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# SCHOOL SPENDING IN WALES

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<sup>1</sup> This briefing note is an updated version of evidence submitted to the ongoing inquiry into school funding by the Senedd Children, Young People and Education Committee. It partly draws on work published by Luke Sibieta as a Research Fellow at the Institute for Fiscal Studies. It also draws on analysis produced for a Welsh Local Government Association workshop in November 2018. In addition, Luke Sibieta a Research Fellow at the Education Policy Institute. These organisations do not bear any responsibility for the views, interpretation or analysis produced in this briefing note. All views expressed and any errors are the responsibility of the author alone.

## Executive Summary

- **School spending per pupil in Wales fell by 5% in real-terms between 2009-10 and 2017-18.** With overall pupil number largely constant, this was driven by a 5% fall in total spending.
- This is a **smaller cut than in England and Northern Ireland**, where spending per pupil fell by 8% or more in real-terms, and where pupil numbers have risen.
- **The cut in Wales is larger than in Scotland**, where spending per pupil fell by 3% in real-terms and overall pupil numbers were also largely constant.
- The **Welsh Government has committed to an extra £100m to improve school standards.** Combined with other commitments, **this will still lead to further cuts in spending per pupil.**
- Without further spending commitments, **we project that spending per pupil will fall by nearly 9% in total in real-terms between 2009-10 and 2020-21**, taking spending per pupil back to a level last seen in Wales in 2006-07.
- **Such spending cuts will make it harder to deliver improved school standards in Wales.**
- **Avoiding real-terms cuts in spending per pupil between 2016-17 and 2020-21 would require additional spending of just under £120m per year.**
- Actual spending levels will be shaped by future spending choices by the Welsh Government and local authorities across Wales. **Their ability to make further spending commitments will in turn be shaped by the level of the block grant**, which will be determined as part of the next UK public spending review (expected in 2019).
- **Spending per pupil varies across local authorities in Wales, from around £5,000 per pupil in the Vale of Glamorgan to around £6,400 per pupil in Ceredigion.** This range reflects a combination of differences in deprivation and sparsity, as well as choices made by local authorities.
- **Sparsity plays an important role in shaping the distribution of spending per pupil across Wales**, and more so than in England. For example, the proportion of pupils eligible for free school meals in Blaenau Gwent (21%) is almost double the level in Ceredigion (11%). However, because of the effects of sparsity, these two local authorities have similar levels of spending per pupil (just under £6,400 per pupil).
- Whilst the cost of providing schooling in more sparsely populated areas is high, **there are better measures available to allocate sparsity funding than those currently used in Wales.**
- **The Welsh government has made increasing use of specific grants in recent years.** Whilst these can help direct funding to specific activities or pupils, too many specific grants can make the system complicated and hard to understand. They should be used sparingly.

# 1. Introduction

The Welsh Government has set out various protections for school spending since overall public spending cuts across the UK began to take effect from 2010. In the last Assembly term, it committed to increase school spending by 1% more than the block grant. It is now committed to increase spending on school standards by £100m over the course of the current Assembly term.

There is also a major drive to improve school results in light of Wales' below-average performance in international PISA rankings for reading, numeracy and science<sup>2</sup>. This has included substantial changes to the structure and focus of the school system, including new tests for pupils aged 7 to 14, changed GCSE curricula, new regional consortia, the introduction of pioneer schools and a range of other changes.

The level of funding available to schools and local authorities is likely to play a major part in determining the potential success of these policies. Recent empirical evidence shows that higher levels of school spending can have a positive influence on children's later life outcomes, particularly disadvantaged pupils and even more so if it is preceded by high quality early years provision<sup>3</sup>.

The Assembly Children, Young People and Education Committee is currently undertaking an inquiry into school funding. In this briefing note, we set out a range of empirical evidence and forecasts to help inform this inquiry and wider public debate on school funding in Wales. We start by showing what has happened to school spending in Wales, how this compares with trends in other countries of the UK and how school spending per pupil is likely to evolve over the next few years given stated commitments. We then describe how funding is distributed across local authorities in Wales and the patterns that arise as a result. We conclude with a discussion of the policy challenges going forwards.

## 2. What has happened to school spending in Wales?

**Total spending on schools in Wales represented was £2.5 billion in 2017-18.** This represents day-to-day spending on schooling by local authorities across Wales, i.e. it excludes capital spending and central spending by the Welsh Government on areas such as teacher training.

