Explanatory Memorandum to the School Funding, Budget Statements and Outturn Statements (No. 2) (Wales) Regulations 2026

This Explanatory Memorandum has been prepared by the Education Directorate of the Welsh Government and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Minister's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the School Funding, Budget Statements and Outturn Statements (No. 2) (Wales) Regulations 2026. I am satisfied that the benefits justify the likely costs.

Anna Brychan MS
Cabinet Minister for Education and the Welsh Language
1 July 2026

PART 1

1. Description

1.1. The School Funding, Budget Statements and Outturn Statements (No. 2) (Wales) Regulations 2026 ("the No. 2 Regulations") revoke and replace the School Funding, Budget Statements and Outturn Statements (Wales) Regulations 2026 ("the 2026 Regulations").

1.2. The 2026 Regulations were set to revoke and replace the School Funding (Wales) Regulations 2010 ("the 2010 Regulations"), the Education (Budget Statements) (Wales) Regulations 2002 ("the 2002 Regulations") and the Education (Outturn Statements) (Wales) Regulations 2003, ("the 2003 Regulations"). The 2026 Regulations were also due to come into force on 1 February 2027 and apply in relation to financial years that commence on or after 1 April 2027. The intention was for the 2026 Regulations to make provision for the funding of maintained schools in Wales for those financial years.

1.3. The No. 2 Regulations come into force on 31 January 2027, and revoke and remake the 2026 Regulations prior to the 2026 Regulations coming into force in order to correct errors in the 2026 Regulations. In particular it corrects the following:

1.3.1. The reference to sections 24(3) and (4) and 210(7) of the Education Act 2002 in the preamble of the 2026 Regulations is incorrect and the No. 2 Regulations instead refer to sections 13, 14 and 32(2) of the Education (Wales) Measure 2011;

1.3.2. The reference to "pupil's" in regulation 21(6)(b) and regulation 21(7)(a) of the 2026 Regulations is incorrect and the No. 2 Regulations instead refer to "pupils", and;

1.3.3. In the Welsh text of paragraph 31 of Schedule 2 to the 2026 Regulations, the reference to "ysgolion a gynhelir" is incorrect and the No. 2 Regulations instead refer to "ysgolion".

1.4. The No. 2 Regulations make provision for the funding of maintained schools in Wales and establish the financial framework for local authorities and schools. They also specify information about local authority expenditure on education which must be contained in budget statement of planned expenditure and outturn statement of actual expenditure.

2. Matters of special interest to the Legislation Committee

2.1 The No. 2 Regulations make amendments in response to the Sixth Senedd's Legislation, Justice and Constitution Committee's report on

The School Funding, Budget Statements and Outturn Statements (Wales) Regulations 2026, SL(6)795[1].

3. Legislative background

3.1 The Welsh Ministers make the No. 2 Regulations, in exercise of the powers conferred by sections 45A(1), (1A), (2), (3), (4) and (4A), 45AC, 47(1), (2) and (3), 48(1) and (2), 49(2) and (2A), 52(1), (2), (3) and (4) and 138(7) and (8) of, and paragraphs 1(7) and 2B of Schedule 14 to, the School Standards and Framework Act 1998, and now exercisable by them and by sections 13, 14 and 32(2) of the Education (Wales) Measure 2011.

3.2 The No. 2 Regulations are made under the Senedd annulment procedure.

4. Purpose and intended effect of the legislation

4.1 The Welsh Ministers are responsible for setting the framework under which schools are funded. The No. 2 Regulations replace the 2002 Regulations, the 2003 Regulations and the 2010 Regulations.

4.2 The No. 2 Regulations will introduce changes to the way in which local authorities allocate budgets for the schools they maintain and to the way they monitor and hold schools to account for their spending. The legislation will impose no significant additional burdens on local authorities.

4.3 The purpose of the changes made by the No. 2 Regulations to the way local authorities allocate budgets is to provide greater transparency, comparability and consistency in the school funding system. This will allow informed budget discussions at all levels. They also ensure they reflect current policy and legislation and update terminology accordingly.

4.4 Part 2 of the No. 2 Regulations deals with the non-schools education budget, the schools budget and the individual schools budget. The non-schools education budget relates to the expenditure on local authority functions that the local authority must retain centrally.

