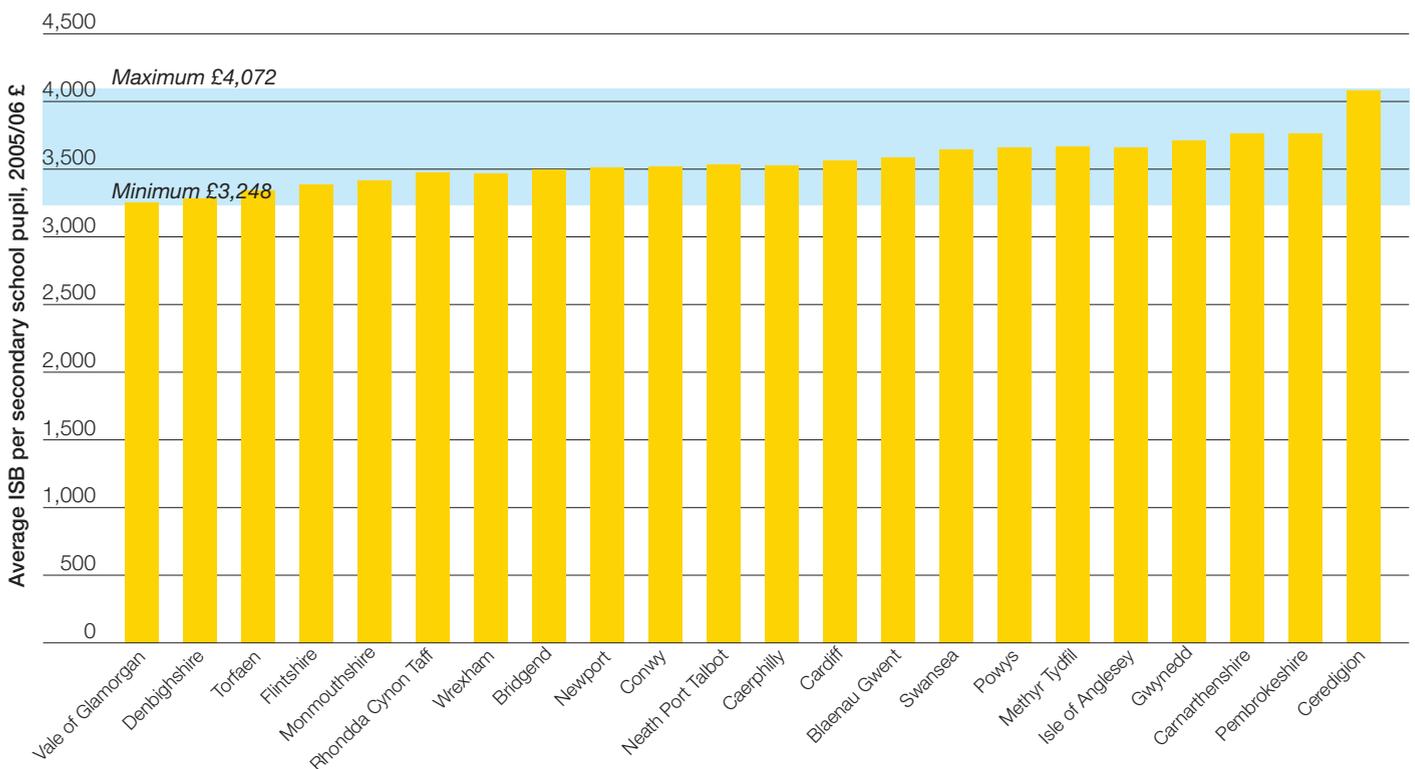


Exhibit 7: Average secondary school ISB per pupil for each council in 2005/2006



further SEN funding. Schools generally feel that existing formulae distribute funding that is, on the whole, reasonable and equitable.