**Just over £2.1 billion was allocated directly to schools to meet their day-to-day costs<sup>4</sup>.** This mainly reflects budgets provided by local authorities as part of their local school funding formulae.

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<sup>2</sup> OECD, [PISA Results for 2015](#)

<sup>3</sup> Jackson et al (2016), [The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms](#); Jackson and Johnson (2017), [Reducing Inequality Through Dynamic Complementarity: Evidence from Head Start and Public School Spending](#)

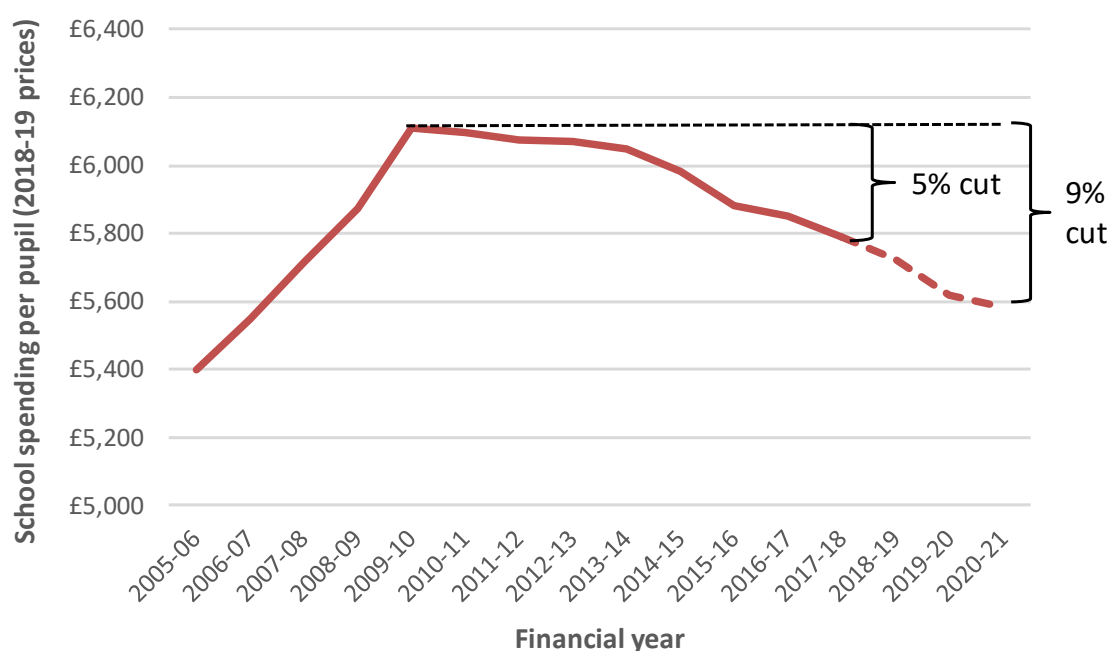
<sup>4</sup> Delegated school budgets as recorded in [Local Authority Budgeted Expenditure on Schools](#)

However, it will also include specific grants like the Education Improvement Grant (£133m), Pupil Development Grant (£91m) and Sixth Form Funding (£98m)<sup>5</sup>.

**The remaining £400m represents spending on central services by local authorities**, which accounts for about 16% of total day-to-day school spending<sup>6</sup>. This covers spending on a range of functions, such as support for children with additional learning or special educational needs, school improvement services, home-to-school transport and strategic management of schools.

**In 2017-18, total spending per pupil represented about £5,790 in today's prices (2018-19 prices).** As shown in Figure 1 below, this represents a real-terms decline of just over 5% or £320 as compared with the historic high-point of £6,100 per pupil reached in 2009-10.

