

School Funding Committee

SFC(2)-06-06 Paper 2 Annex B

PAPER BY ELL MINISTER TO ASSEMBLY SCHOOL FUNDING COMMITTEE, 30 MARCH 2006

Introduction

1. The existing arrangements by which schools in Wales are funded primarily on a non-hypothecated basis through the local government revenue settlement have operated since before local government reorganisation in 1996. The Assembly Government has not made any changes to these arrangements because we believe that democratically elected local authorities are best placed to manage the delivery of local services, including schools, taking account of the funding provided through the settlement.

Process for determining the local government revenue settlement

2. The Assembly Government is responsible for determining the allocation for the settlement out of the total funding received from the UK Government under the Barnett formula. There is no direct role for the ELL Minister in this process. The settlement is established along with the rest of the Assembly Government's spending plans through the annual budget setting process. The considerations take account of the Expenditure Sub Group Report (ESG). The ESG Report is produced by the Welsh Local Government Association (WLGA) following discussions between Assembly Government officials and local government officers through the Expenditure Sub-Group (ESG), a working group of the Consultative Forum on Finance.

3. The aim of ESG is to identify the major pressures on local government that will arise in the subsequent years, and as far as possible to develop a shared understanding of the assumptions that underpin the costs of these pressures. Ultimately the report is produced by local government: however, by having a common understanding of how the contents of the report have been developed, it allows the Assembly Government's annual budget setting process to be better informed of the pressures faced by local government. Thus, when the allocation for the provisional revenue settlement is determined, there is the scope to relate the allocation back to the contents of the ESG report, reflecting the greater degree of transparency that now exists in the published settlement.

4. The provisional settlement is published at the end of October, at which point authorities are informed of their indicative allocations so they can begin budget planning for the coming financial year. There is a formal period of consultation on the provisional settlement. The final settlement, reflecting any adjustments made following consultation, is put to the National

Assembly for approval in early January and confirmed to authorities shortly thereafter.

Distribution of the local government settlement

5. Once the National Assembly has approved the settlement, it is distributed to local authorities. Annex A attached describes how the funding allocations through the Standard Spending Assessment (SSA) formulae are calculated; and how the SSA formulae and associated Indicator Based Assessments (IBAs) are derived and used to distribute the revenue settlement.

6. The current education formula was developed following an independent review of the SSA formulae in 1999. This recommended the application of neutral statistical techniques so that the resulting formulae are fair and objective across all 22 local authorities. It is important to emphasise that the SSA formulae are developed and kept under review in partnership with local government by the Distribution Sub Group (DSG).

Hypothecated grant funding

7. In addition to non-hypothecated funding through the settlement, authorities also receive hypothecated funding through a range of specific grants in support of Assembly Government priorities. A list of the key grants for education is attached at Annex B. Grant funding accounts for around 6% of local authorities' gross schools' expenditure (see ELL2 11-05(p3) tabled for discussion at ELL Committee on 13 October 2005).

Local authority budget setting

8. Once authorities receive their settlement allocation, they set budgets for the services for which they are responsible according to local needs and priorities. Since 2005-06 they must bear in mind when doing so the need to deliver annual 'Making the Connections' value for money improvements.

Consultation with schools budget forums

9. We introduced schools budget forums in 2003 to help develop informed and confident dialogue between local authorities and their schools on funding issues. Authorities must consult their schools forum before taking decisions on schools budgets each year, and the WAO report concludes they are making a positive contribution to the understanding of budget-setting processes. Final decisions on budgets rest ultimately with authorities, who are accountable to their electorates for the decisions they make.

The statutory framework for determining schools budgets

10. The Assembly Government sets the statutory framework within which local authorities allocate their education expenditure. The LEA Budget, Schools Budget and Individual Schools Budget (Wales) Regulations 2003 require local authorities to allocate expenditure to three budgets.

11 The LEA budget covers central LEA functions involved in provision of a specialised nature, school improvement, access to education, further education and training for young persons and adults and strategic management. The schools budget covers expenditure directly aimed at supporting schools and comprises expenditure for which the LEA retains funding centrally, such as SEN services or school meals and milk, together with funding which is delegated to schools through the individual schools budget. Delegated budgets include ELWa grant to local authorities for post-16 provision in schools.

12. Delegated budgets are distributed to authorities' schools on the basis of locally determined funding formulae. The School Budget Shares (Wales) Regulations 2004 requires the bulk of the funding (70%) to be distributed on the basis of pupil numbers, but with scope for authorities to take account of premises costs, falling pupil rolls and other non-pupil led factors. Authorities must include a factor for social deprivation in their formula. The Assembly Government does not issue any guidance as to what factor(s) authorities should use but a recent informal survey by officials suggests that most authorities use entitlement to free school meals.

13. The average delegation rate across Wales in 2005-06 is 76.7% (see again ELL2 11-05(p3)). Evidence in the WAO report concludes that schools are broadly content with the levels of delegation by local authorities, and consider existing local funding formulae distribute funding that is, on the whole, reasonable and equitable.