4.5 The individual schools budget is formed by deducting any or all of the expenditure items set out in Schedule 3 to the No. 2 Regulations from the schools budget. It is for the local authority to decide what expenditure items from Schedule 3 to deduct from the schools budget.

[1] https://laiddocuments.senedd.wales/cr-ld18003-en.pdf

Whatever is left remaining in the schools budget after that exercise will form the individual schools budget.

4.6 It is a matter for the local authority to determine what to do with the expenditure items deducted from the schools budget and which are not allocated to its individual schools budget. A local authority may determine to retain those expenditure items centrally so that it will be responsible for meeting the cost of them. Alternatively, a local authority may determine to allocate those expenditure items to maintained schools. In which case the local authority will also allocate the funding for those expenditure items to maintained schools who will then be responsible for meeting the cost of them.

4.7 Part 3 of the No. 2 Regulations deals with schools' budget shares. Regulation 8 of the No. 2 Regulations requires the individual schools budget to be allocated as budget shares to schools. This means that the individual schools budget must be divided up into school's budget shares with each maintained school receiving a budget share. Regulation 10 of the No. 2 Regulations requires a local authority to determine a formula for the budget shares.

4.8 Part 4 of the No. 2 Regulations deals with local authorities' financial schemes.

4.9 Part 5 deals with the information about a local authority's expenditure on education which must be contained in the statement of planned expenditure which each local authority is required to prepare before the beginning of each funding period under section 52(1) of the School Standards and Framework Act 1998 ("the 1998 Act"). Part 6 deals with the information about local authorities' expenditure on education which must be contained in a statement. Each local authority is required to prepare after the end of each funding period an outturn statement by section 52(2) of the 1998 Act.

4.10 The No. 2 Regulations make a number of changes to the 2002 Regulations, the 2003 Regulations and the 2010 Regulations. These changes, their purpose and intended effect are set out below.

Funding formula publication

4.11 Regulation 12 of the No. 2 Regulations includes a new requirement for a local authority to publish their funding formula on a website that is accessible to the general public. This is to support transparency.

4.12 Whenever a local authority redetermines the determined formula, it must no later than the date that the redetermined formula is due to come into force, publish the redetermined formula on their website.

4.13 This is in addition to the requirement that local authorities must send an electronic copy of their funding formula, and any redeterminations, to the governing body and head teacher of its maintained schools.

Funding formula additional factors or criteria

4.14 The No. 2 Regulations do not include an equivalent to Schedule 3 to the 2010 Regulations. Schedule 3 to the 2010 Regulations set out a list of additional factors or criteria which may be taken into account in a local authority's funding formula.

4.15 Local authorities will be able to take into account in their formula any factor or criteria they feel appropriately relates to expenditure under the definition of the schools budget. Examples of appropriate factors and criteria for local authority school funding formula factors will be contained within accompanying guidance, which is intended to be published in summer 2026.

4.16 Paragraph 19 of Schedule 3 to the 2010 Regulations provided that a local authority, in respect of school milk, meals and other refreshment, may not treat any element of that expenditure as having a negative value. That provision has been removed. In its place regulation 21(2) of the No. 2 Regulations provides that a local authority must not in determining schools' budget shares reduce those shares in respect of any other income received by a maintained school. The purpose is to expand the provision so that a negative value cannot be applied in relation to any other income received by a school. This would include, but not be limited to, school meals, milk and other refreshments. Therefore, there can be no reduction in a school's budget to account for income the school receives (enacted through the local authorities' funding formula or otherwise).

4.17 Paragraph 25 of Schedule 3 to the 2010 Regulations is also retained in regulation 21(3) and (4) of the No. 2 Regulations. Regulation 21(3) and (4) require local authorities, when determining a school's budget, to take into account whether that budget would be reduced by more than 5% than the previous year's budget. Where the local authority determines the school's budget has reduced by more than 5% and decides to increase the funding to address the reduction, this must be done in accordance with a scale published by the local authority in its financial scheme. This is retained in the No. 2 Regulations, primarily to ensure the publication of scales to maintain the transparency and equity.

Deprivation

4.18 Regulation 18(2) of the 2010 Regulations require that a local authority must, in determining budget shares for both primary and secondary schools which they maintain, take into account in its formula a factor or factors based on the incidence of social deprivation among pupils registered at all such schools.