**Figure 1 – School spending per pupil in Wales (actual and forecast), 2005-06 to 2020-21**



**Sources and Notes:** Total school spending from 2005-06 to 2016-17 represents total net current expenditure on schools as taken from Stats Wales, [Education Revenue Expenditure](#), 2017-18 nowcasted based on [Local Authority Budgeted Expenditure on Schools](#). Forecasts for 2018-19 to 2020-21 assume an extra £100m in nominal school spending in 2020-21 as compared with 2016-17 and a total of £22m per year from the teacher pay grant. Number of pupils in state-funded schools taken from Welsh Government, [Wales School Census Results 2010, 2012, 2017 and 2018](#) and Stats Wales, [Pupil Projections](#); HM Treasury, [Spring Statement 2019 Deflators](#)

Looking forwards, **the Welsh Government has 'committed to investing an additional £100m over the course of this Assembly term to raise school standards,'** as re-stated in the recent draft Budget for 2019-20<sup>7</sup>. The Welsh Government has also committed to allocating all of the teacher

<sup>5</sup> <https://gweddiill.gov.wales/topics/localgovernment/finandfunding/settlement/lg-settlement-2018-19/final-local-gov-settlement-2018-19/?lang=en>

<sup>6</sup> Central spending as recorded in [Local Authority Budgeted Expenditure on Schools](#).

<sup>7</sup> <https://www.assembly.wales/en/bus-home/research/financial-scrutiny/budgets/Pages/wg-budget-2019-20-draft.aspx>

pay grant funding from the UK government to support the teachers' pay award (£14.8m in 2019-20 announced in the draft budget and a further £7.5m announced in the final budget<sup>8</sup>).

The Welsh government has not yet set out full plans for how all the extra £100m will be allocated. Actual spending levels will also be shaped by local authority decisions in future years, as well as overall funding levels for the devolved administrations to be determined in the UK Spending Review (expected in 2019). However, to illustrate the likely implications of existing commitments, we project the spending level in the last year of this Assembly term (2020-21) by adding £100m to the level of spending in the first year of the Assembly term (2016-17) and then add the teacher pay grant on top of this<sup>9</sup>.

This leads us to **project that spending per pupil will be about £5,600 per pupil in 2020-21 (in 2018-19 prices)**. This represents a real-terms decline of about 4% compared with 2017-18.

If delivered, **this would equate to a total real-terms in school spending per pupil of nearly 9% or £500 per pupil between 2009-10 and 2020-21**. It would also take the level of school spending per pupil in Wales back to a level last seen 14 years earlier in 2006-07.

**Avoiding real-term cuts in funding per pupil over the current Assembly term would require just under £120m in school spending in 2020-21 as compared with current commitments**. This represents the cost of ensuring school spending per pupil remains at the same real-terms level in 2020-21 as in 2016-17 relative to existing plans and commitments.

### 3. How does school spending per pupil in Wales compare with other countries of the UK?

How has school spending evolved across the different countries of the UK since public spending cuts began to take effect in 2010?

Schools policy is a devolved matter across the UK. **School structures and funding systems therefore differ across each country of the UK**. To account for these differences, we measure school spending in each country as the total amount of day-to-day spending by either schools themselves or by local authorities. This covers pupils from age 3 in nursery schools or classes right up to age 18 in school sixth forms.

Figure 2 then shows the real-terms change in total school spending, pupil numbers and school spending per pupil between 2009-10 and 2017-18 across Wales, England, Scotland and Northern Ireland.

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<sup>8</sup> <https://beta.gov.wales/sites/default/files/publications/2018-12/final-budget-2019-2020-note.pdf>

<sup>9</sup> We do not include funding to compensate schools for higher employer contributions to the teacher pension scheme as this is meant to cover higher costs.

