



Llywodraeth Cymru
Welsh Government

REPORT, DOCUMENT

Review of the school funding formula

Summary of the findings from the school funding formula review and recommendations.

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Background

In July 2019, the Children, Young People and Education Committee (CYPE) published its **report on School Funding in Wales** (<https://senedd.wales/laid%20documents/cr-ld12643/cr-ld12643-e.pdf>). The report contains 21 recommendations, the first of which focuses on the level of school funding whilst several (R5, R8, R9) relate to the setting and reporting of school budgets, and one (R20) to services provided by local authorities to schools.

The CYPE Committee recommended that the Welsh Government commission an urgent review of how much funding is required to fund schools sufficiently in Wales, particularly given the level of reform currently being undertaken. Consequently, Luke Sibieta, of Sibieta Economics of Education LTD, was commissioned to undertake this work independently of the Welsh Government.

The subsequent report, **Review of School Spending in Wales** (<https://www.gov.wales/review-school-spending-wales>), published in October 2020, contains 12 recommendations, three of which (R5, R7, R9) focus on the principles of transparency and comparability.

For many years, concerns have been raised from within the education sector, about the level of school spending per pupil, differences across local authorities and between schools and whether funding levels are sufficient to meet the needs of pupils.

Taken together, these catalysed a review by the Welsh Government of local authority funding formula. The purpose of the review was to conduct an in-depth analysis of local authority school funding formulae to understand the complexities and decision-making processes involved.

The review would also consider the extent of service level agreements (SLAs)

between local authorities and schools, their assumed value for money and how they vary from authority to authority. It sought to highlight good practice and to consider how best to ensure that published delegation rates accurately reflect the level of funding which is genuinely delegated for a school's core activity.

School funding

The Welsh Government does not provide funding directly to schools. It provides funding mainly through the Local Government Revenue Settlement in the form of the Revenue Support Grant (RSG). This funding is not ring-fenced, and it is therefore available for the authority to spend across the range of services it provides as it sees fit taking into account local priorities and needs.

The total of each local authority's Schools' Budget is determined annually through their overall budget setting processes. The school funding formulae do not drive the size of the budget allocated for schools, but are a distribution method, a way of allocating the delegated budget set by the local authority. Whatever the value that each local authority has thereby decided to delegate to schools is allocated to individual schools according to the authority's agreed funding formulae.

The School Funding (Wales) Regulations 2010 require 70% of funding for schools' budgets to be distributed on the basis of pupil numbers. Local authorities have discretion to distribute the remaining 30% on the basis of a range of factors so that they can take account of individual school circumstances.

School funding formulae should be set out following consultation with the Schools Budget Forum, Headteachers and Governing Bodies, so that all stakeholders are sighted on the allocation process. Each local authority then publishes details of the delegated budget, both the amounts and the method

used, in what is known as a Section 52 Budget Statement (as required by The Education (Budget Statements) (Wales) Regulations 2002). Once budget shares have been delegated to schools, management of those budgets are the responsibility of the school's governing body.

This Review of School Funding Formula is about how funding is allocated to schools. The amount of funding available for allocation to schools is outside of its remit. The intended outcome of the review is to ensure that whatever funding is available is allocated to schools fairly, equitably, and transparently.

Method

The focus of the Review of School Funding Formula has been to understand the depth and complexity of how the funding set aside by local authorities for schools is actually allocated to individual schools, including addressing the following questions:

- What factors are driving those formulae?
- From where is the data for those factors obtained?
- How are different types of school sector, size, location, medium of instruction, affected by the different factors and weightings applied in different local authorities?

The review has carried out in-depth analysis of the formula documents provided by local authorities, including Section 52 Budget Statements. These were supplemented by local authorities' budget working papers containing more detail of their calculations. Detailed discussions were also held with Finance Managers in most authorities to understand their processes and methodologies.