Accessibility and transparency of school funding information

14. The Assembly Government publishes annually statistical data on local authority budgets set for the financial year. We also publish statistics on Welsh local authority budgets and comparisons with England. Making this information available enables scrutiny by ELL Committee and more widely.

We have further increased transparency since 2004-05 by publishing the indicator based assessments (IBA), including that for education, within the SSA for the local government settlement, as well as comparisons between IBA and education spend at individual local authority and all-Wales levels. The WAO report has made recommendations to improve both reporting of authorities' expenditure and schools' understanding of local budget decisions. We shall be considering those with the WLGA.

Capital funding

15. The Assembly Government currently makes available to local authorities and governing bodies of Voluntary Aided schools grant and spending approval for capital investment in schools.

16. The elements are:

17. School Buildings Improvement Grant, which is ring-fenced capital grant provided to local authorities. This includes £9m lump sum shares to authorities to allow for large scale projects to

be undertaken and formula annual allocations which authorities can use for smaller scale projects or as a contribution to larger projects. The latter is distributed using the education element of the annual capital allocations provided to authorities – General Capital Funding (currently based on 75% pupil numbers and 25% school buildings). For both elements, authorities submit proposals to the Assembly Government for use of their share of the funding against criteria which are widely drawn to allow improvements to school sites and buildings including new buildings and schools to the Assembly for use of their allocations. Total grant in 2005-06 and again in 2006-07 is £74.685m.

18. The Voluntary Aided (VA) Schools Capital Grant Programme provides financial assistance for the establishment and capital maintenance of such schools in partnership with the school governors and Local Education Authorities. There are 162 VA schools in Wales.

19. Responsibility for the provision, repair and maintenance of a VA School is shared between the school governors and the LEA. The Governors are responsible for the fabric of the school. The LEA is responsible for the repair and maintenance and for the initial provision of the kitchen, dining hall, medical inspection room, caretaker's house and playing fields. Under paragraph 5 of schedule 3 of the School Standards and Framework Act 1998, the Assembly has the power to grant aid 85% of the costs of the governors approved expenditure, with the governors themselves required to meet the remaining 15%. The (85%) grant amount for 2005-06 and again for 2006-07 is £9.5m.

20. A notional amount for education is contained within annual capital allocations provided to local authorities in General Capital Funding (GCF). Similarly, notional amounts are included in the overall GCF for Personal Social Services, Transport, Housing, Local Environmental Services and Law and Order and Protective Services. These amounts are un-hypothecated at an all-Wales and individual local authority level. It is for each authority to decide what level of funding to allocate to individual service sectors and thereafter to individual projects in the light of their perception of local needs and priorities. The notional amount for 2005-06 and again for 2006-07 is £59.331m.

21. Local authorities can also use capital receipts, revenue contributions and prudential borrowing to fund capital investment.

Conclusion

22. The Assembly Government considers that the existing arrangements for funding schools in Wales have stood the test of time and that the WAO report supports their rationale and points to their continuation. We are always prepared to consider improvements - both to the existing funding arrangements and by introducing new procedures - where evidence suggests those are needed.

23. We have made improvements in recent years through the introduction of schools budget forums and by increasing transparency. I have committed to consider how we can use powers in the Education Act 2005 to introduce 3- year budgets for schools to give them greater certainty

and stability about funding. This needs to link into a wider exercise which is being undertaken currently to consider 3-year revenue and capital settlements for local authorities in Wales.

25. An Assembly Government working group, including teaching union and LEA representatives has been developing proposals for the introduction of Consistent Financial Reporting so that schools will be able to compare how they spend and manage their resources and see if there is scope for improvement.

26. I have already indicated to ELL Committee that I expect to be able to respond positively to the recommendations in the WAO report.

JANE DAVIDSON

Minister for Education and Lifelong Learning

March 2006

Annex A

Note on the SSA and IBA system

Council SSAs are used to distribute the Revenue Support Grant (RSG). The SSA calculation is a way of deciding relative need to provide services, and thus the relative proportions of the RSG to be allocated to each council.

The calculation of the total SSA starts with the RSG in the Assembly's budget. To this is added assumed council tax yield for the relevant year.

The SSA calculation is broken down between the different services provided by councils. These different elements are called service IBAs. The proportion of the overall SSA allocated to each service IBA is based on actual council spending on each service area in previous years.

Each IBA has its own distribution formula, which uses objective indicators to distribute the IBA between councils. The primary and secondary education IBAs use pupil numbers, measures of deprivation and sparsity to distribute funding.

The individual service IBAs for a council are then added together to give the total SSA for that council.

Overall, therefore, the SSA formula is considered by the Assembly Government and the WLGA as the best mechanism we have to measure relative need and thus distribute the RSG. But all distribution formulas have their limitations.

The IBA formulas were derived from statistical modelling. The objective of the modelling was to

identify the factors (like pupil numbers) which determined the level of services councils need to provide, and to decide the most appropriate balance between those factors.

When the formulas were derived, there could be quite a difference between councils' spending on a particular service and the resources the IBA formula allocated. This is because the things that influence levels of local council services are complex. It is not possible to come up with a formula that measures everything, and works perfectly for every council.