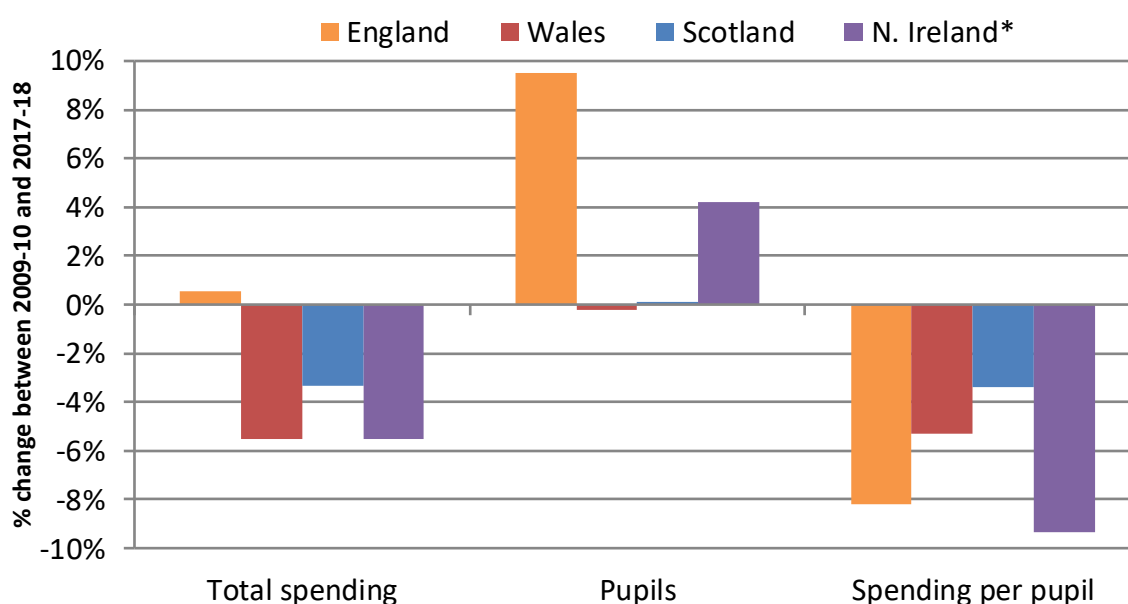
**In Wales, overall pupil numbers have been largely constant over this period and the 5% real-terms cut in spending per pupil has been driven by a 5% cut in total spending.**

**There has been a slightly smaller drop in spending per pupil in Scotland.** However, there is a similar pattern as in Wales. Pupil numbers in Scotland were largely unchanged and a 3% real-terms drop in spending per pupil was driven by a 3% cut in total spending.

**In England and Northern Ireland, spending per pupil has fallen by more because of greater growth in the number of pupils.** In England, pupil numbers have risen by over 9% between 2009-10 and 2017-18. A small real-terms increase in spending of just under 1% therefore led to an 8% real-terms drop in spending per pupil.

In Northern Ireland, we are only able to show trends back to 2011-12. Despite the shorter time frame, spending per pupil has fallen by more than in all other countries in the UK. Overall spending fell by 5% in real-terms and pupil numbers rose by 4%, which resulted in a 9% real-terms drop in spending per pupil between 2011-12 and 2017-18.

**Figure 2 – Real-terms change in total school spending, spending per pupil and pupil numbers in England, Wales, Scotland and Northern Ireland, 2009-10 to 2017-18**



**Sources and Notes:** See Figure 1 for Wales; Data for England taken from [Belfield, Farquharson and Sibiet \(2018\)](#); Northern Ireland only covers changes from 2011-12 to 2017-18 (change for 2017-18 based on constant average growth between 2016-17 and 2018-19), data from [Northern Ireland Audit Office](#), [Northern Ireland Department of Education](#) and [Salisbury Review](#); Spending data for Scotland from [Local Government Provisional Outturn and Budget Estimates](#), Scottish pupil numbers from [Summary Statistics for Schools in Scotland](#).

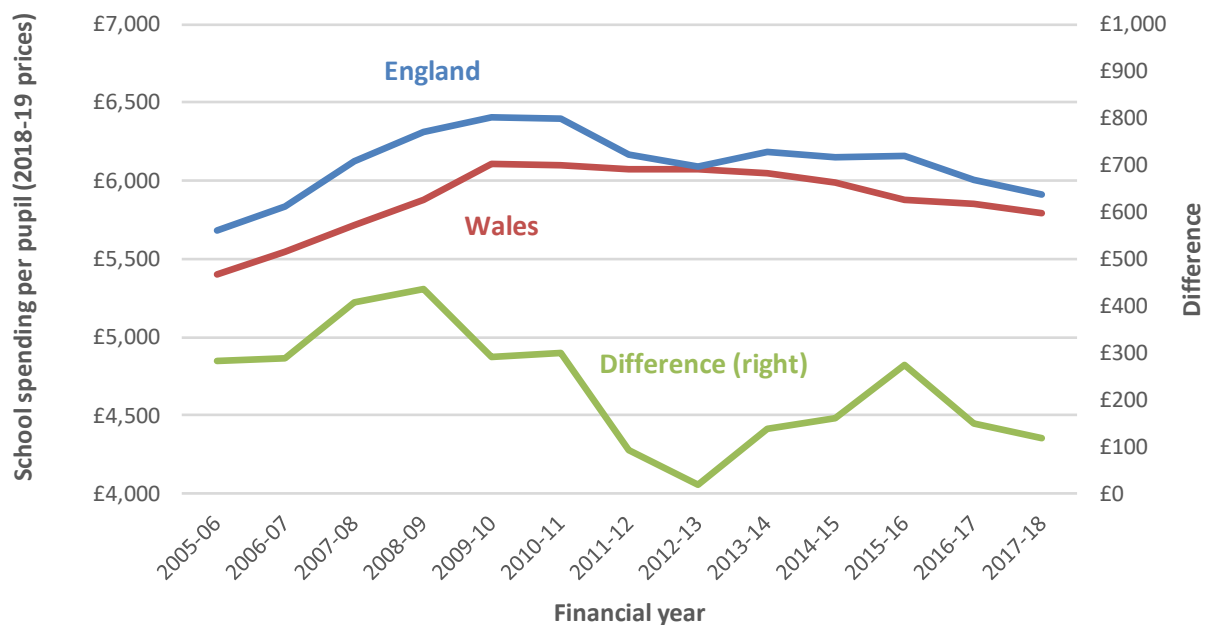
There is also significant interest in how levels of spending per pupil compare across the UK. **There is particular interest in comparing levels of spending per pupil across Wales and England**, given the similarity of their school systems. Until the Welsh government ceased production of