The analysis was undertaken on budgets for the 2023 to 24 financial year and for the primary, middle and secondary sectors only. The nursery sector accounts

for only 0.11% of the total delegated budget and analysis of it would therefore be immaterial to the outcome of the review. The special schools sector accounts for 6% of the total delegated budget but given the complex nuances of this sector and the very wide range of differing school characteristics found within it, a separate exercise would better serve a meaningful analysis of this funding. Therefore, the special school formula is outside the scope of this review.

The related, but relatively more straightforward additional learning needs (ALN) elements of the mainstream budget are, in themselves, among the more complex and diverse of the factors and formulae in use for the primary, middle and secondary sectors and are covered later in this report.

Findings

Diversity of approach

Across Wales, the total funding delegated to schools in 2023 to 24 was £2.457bn (**Statswales website: Delegated School Budgets by authority**). (<https://statswales.gov.wales/v/QZUB>) This funding is allocated to almost 1,500 (**Statswales website: Schools by local authority, region and type of school**) (<https://statswales.gov.wales/Catalogue/Education-and-Skills/Schools-and-Teachers/Schools-Census/Pupil-Level-Annual-School-Census/Schools/schools-by-localauthorityregion-type>) schools by 22 local authorities, each one with its own local priorities and its own set of funding formulae. This has inevitably led to a wide variation in how budgets for individual schools are derived and presented.

Funding formulae components

Local authorities' school funding formulae for mainstream schools include a mixture of pupil-led and non-pupil-led elements. These include, but are not

limited to, the following list, and the relative levels of funding allocated for any one driver can vary considerably between local authorities.

Pupil-led funding

- Equal funding per pupil.
- Weighted funding per pupil (for example, if a pupil is educated through the medium of Welsh).
- Notional classes required (based on a maximum number of pupils per class).
- Residency in relation to the Welsh Index of Multiple Deprivation (WIMD).
- Eligibility for free school meals (eFSM).
- Test scores.
- Assessment of need for ALN support.

School or site-led funding

- A common value allocated to every school.
- A common value allocated to every school with a particular characteristic (for example, every primary school, every designated bilingual school).
- Floor area.
- Building condition.

Mechanisms like lump sums or minimum teacher funding are used to counter disadvantages faced by some schools, for example, smaller schools. Allocating all funds via pupil numbers would have an adverse effect on smaller schools who cannot achieve economies of scale. To counter this, various methods are used including a common value allocated to every school (sometimes referred to as a “lump sum”) and a small schools protection factor (which may account for how far below a minimum threshold a school’s pupil numbers are). One effect of this is to ensure that a minimum number of teachers is funded regardless of the pupil numbers.

As each local authority makes its own decisions in relation to the drivers it uses and the amounts of funding allocated by each driver, similar sized schools in different authorities can receive budget shares of very different values.

The review identified challenges in the current system around complexity, inconsistency and transparency. In allowing local authorities considerable autonomy to determine priorities and set funding levels and design allocation methods, the ability to understand and to meaningfully compare the budgets allocated to schools has to some extent been lost. The formulae in use are diverse and are often complex. This hampers comprehension of them, and to an extent denies schools the ability to plan and to exercise sound financial management, it also makes it difficult to challenge from a stakeholder perspective.

Pupil-led and other key drivers

A requirement of the School Funding Regulations (2010) is that a local authority must ensure that their formula provides that at least 70 per cent of the amount which is their individual schools budget is allocated on a pupil-led basis. Table 2 of the Section 52 Budget Statement is set out in a way that highlights compliance (or otherwise) with this requirement by having a pupil-led section. The regulations allow for pupil numbers to be weighted. Examples of permitted weightings are: by age, by hours of attendance, with reference to special educational needs, whether a pupil is being educated through the medium of Welsh. The pupil-led element of any school's budget is therefore not as simple as the number of pupils in the school multiplied by a common value per pupil and will vary across local authorities dependant on factors used.