4.19 Regulation 21 of the No. 2 Regulations retains that requirement but makes some changes. Specifically, regulation 21 includes a new requirement that the incidence of social deprivation is to be determined by taking into account the number of pupils eligible for free school meals or the residency of pupils at the school in relation to the Welsh Index of Multiple Deprivation. The local authority may take into account other factors alongside at least one of these measures.

4.20 Regulation 21 also requires that the social deprivation factor must not include any funding allocated for the provision of free school meals or for the support of pupils with additional learning needs ("ALN"). This is to ensure that the formula element specifically recognises the incidence of social deprivation to meet the needs of these pupils.

4.21 Paragraph 2 of Part 3 of Schedule 6 to the No. 2 Regulations provides that local authorities indicate the deprivation funding factors used within their funding formula in their Budget Statement to increase transparency.

4.22 Socio-economic disadvantage is linked to worse educational outcomes in children. Higher levels of funding for disadvantaged pupils would help narrow the attainment gap. It remains a matter for individual local authorities how much funding they choose to allocate to meet this need. However, requiring local authorities to make funding for deprivation more transparent in their funding formulae, will help schools to understand the funding available to them and enable more informed discussions about appropriate levels of funding required.

Federated schools

4.23 Local authorities must determine an individual delegated budget for each school. Schools in a federation receive individual delegated budgets and any expenditure on joint activity across the federation must be allocated to the appropriate school's budget. This can create additional bureaucracy and administrative work for federated schools.

4.24 Regulation 24 of the No. 2 Regulations introduces a new provision which allows the merging budgets of federated schools, to create a single federated budget across schools participating in the federation. The ability to merge budgets is permissive should a federation request it. That is a federation can choose to receive their individual budgets as one amalgamated budget share.

4.25 Under the No. 2 Regulations, the local authority continues to determine delegated school budgets individually, using the same formula as for other standalone schools. However, the federation will then have the option of receiving their delegated budgets from the maintaining local authority as a single budget share and then reporting against the single budget share. This will help federations use their budgets more effectively, reduce their administration and reporting, and support a more strategic approach under their single governing body.

4.26 The No. 2 Regulations allow federated schools who have opted for a single federated budget to report on their single federated budget, rather than on individual school budgets for outturn statements.

Financial schemes

4.27 Local authorities are required to publish a financial scheme, which outlines the financial relationship between the authority and its maintained schools by section 48 of the 1998 Act. These schemes are binding on both the local authority and the schools. A financial scheme maintained by a local authority must deal with the matters connected with the financing of schools maintained by it set out in Schedule 4 to the No. 2 Regulations.

4.28 Regulation 30 of the No. 2 Regulations introduces a new requirement so that local authorities must publish a copy of their scheme on a website which is accessible to the general public.

4.29 Paragraph 2 of Schedule 4 to the No. 2 Regulations introduces a new requirement for local authorities' financial schemes to set out the areas of their schools budget which are not delegated to schools, but retained centrally by the local authority to spend on schools (see Schedule 3 to the No. 2 Regulations).

4.30 Local authorities have discretion around whether they delegate the expenditure headings in Schedule 3 to the No. 2 Regulations and as a result, there are expenditure headings for which responsibility is delegated to schools in some local authorities, but that are retained in others. This means that school budget levels in one local authority are not truly comparable with those in a different local authority. This provision aims to increase transparency.

Budget Statement

4.31 The 2002 Regulations are substantially re-enacted in Part 5 of the No. 2 Regulations. However, some changes have been made to improve clarity, consistency and comparability. The changes are largely to do with the presentation of the information, rather than the substance of the information provided.

4.32 The No. 2 Regulations separate expenditure reported in the Education Budget Statement into different categories to improve transparency, clarity and comparability. The categories are Core Delegation, Discretionary Delegation and ALN Delegations (which is further split into

ALN Core Delegation and ALN Discretionary Delegation). The No. 2 Regulations set out what is included in each of these categories.