Wales/England school funding comparisons due to significant data quality issues<sup>10</sup>, spending per pupil appeared to be about £600 lower in Wales than in England in 2009.

Figure 3 updates these comparisons by showing the level of school spending per pupil across Wales and England from 2005-06 through to 2017-18. This gives a slightly lower gap in spending per pupil of £300 in 2009-10, which results from some peculiarities of spending data for England in 2009 and accounting for the effect of private nurseries in England.

**This shows that the gap was at a high-point of £300 in 2009-10. Faster falls in spending per pupil in England than in Wales meant that this gap fell to around £100 by 2017-18.** This is lower than any point since at least 2005, except for 2011-12 and 2012-13 when the data for England is of limited quality<sup>11</sup>.

**Figure 3 – Total school spending per pupil in Wales and England, 2005-06 to 2017-18**



**Sources and Notes:** See Figure 1 for Wales; Data for England taken from [Belfield, Farquharson and Sibieta \(2018\)](#). Data for England in 2011-12 and 2012-13 is based on combining separate data on Academies and LA maintained schools and may under-estimate spending.

<sup>10</sup> [Local Authority Budgeted Expenditure on Schools](#)

<sup>11</sup> Data for England in 2011-12 and 2012-13 is based on combining separate data on Academies and LA maintained schools and may under-estimate spending

## 4. How is funding distributed across local authorities in Wales?

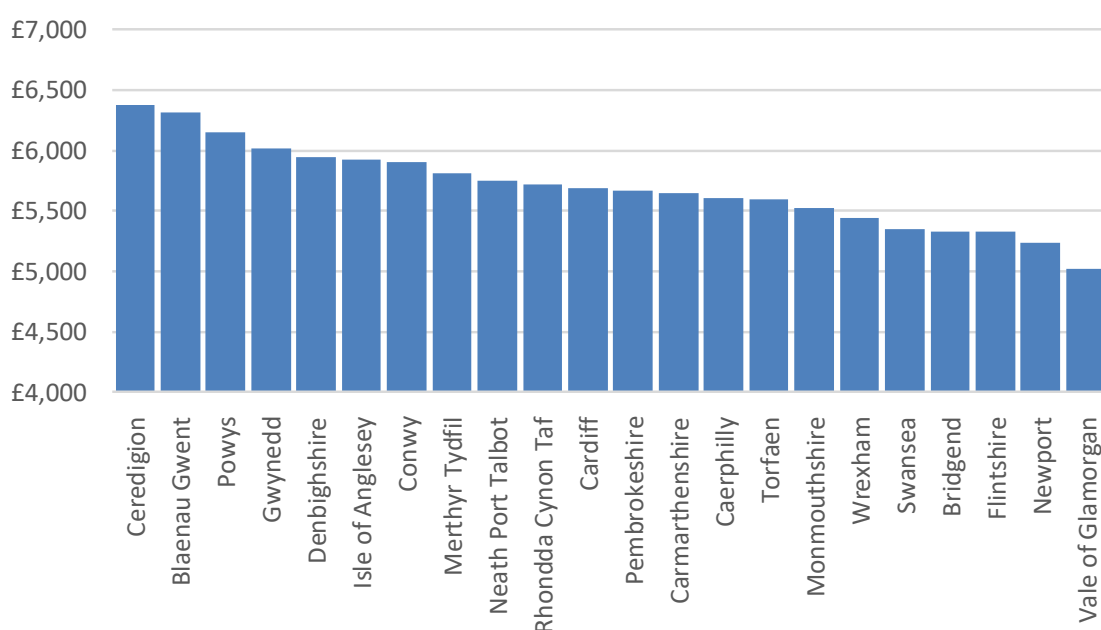
In Wales, local authorities are responsible for setting the level of school spending in their area and how much is allocated to individual schools (subject to various regulations). This spending is funded by grants from the Welsh Government together with local tax revenues.