In addition, a local authority may have within its funding formulae a heading for something in relation to the school's site or its specific nature, some of which it allocates on a per pupil basis. Due to this heading being site-specific or school-specific, the authority may opt to include this funding in that section rather than

the pupil-led section even though it is in essence pupil-led funding.

The primary driver in formula funding is pupil numbers. Most delegated funding is allocated on a simple per pupil basis (according to year group). There are however dozens of other drivers in use across Wales, none of which are used for even 10% of the funding allocated, this in turn increases the complexity of individual formula.

Among the drivers which allocate larger amounts of funding are floor area and a common value per school (often referred to as a 'lump sum'). However, even these have subdivisions. For example, a school may have different floor areas, one for allocating notional cleaning funding and another for allocating notional repair & maintenance funding. These may then be weighted for how close to full pupil capacity a school is or for the condition of the building. Among the many other drivers in use, many are variations on a theme. For example, many authorities use pupil number ranges, i.e. £x is allocated to each school with less than 200 pupils, £y to each school with between 200 and 300 pupils and £z to each school with more than 300 pupils, however, many different thresholds are in use. Some drivers are used in one local authority only, other drivers are used to allocate very small sums of money. In 2023 to 24, for example, one authority used a discrete driver to allocate a total of just £10,000 across all its schools.

Whilst funding per pupil is at the heart of formula funding and all local authorities use this method to delegate most of their funding, there is no great consistency in how authorities count pupils for the purposes of funding schools. Some authorities use just one count date, whilst others use multiple dates. Those who use multiple dates almost always include an element of estimated future numbers. The determination of estimates can be protracted, involving significant discussion and negotiation between authorities and their schools. Funding is usually adjusted when estimated figures become actual numbers, but this is sometimes adjusted in the financial year in question and sometimes in the following financial year. Where actual numbers are used, this is sometimes an official census, for example PLASC (pupil-led annual school census) and

sometimes a local exercise.

The use of one count date, such as PLASC, is clearly advantageous administratively. PLASC has the further advantages of a) being an exercise that is already being done for other purposes, b) providing an audit trail with every pupil included in the count being fully identifiable (for the elimination of doubt, duplication, etc) and c) being the basis (in part) of Welsh Government's RSG allocations to local authorities. A disadvantage of PLASC is that its occurrence is later than would be ideal in terms of informing schools of their budget allocations in good time.

As well as operating 22 different sets of formulae, each local authority has its own approach as to how it performs its calculations, how it lays out its spreadsheets and how it presents this information to schools and other stakeholders. The complexity of this led to significant difficulty in the analysis work essential to this review, as the effect of any given formula was often not immediately apparent, and even when becoming apparent, it was often not comparable with similar formulae used by other local authorities.

An irony in this complexity of variety is that, sometimes, completely different approaches and presentations arrive at the same result. For example, one local authority has moved away from a per pupil method of allocating its notional teaching budget to one which allocates according to the number of notional classes needing to be staffed by a teacher (using a maximum of 30 pupils per class). Whilst not per pupil funding, because the number of classes required is driven by the number of pupils in the school, the authority argues that the funding allocation is pupil-led and therefore counts towards the 70% requirement. Another local authority continues to allocate most of its notional teaching budget on a per pupil basis, but then includes a supplement for each school whose pupil numbers are below a multiple of 30 such that there is notional funding for one teacher in each class. The effect is the same in both cases.

Another facet coming to light is the use of formulae within formulae, where the initial “solution” (or understanding) of a formula reveals another formula needing to be “resolved” (or understood). Whilst this is, arguably, about presentation rather than substance, the substance of a formula can only be understood upon its presentation. In this case, the presentation is clouding the essence of the formula rather than aiding its understanding.