4.33 Schedule 5 to the No. 2 Regulations sets out the Education Budget Statement form that must be completed. This takes a different approach to the 2002 Regulations in that it requires that the ‘Budget Share per School’ is further broken down into columns for Core Delegation, Discretionary Delegation and ALN Delegations. The values in each of these columns would add up to the Total Delegation. Amendments are also made to divide ‘Budget Share per Pupil/Place’ into columns for Core Delegation (including the ALN Delegation) and Discretionary Delegation (including the ALN Discretionary Delegation).

4.34 To further aid transparency, two additional columns are also added to the Part 1 form (School Level Information) being the Education Budget Statement in Schedule 5 to the No. 2 Regulations to record the estimate of the schools’ budget share for the following two funding periods (as required under regulation 9(2)(b) of the No. 2 Regulations).

4.35 To reduce administrative burden and provide greater clarity, the Part 2 form (Funding Factors) being the Education Budget Statement (“Part 2 Form”) in Schedule 6 to the No. 2 Regulations merges what was previously Parts 2 and 3 in the 2002 Regulations (for Part 2 see Schedule 2 to the 2002 Regulations and for Part 3 see Schedule 3 to the 2002 Regulations). Part 2 of Schedule 6 to the No. 2 Regulations provides for both the methodology for determining school’s budget share and the budget share of each of the authority’s schools.

4.36 Paragraph 8 of Part 1 of Schedule 6 to the No. 2 Regulations requires that a local authority must for each school and type of school complete a Part 2 Form for each of the different expenditure budget types to make it clearer and easier for stakeholders to understand their budgets, and how they are calculated.

4.37 Regulation 33 to the No. 2 Regulations also requires that a copy of the Budget Statement is published on a website maintained by the local authority and supplied to the Welsh Ministers by email.

Outturn statement

4.38 Regulation 38 of the No. 2 Regulations provides for a different date for the submission of outturn statements to the Welsh Government to the 2003 Regulations. The No. 2 Regulations provide that this must be done by 31 July every year. This allows for collection and verification for data to be published in October. In summary that means an outturn statement must be published (and sent to the Welsh Ministers) before 31 July following the end of the financial year to which it relates.

4.39 Regulation 37 of the No. 2 Regulations also provides for publication requirements that they align with the publication requirements of Budget Statements as set out above.

Schedules 2 and 3 to the No. 2 Regulations

4.40 Schedule 2 to the No. 2 Regulations sets out the classes or descriptions for the non-schools education budget. As noted above these are items of expenditure that the local authority retains responsibility for and relates to central local authority functions and includes the costs of provision of a specialised nature, school improvement, access to education, further education and training for young people and adults and strategic management. As such this will not be delegated to schools and are not included within the school budget.

4.41 Schedule 3 to the No. 2 Regulations sets out the classes or descriptions which **may** be deducted from the schools budget by a local authority. The schools budget consists of items of expenditure that relate directly to the cost of running schools. The local authority will deduct from the schools budget the Schedule 3 expenditure items it wishes to retain centrally for the local authority to spend on supporting schools, to arrive at its individual schools budget which will in turn be divided up and allocated to all the schools maintained by a local authority (the school's budget shares).

4.42 Other than consequential amendments to bring the 2010 Regulations up to date with other legislation and update terminology where required, there are very minor amendments to the Schedules. These are set out below.

4.43 Non-domestic rates expenditure has been added as an expenditure item by paragraph 36 of Schedule 2. Therefore, it will now be included in the non-schools education budget, rather than the schools budget. Non-domestic rates are outside of the influence of schools. It is by nature paid to schools only to be recouped by the local authority at the same rate. It is also a distorting factor in the funding of schools because non-domestic rates bear no direct relation to the size of a school, whether by pupil roll or building area.

4.44 Paragraph 26 of Schedule 2 to the 2010 Regulations includes an expenditure item 'Expenditure on licence fees or subscriptions paid on behalf of schools provided that the expenditure does not amount in total to more than 0.2 per cent of the authority's schools budget.' Paragraph 28 of Schedule 3 to the No. 2 Regulations omits the percentage limit for this expenditure item. This change aims to provide greater flexibility in financial management and reduces the need for buy-back arrangements.

Surplus school budget thresholds

4.45 Paragraph 20 of Schedule 4 to the 2010 Regulations allow local authorities to include in its financial scheme provision which allows it to direct a school governing body on how to spend a surplus in the school balance. If the school governing body does not comply with the local authority's direction, the local authority may recover all or part of the surplus and allocate it to the authority's overall schools budget to be recycled to schools or for the benefit of schools as determined by the authority.