The main grant received by local authorities is the Revenue Support Grant, which includes a specific component that reflects education spending needs as assessed by the Welsh Government (the Education Standard Spending Assessment or Education SSA). **The main indicators used to calculate the Education SSA are pupil numbers, the proportion of pupils eligible for free school meals and the proportion of the population living in small settlements.** Whilst local authorities can set their own level of spending, the level of the Education SSA has a major bearing on how much they are able to spend and sets a clear expectation too.

In addition to the Revenue Support Grant, **local authorities also receive money through various specific grants**, such as the Pupil Development Grant and support for small schools, many of which they must pass on to schools in specific ways.

This overall funding system leads to differences in spending per pupil across local authorities in Wales, partly from differences in grants and partly from spending choices. Figure 4 shows the extent of these differences in school spending per pupil across local authorities in Wales, which includes spending allocated to schools and central spending by local authorities. **School spending per pupil ranges from just under £6,400 per pupil in the highest spending local authority, Ceredigion, to around £5,000 per pupil in the lowest spending area, the Vale of Glamorgan.**

Figure 4 – Total school spending per pupil across local authorities in Wales in 2017-18





To help understand what drives these differences in spending per pupil across local authorities in Wales, Figure 5 plots spending per pupil on the vertical axis against the proportion of pupils eligible for free school meals on the horizontal axis. This shows that, on average, **there is no clear positive correlation between levels of deprivation and school spending per pupil across local authorities in Wales.**

Given that deprivation is an explicit indicator in determining the grants received by each local authority, why is there no positive correlation between spending per pupil and deprivation? This is the result of extra funding for schools in sparsely populated areas. As shown on the graph, the five local authorities with the most sparsely distributed populations also tend to exhibit relatively low levels of deprivation. As a result, **sparsity and deprivation funding are largely offsetting.** For example, the proportion of pupils eligible for free school meals in Blaenau Gwent (21%) is almost double the level in Ceredigion (11%). However, because of the effects of sparsity funding, these two local authorities have similar levels of spending per pupil (just under £6,400 per pupil).

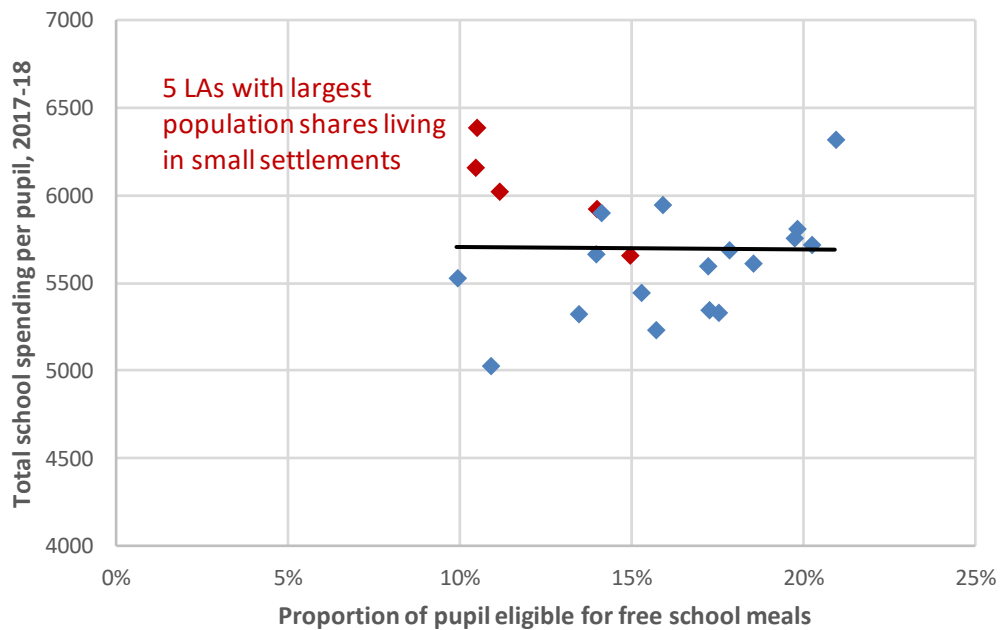
**This does not imply that sparsity funding should be reduced. There are clearly higher costs of providing schooling in rural and sparsely populated areas.** This result does, however, indicate the importance of sparsity funding in shaping the distribution of spending per pupil across local authorities in Wales.