One requirement of the regulations is that local authorities must include a factor in relation to social deprivation, but this cannot include any funding in relation to the provision of free school meals to entitled pupils. Many local authorities use a deprivation factor to allocate part of their ALN funding, and some consider this to fulfil the role of a social deprivation factor. At least one local authority allocates a negligible amount according to free school meal entitlement. Whilst both examples may technically meet the requirement, it may not be in the spirit of the legislation.

The regulations require the exclusion of specific grants from formula funding. However, some local authorities do include some specific grants in their formula funding allocations. These further skews comparability and may compromise policy aims to which the grant funding is attached.

Additional learning needs

A key element in school’s expenditure is on pupils with additional learning needs (ALN). In the 2023 to 24 financial year, local authorities identified a total of £233.0m (**Statswales website: Delegated School Budgets by authority**) (<https://statswales.gov.wales/v/QZUB>)(of the £2.457bn ([\(https://Delegated School Budgets by sector \(£ thousand\)\)](https://Delegated School Budgets by sector (£ thousand)))(**Statswales: delegated School Budgets by sector**) (<https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Delegated-School-Budgets/delegatedschoolbudgets-by-sector>) ([\(https://Delegated School Budgets by sector \(£ thousand\)\)](https://Delegated School Budgets by sector (£ thousand)))delegated to schools) as being, notionally, for ALN. Variability in ALN delegation complicates financial comparisons across local

authorities. A range of factors were used to allocate this funding to individual schools. They include: ALN unit places, entitlement to free school meals (sometimes viewed as a proxy for additional learning need), assessment of pupils' specific needs, categories of need, test scores, number of Individual Development Plans, pupils' residence in relation to the Welsh Index of Multiple Deprivation (again often viewed as a proxy for additional learning need), among others. Each authority may use a number of these factors within their formula to allocate ALN funding. The funding is shown as a memorandum item in Section 52 Budget Statements. Given the complexities of this funding stream, it may however benefit from being shown as a separate constituent part of a school's delegated budget.

As well as the notional ALN funding within the primary and secondary sectors, £145.7m is delegated to special schools and £164.7m (**Budgeted Expenditure on Special Educational Needs (SEN) Provision: 2023 to 24**)

(<https://www.gov.wales/sites/default/files/statistics-and-research/2023-06/budgeted-expenditure-special-educational-needs-provision-april-2023-march-2024-060.pdf>) is retained by local authorities for ALN.

ALN is an example of an expenditure heading containing aspects which some authorities chose to delegate whilst other chose to retain. Other examples include catering (in the primary sector), nursery education and PRU's amongst others. Whilst this differentiation is a good example of local democracy in operation, it is a further hinderance in comparing levels of funding, because schools in one local authority may have more funding than similar schools in another authority, but only because they have more areas of delegated responsibility.

Delegation

Differences in local authorities' decisions on which functions to delegate affect the funding per pupil in each authority. In a local authority that chooses to retain

a higher number of functions, the delegated funding per pupil is inevitably lower, but without reducing schools' ability to spend. This distorts comparison of per pupil funding between local authorities. Delegation rates in 2023 to 24 ranged from 74.4% to 87.2%. Legislative arrangements in Scotland, as well as previous legislative arrangements in Wales, have sought to address this, at least in part, by prescribing which expenditure headings must, may or must not be delegated. Reintroducing such legislation would aid comparisons of funding between local authorities and between individual schools.

A further reason why funding per pupil is not truly comparable is that local authorities allocate different proportions of their delegated budgets to a contingency fund at the start of the year. That fund must be fully delegated to individual schools at some point during the financial year in question, but any funding in the contingency at the start of the year is excluded from the published school-by-school per pupil funding levels. In 2023 to 24, two local authorities did not use contingency funds. Of those who did use contingency funds, the proportion of the delegated budget initially assigned there ranged from 0.2% to 7.6%. At the higher end especially, this is another factor distorting funding comparisons.

The analysis of service level agreements (SLA's) in use across Wales is continuing. Several observations can be made from the work undertaken so far.