4.46 Paragraph 22 of Schedule 4 to the No. 2 Regulations amends the previously set surplus monetary values to surpluses exceeding 5% of the schools budget, to reflect schools of different sizes and with different budgets across Wales. A percentage will also not be impacted by inflation in the way a monetary value will be.

4.47 This percentage is the trigger at which a local authority may take action. Local authorities would continue to work with schools to manage their budget and take into consideration individual circumstances in any decisions.

4.48 Paragraph 21 of Schedule 4 to the No. 2 Regulations requires the local authority's financial scheme to include a statement setting out how the local authority will monitor the use by a governing body of the surplus included in any statement. This will strengthen the process and transparency.

Deficit school budgets

4.49 Paragraph 23 of Schedule 4 to the No. 2 Regulations introduces a requirement that local authorities include in their financial schemes a provision requiring a governing body to submit to the local authority for their approval a plan to recoup any deficits arising in relation to schools' budget shares ("deficit recovery plan").

4.50 Paragraph 23 of Schedule 4 also requires a local authority to include in its financial scheme a statement setting out the processes in relation to a draft deficit recovery plan.

4.51 This helps ensure that appropriate monitoring of a school's budget takes place and that support is provided in a timely manner.

5. Consultation

5.1 Before formal consultation on the policy to inform the No. 2 Regulations, Welsh Government officials established a School Funding Working Group to discuss proposed amendments to ensure that local authorities' views were considered throughout the work. The group includes representation from 9 local authorities and ensures a geographical spread.

5.2 A formal consultation ran from 24 June 2025 to 2 September 2025 on the policy approach to inform the No. 2 Regulations. The consultation was published on the Welsh Government website along with a Ministerial Written Statement to announce the consultation. The consultation was brought to the attention of stakeholders, including the Associate of Directors of Education Wales (ADEW), Welsh Local Government Association (WLGA) Society of Welsh Treasurers, Education Unions and schools. There was early engagement ahead of the consultation publication with ADEW, WLGA, Society of Welsh Treasurers and Education Unions to keep them updated and informed. 40 responses were received. The consultation documents and a summary of the responses are available at The School Funding, Budget Statements and Outturn Statements (Wales) Regulations 2026 | GOV.WALES.

5.3 Education unions were also engaged with at the beginning of the process to consider initial proposals specifically around federated schools, content of the Schedules to the 2010 Regulations and surplus thresholds. This was done through an informal questionnaire to gather initial views on proposed amendments to the 2010 Regulations which was shared with local authorities and trade unions in 2022.

5.4 The main points from the formal consultation are included below.

5.5 The responses generally showed strong support for the proposed amendments. Respondents noted and welcomed the transparency, consistency and comparability the amendments would provide to the school funding formula and budget reporting. There was majority agreement across all proposed amendments.

5.6 As outlined in the consultation summary, there was one proposal that following consultation and feedback, has not been included in the No. 2 Regulations. The proposal to require local authorities to use the latest January Pupil Level Annual School Census (“PLASC”) data for calculating pupil numbers in initial budget share determinations has not been included in the No. 2 Regulations. Consultation responses outlined the need for flexibility or use of additional data to help react to changes in pupil numbers, which could especially impact on smaller schools. Implementation challenges around timelines of the available data was also raised as a concern. Taking account of feedback, this will remain as it is in the 2010 Regulations. Therefore, pupil numbers are calculated in regulation 15 of the No. 2 Regulations in the same way as in regulation 13 of the 2010 Regulations. Guidance will set advice that local authorities are fully transparent in the data they are using to inform their formula and that the data is predictable in nature.

5.7 Respondents to the consultation raised concerns around current funding levels including ALN funding, deprivation funding and funding for faith schools. However, it was widely recognized by respondents that the other proposed amendments set out in the proposals will provide more consistent, comparable and transparent information, enabling any inequalities to be more easily identified and challenged.

5.8 Respondents identified several benefits associated with the proposals, particularly in relation to increased transparency, consistency, and comparability of financial information across local authorities. These improvements were seen as contributing to a better understanding of funding arrangements and promoting more equitable resource allocation.