**The pattern is also different to that seen in England, where there is a clear positive correlation between spending per pupil and the proportion of pupils eligible for free school meals across local authorities.** As shown in Figure 6, this is true within London, where spending per pupil is higher to account for higher teacher salaries, and across the rest of England<sup>12</sup>.

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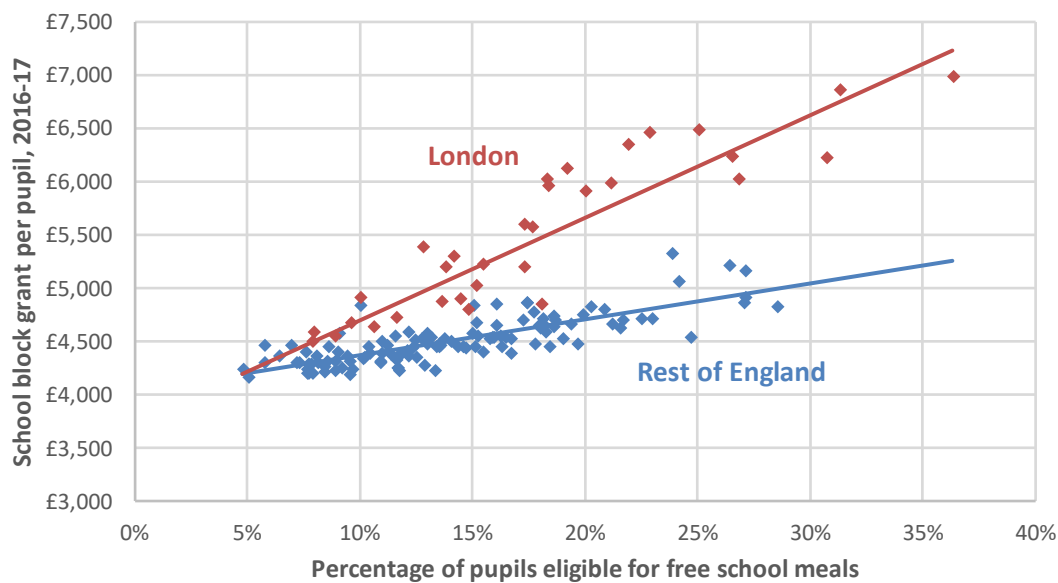
<sup>12</sup> Data for England here is based on schools block funding per pupil, which excludes the Pupil Premium and High-Needs. If these were included, we suspect the relationship between funding and deprivation would be even stronger.

**Figure 5 – Differences in spending per pupil and the proportion of pupils eligible for free school meals across local authorities in Wales, 2017-18**



Sources: Welsh Government, [Local authority budgeted expenditure on schools, 2017-18](#); Stats Wales, [Pupils eligible for free school meals by local authority, region and year](#); Welsh Government, [Green Book 2017-18](#)

**Figure 6 – Differences in funding per pupil and the proportion of pupils eligible for free school meals across local authorities in England, 2016-17**



Sources: Department for Education, [‘Dedicated schools grant allocations 2016–17’](#); [‘Schools, pupils and their characteristics: January 2016’](#)

## 5. Policy Challenges

### ***Real-terms cuts to funding per pupil will make it harder to improve school standards in Wales***

Between 2009-10 and 2017-18, school funding per pupil fell by 5% in real-terms in Wales. This is smaller than the 8% or more falls seen in England and Northern Ireland, but more than the 3% fall in Scotland. Going forwards, the Welsh Government is committed to increasing spending on school standards by £100m. Without any further funding, these and other commitments imply a further fall in spending per pupil. If delivered, this would lead to a total real-terms fall in school spending per pupil of almost 9% between 2009-10 and 2020-21. This would take spending per pupil back to a level last seen in 2006-07. If such spending cuts are delivered, it would clearly make it harder to improve school standards.