1. SLA's are often offered by some local authorities for functions which in some cases are not delegated to schools in other local authorities. This is an example of something which distorts comparison of delegated funding levels.
2. Some local authorities are operating compulsory buy-back for some SLA's. This practice removes a school's discretion to use an element of its delegated budget as it sees fit. This appears to be contrary to the principle of delegation.
3. Some local authorities appear to have adopted the practice of compulsory buy-back purely to meet target delegation rates. This practice does not extend any additional financial resources to schools and therefore

undermines the purpose of the target.

4. A wide variety of approaches and practices in relation to SLA's exists across Wales.

Key issues

Whilst it is entirely possible that each one of the formulae in use is (or was at one time) entirely justifiable, the continued presence of so many is a major barrier to understanding how school funding is allocated. It is most unlikely that the plethora of formulae in use is bringing any significant benefit (for example, equity, accurate targeting, better understanding) but it is most certainly not aiding transparency. In some

cases, formulae continue to be used where the rationale underpinning them has either been lost or become irrelevant.

Key issues identified in the current system are:

Lack of transparency

The diverse and complex funding formulae hinder understanding and comparison of school funding.

Equity concerns

Disparities in funding allocations and decision-making autonomy create unequal conditions for schools.

Regulatory interpretation

Local authorities' significant discretion and differing interpretations of the regulations have led to inconsistent application of funding regulations and one which may not always align with the intent of the legislation.

In summary, both the funding allocation methods in use by local authorities and the ways in which these are published are complex and inconsistent, both of which obscure the picture for those seeking to understand school funding, to compare levels in different schools and to assess the sufficiency of that funding.

Recommendations

1. School funding regulations should be revised

Local Authorities interpret some aspects differently and some report that they find them difficult to use and understand. A full revision will afford opportunity to improve transparency and comparability in the levels of school funding across Wales.

2. Welsh Government should publish accompanying guidance to the school funding regulations which should be more explicit and aid with interpretation of the regulations

These will provide for commonality and consistency of approach and understanding, both of which are essential for transparency and comparability.

3. There should be clearer criteria around delegation

This will define the powers and the responsibilities of school governing bodies in relation to funding delegated to them. They will also seek to define what areas of expenditure must, may or must not be delegated to schools. Standardised delegation practices would improve funding comparability.

4. Data sets and formula factors in use should be more standardised and better defined

Any progress towards transparency and comparability requires more consistent approaches based on common understandings and practices. It is preferable however, within this context, to retain the flexibility of “more” rather than “totally” (standardised) and of “better” rather than “rigidly” (defined).

5. Consideration should be given to requiring that PLASC must be the basis of pupil numbers used in funding formulae across all LAs

It would be easier for schools to plan ahead if the formulae and their drivers are better understood.

6. Consideration should be given to requiring that all elements of a school's budget share must be (demonstrably) calculated using a formula

7. A template should be developed for the presentation of formula funding by all local authorities

This will improve the clarity of presentation, incorporate an evidence trail for the calculations and aid comparison whilst still allowing local autonomy to meet individual need.

8. ALN funding should form its own funding stream within the delegated budget

ALN funding is already identified as a memorandum item in the Section 52 Budget Statements and so this is not a new concept. Presenting it more clearly as a separate funding stream will though, strengthen its identity and inform debate on the appropriate levels and usage of ALN funding for the benefit of this vulnerable cohort of learners.

9. General delegated funding should be divided into two streams, one for mandatory delegated headings and one for discretionary delegated headings

This will allow for meaningful comparison of core, defined areas of school expenditure, whilst allowing local authorities to retain the discretion to retain or to delegate ancillary areas of expenditure.

10. Further work should be undertaken on Service Level Agreements offered to schools

This should consider the appropriateness of compulsory buy-back.

11. The emphasis in these changes should be on presentation more than, but not to the exclusion of, substance

In seeking to improve transparency and comparability, it is important to recognise and retain the importance of local democracy and local decision making.

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