5.9 Concerns were raised about the administrative impact on local authorities, including the need for training to implement new requirements effectively. Potential risks were noted around increased administration costs for local authorities, particularly in relation to redrafting funding formulae, updating schemes, and conducting consultations. Some respondents also highlighted the risk of budget fluctuations for individual schools.

5.10 The Welsh Government recognises that there could be additional administration for local authorities when new legislation is introduced, including the need for consultation with schools and stakeholders and amendments to existing documents. However, longer term, it is envisioned that administration time will be reduced. The Welsh Government has worked closely with local authorities via the School Funding Review Working Group to test Education Budget Statement forms and produce comprehensive guidance and templates to assist with implementation.

5.11 The Welsh Government has taken steps to ensure sufficient time is allowed for local authorities to conduct consultations and make any necessary amendments to their processes and/or policies with these Regulations not coming into force until 31 January 2027. Therefore, local authorities will be required to be compliant with the No. 2 Regulations for the 2027-28 financial year.

5.12 The Welsh Government will publish guidance to support implementation and consistency.

5.13 The Welsh Government recognise that there may be some initial fluctuations to individual school budgets, should local authorities need or choose to amend funding formulae. However, the Welsh Government are not prescribing amounts or values to be allocated. This is a matter for individual local authorities. It is possible that fluctuations may be due to increased compliance with the 2010 Regulations (where perhaps previously there had been misinterpretations) and a more equitable distribution of funding.

PART 2 – REGULATORY IMPACT ASSESSMENT

6. Options

Option 1: Business as usual

6.1 If the legislation remains unchanged, the view of the Welsh Government is that there will continue to be challenges in the school funding system around complexity, inconsistency and transparency. This makes it difficult for stakeholders to challenge school funding and understand the impacts of different funding choices. Also, some local authorities report that they find the current 2002 Regulations, 2003 Regulations and the 2010 Regulations ("the existing Regulations") difficult to use and understand, meaning a lack of consistency in how they are interpreted.

Option 2: Make no legislative changes, but introduce guidance

6.2 If the existing Regulations remain unchanged, but the Welsh Government introduces guidance around those, this may help to aid consistency in interpretation of the existing Regulations by stakeholders. However, challenges around complexity, consistency and transparency will remain as there will be no powers requiring the changes proposed in the No. 2 Regulations, which aim to ensure a more transparent, comparable and consistent system. However, the out of date legislative references in the existing Regulations would remain and so be a source of confusion.

Option 3: Make some legislative changes

6.3 Making some legislative changes is an option, but the impact would depend on which changes were made. Making some, but not all, of the legislative changes would mean that the increases in transparency, comparability and consistency will not be as great, which could impact on the ability to have more informed budget discussions.

Option 4: Make legislative changes in full

6.4 By making the proposed No. 2 Regulations in full, the Welsh Government will strengthen the existing legislation and address a number of the recommendations in the Children, Young People and Education Committee's School Funding in Wales report (2019), the independent Review of School Spending in Wales (2020) and the Welsh Government's Review of School Funding Formula (2025).

6.5 The legislative changes will provide greater flexibility to allow local authorities to better support schools to manage their school budgets and to provide greater transparency, comparability and consistency in the system, to allow informed budget discussions at all levels.

7. Costs and benefits

Option 1: Business as usual

Costs

7.1 There will be a reputational cost to the Welsh Government if changes are not made as stakeholders report a number of challenges with the current system. Also, there will be a reputational cost if the recommendations in the reports as set out above are not taken forward, as the Welsh Government has publicly committed to.

7.2 There will continue to be challenges in the school funding system around complexity, inconsistency and transparency.

Benefits

7.3 Local authorities will not be required to spend time making changes to their systems and processes to ensure continued compliance with the No. 2 Regulations.

7.4 Statistical comparisons will continue to be comparable with previous years, although the information they contain would remain incomparable.

Option 2: Make no legislative changes, but introduce guidance

Costs

7.5 There will be a reputational cost to the Welsh Government if legislative changes are not made as stakeholders report a number of challenges with the current system. Also, there will be a reputational cost if the recommendations in various reports as set out above are not taken forward, as the Welsh Government has publicly committed to.