We calculate that avoiding real-terms cuts in school spending per pupil over the current Assembly term would require extra spending of about £120m per year on schools over and above existing commitments. The future spending commitments of the Welsh Government will clearly be shaped by the level of the block grant over the next few years, which will in turn be determined by the UK government spending review (expected in 2019). However, spending commitments also reflect policy choices. For example, from within a similar overall budget, policymakers in England froze total spending on school in real-terms between 2009-10 and 2017-18. If policymakers in Wales had made similar choices, spending per pupil would not have fallen in real-terms over recent years.

### ***Schools and local authorities in Wales are likely to face additional costs in the next few years***

Schools and local authorities in Wales are likely to face higher costs from two main sources over the next few years. First, employer contributions to the teacher pension scheme will rise from the current rate of 16.5% of salary to 23.6% in September 2016. This reflects changing government assumptions regarding the costs of providing teachers' pensions in the future. This will significantly increase schools' costs. However, like the Department for Education, the Welsh Government has announced compensation for schools, with a total £42m set aside for maintained schools in 2019-20<sup>13</sup>. Second, the Welsh Government is implementing an ambitious Additional Learning Needs (ALN) transformation programme, which is due to begin in 2020<sup>14</sup>. This strategy extends support to individuals aged 0 to 25 with ALN (rather than just those under 19), creates new individual development plans with high aspirations and will seek to encourage different government agencies to work together, as well as a host of other changes. Whilst there are clearly many laudable aims in this strategy, such a programme is also likely to involve higher costs too. This is likely to be particularly challenging for schools and local authorities at a time when school budgets have already been squeezed.

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<sup>13</sup> <https://www.wlga.wales/wlga-welcomes-welsh-government-funding-to-help-meet-pension-costs>

<sup>14</sup> <https://gov.wales/additional-learning-needs-transformation-programme-introduction>

### ***The distribution of sparsity funding could be better linked to differences in spending needs***

Spending per pupil varies across local authorities in Wales. This is the result of different spending needs and the choices made by different local authorities. Interestingly, we have shown that sparsity funding plays an important role in shaping the distribution of spending per pupil across Wales, and more so than in England. Given its importance, it is therefore crucial to ensure that indicators used to allocate sparsity funding fully reflect differences in spending needs.

At present, a relatively broad indicator is used to allocate overall grant funding: the population living outside of settlements greater than a given size. Whilst such a measure is likely to be correlated with spending needs, it does not account for the age structure of the population (i.e. how many children are in the area) or whether schools are costly to run (i.e. whether classes are small or not). Policymakers in England have recently created a new indicator of sparsity to be used in funding allocations. This accounts for the distance pupils need to travel to attend school and whether classes in these schools are actually small or not. We recommend policymakers in Wales consider such a measure for implementing sparsity funding in the future.

### ***Specific grants should be used sparingly as part of a readily understandable school funding system***

Policymakers in Wales have recently expanded the number of specific grants allocated to local authorities and schools, e.g. Pupil Development Grant, Education Improvement Grant, Pioneer Schools, Small and Rural Schools Grant. Specific grants allow central government to direct funding to specific activities and to incentivise schools to focus on specific groups of pupils. Such grants may also be attractive to central government if it feels local authorities would make quite different choices should the funding have been allocated to core grants. However, specific grants come at the cost of greater complexity. Policymakers in England made increasing use of specific grants throughout the late 2000s, e.g. School Standards Grant, School Development Grant, Ethnic Minorities Achievement Grant. Such grants made the system complex and opaque, particularly when activities linked to specific activities were deprioritised, e.g. funding for specialist schools or beacon schools. The school funding system was therefore simplified in England between 2010 and 2013, with specific grants folded into core funding. This helped to illustrate the full extent of funding focused on providing support for specific groups of pupils and schools.