- 56** However, there are weaknesses in many council funding formulae. In particular, several target little or no additional funding to those schools in deprived areas other than for pupils with recognised additional learning needs. Such targeting is particularly necessary in councils with contrasts in the areas it serves, including areas of comparative affluence as well as deprivation. This should help ensure that those schools serving the more deprived communities are able to provide the higher levels of individual pupil support and engagement with parents that are necessary in such areas. In some councils, Section 52 statements⁹ lack clarity in the extent to which they explain the mechanisms used to distribute various elements of the ISB.
- 57** The formulae deliver a wide range of ISB per pupil to schools within the same council, especially primary schools, in order to reflect schools' differing circumstances. This is reasonable because there is a wide range of factors that make some schools more costly to run than others. The range of ISB per pupil in primary schools is generally far wider within individual councils than it is between councils. In a number of cases, the range exceeds £6000 per pupil.
- 58** Particular factors that affect the ISB per pupil in individual schools include the presence of SEN units, whether or not there are pupils of nursery age on roll, and whether or not a school operates bilingually.
- 59** Average levels of ISB per pupil are heavily influenced by the proportion of small schools maintained by each council. This is particularly true for primary schools. There is a high correlation between the number on roll in primary schools across Wales and their ISB per pupil. Furthermore, ISB per pupil in small schools is very volatile, with small changes in pupil numbers causing large changes in ISB per pupil.
- 60** Overall, however, the extent to which small schools are subsidised by larger schools is lower than might be expected. Even though about 30% of primary schools have fewer than 90 pupils, only 9% of school pupils attend these schools, and they consume only about 11.5% of the total ISB. The size of the subsidy is therefore about £20 million. At the other end of the spectrum, about 65% of all primary school pupils attend schools with at least 180 pupils on roll. These schools consume about 61% of the total ISB.
- 61** The average level of ISB per pupil in a particular council does not, therefore, tell the whole story. Schools of a particular size may be funded at a level that is markedly different, relative to other authorities, than might be suggested by the average level of ISB per pupil in that council. For example, the average ISB per primary school pupil in one council (adjusted to take account of differing rates of SEN delegation) is well below average. However, the average ISB per pupil for schools with fewer than 90 pupils in the same council is third highest in Wales, and about 8% higher than the same measure for schools of a similar size in the council where average ISB per pupil is the highest in Wales. In contrast, primary schools in another council receive, on average, an above-average level of ISB per pupil, but the average level of ISB per pupil for schools with fewer than 90 pupils is fourth lowest in Wales.

⁹ Section 52 statements are the annual financial statements produced by each council in accordance with Section 52 of the School Standards and Framework Act, 1998.

Differences in the recording of education expenditure impede comparability and contribute to a perception of limited transparency

- 62** Further factors that limit the comparability of ISB data taken from councils' Revenue Account (RA) returns relate to variations in accounting practice. There is uncertainty, therefore, that the education budgets reported to the Welsh Assembly Government on RA Forms reflect the costs of the same range of services and functions in all councils in the same way.
- 63** In April 2004, Financial Reporting Standard 17 (FRS 17) was introduced to the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice. As a result, local authorities must account for increased in-year employer's pension liability costs. The Teachers' Pension Scheme is exempt from FRS 17, but it applies to all non-teaching staff employed in schools and who are members of local government pension schemes. Some, but not all, councils complete RA Forms 'on an FRS 17 basis', that is including the costs of school-based staff within the ISB. This provides a further distortion when attempting to compare levels of ISB per pupil between councils.
- 64** Councils employ varying degrees of rigour to the apportioning of the costs of central services such as payroll and financial support. As a result, the level of funding delegated to schools for such services may or may not reflect their true costs, perhaps contributing to a lack of comparability between the ISB levels reported in different authorities.
- 65** There is also significant inconsistency in the recording of grant income and associated matched funding. Whilst this inconsistency does not impact on the level of Individual Schools' Budget recorded, it makes the meaningful comparison of other elements within the education budget extremely difficult and therefore limits the comparability and contributes to the perceived lack of transparency.
- 66** Several education accountants interviewed as part of this review report a lack of clarity in Welsh Assembly Government guidance, particularly in relation to the recording of grants. Answers to queries are not always consistent, with responses often depending on whether the query has been directed to an education, finance or statistics official within the Welsh Assembly Government.

Appendix – Glossary of terms

Abbreviation	Full Name	Explanation
ALN	Additional Learning Needs	Pupils with additional learning needs have difficulties which prevent them from learning as quickly as most pupils of their age. Such difficulties might range from severe and permanent disabilities to more moderate needs, perhaps of a temporary nature. Many of these pupils are identified as having special educational needs.
IBA	Indicator-Based Assessment	Indicator-Based Assessments are the components of SSA that relate to specific services or functions.
ISB	Individual Schools Budget	The Individual Schools' Budget is that portion of a council's education budget that is delegated to schools.
	Net Education Budget	This refers to the budget set annually by each council, excluding income from specific grants.
RA	Revenue Account Forms	The Revenue Account Form is a standard return that each council makes annually to the Welsh Assembly Government. The RA Form shows councils' planned spending for the forthcoming year under a range of prescribed headings.
RSG	Revenue Support Grant	Revenue Support Grant is the annual grant from the Welsh Assembly Government to councils. This excludes specific grants that are allocated for particular purposes.
S52	Section 52 Forms	Section 52 Forms are published annually by councils. They show the funding distributed to each maintained school and the basis on which it has been allocated.
	Sparsity	Sparsity is the term used to refer to the dispersion and distribution of population across a council area.
SSA	Standard Spending Assessment	This is the mechanism used by the Welsh Assembly Government to allocate RSG to local authorities. It includes an assumed level of council tax income for each council. The aggregate of SSA is known as total standard spending.