7.6 There will continue to be challenges in the school funding system around complexity, inconsistency and transparency.

Benefits

7.7 Publishing guidance around the existing Regulations may increase consistency and interpretation of those regulations by stakeholders, although this will be limited in comparison with making legislative changes.

Option 3: Make some legislative changes

Costs

7.8 The costs of making some legislative changes are broadly similar to those for making the full range of legislative changes in terms of administrative costs to Welsh Government and local government.

7.9 Other stakeholders will have the same costs for familiarising themselves with the No. 2 Regulations whether some changes are made or all the changes are made.

7.10 Dependent on which changes were made, there may be a reputational cost to the Welsh Government as they may not be able to address as many of the recommendations in the various reports, when compared with making the legislative changes in full.

7.11 There will continue to be challenges in the school funding system around complexity, inconsistency and transparency.

Benefits

7.12 The benefits of introducing some legislative changes are similar to those set out for Option 4, although on a lesser scale.

Option 4: Make legislative changes in full

Costs

7.13 If legislative changes are made there will be costs to the Welsh Government in making the No. 2 Regulations and associated guidance. This will include the time of officials in developing the No. 2 Regulations and guidance and the translation of the documents. These costs are likely to be one-off costs and will be met from within existing budgets.

7.14 The cost of drafting the parts of the guidance that relates to the legislative changes outlined here and translation is estimated to be £12,000. The guidance will also cover elements of the legislation that hasn’t been changed and are existing requirements.

7.15 In order to comply with the No. 2 Regulations, local authorities may initially have administration costs as a result of implementing amendments. Local authorities will need to familiarise themselves with the No. 2 Regulations, review and potentially amend their processes, school funding formulae and financial schemes to ensure continued compliance with the No. 2 Regulations. These are likely to be one-off costs to ensure they comply with the No. 2 Regulations. The Welsh Government propose to publish guidance to for the No. 2 Regulations to assist local authorities.

7.16 As part of the consultation we asked for feedback on any costs or risks associated with the proposals. The administrative impact on local authorities was raised, including the need for training to implement new requirements effectively. The potential increased costs for local authorities, particularly in relation to redrafting funding formulae, updating financial schemes and conducting consultations was highlighted. However, it was also acknowledged in the consultation responses that the proposals will increase transparency, consistency and comparability.

7.17 The Welsh Government did ask the School Funding Working Group, with local authority representatives, for anticipated costs. However, there were not enough responses received in order to determine likely average costs. It was challenging for local authorities to estimate the costs but costs are likely to be minimal and will be met from existing resources.

7.18 There may be an ongoing cost to local authorities to publish their funding formula on their website, however this information will already be held by local authorities. These costs are likely to be minimal and will be met from existing budgets and resources.

7.19 There may be an indirect cost to schools. As a result of the changes, local authorities may amend their funding formulae, this may lead to the distribution of a local authorities' schools budget to individual school shares increasing or decreasing. Although the amendments do not directly affect change to the overall budget and changes will be as a result of making the school funding system more equitable across local authorities. It is also possible that fluctuations to individual school budgets may be due to increased compliance with requirements where perhaps previously there had been misinterpretations, rather than new requirements in the No. 2 Regulations.

7.20 Another indirect cost would be that as a result of greater transparency, comparability and consistency, to allow informed budget discussions, this may result in funding changes as a result of challenge from stakeholders, which may be positive or negative. However, decisions on the level of funding available to schools and to other services are made by each local authority, as part of their overall budget and council tax setting at all levels.

7.21 There will likely be changes to school budgets and individual school budgets due to the proposed amendments to move non-domestic rates from the school budgets to the non-schools education budget. However, this would not affect the overall education budget and to the actual budget available to schools to spend.

7.22 Statistical comparisons will likely initially differ due to changes such as non-domestic rates, federated schools reporting in outturn statements and amended layout of Budget Statements as per Schedules 5 and 6 to the No. 2 Regulations. However, overall statistics going forward will be more comparable across schools and authorities. Statistics will also be more reflective of the true picture of school funding and clearer, which will allow stakeholders the benefit of greater transparency, comparability and consistency in the system, to allow informed budget discussions at all levels.

7.23 There may be a cost in administrative workload to schools if they need to provide a deficit recovery plan. However, many local authorities are already implementing this and this amendment largely formalises what is already happening in practice and increases transparency. This is for the benefit of schools, to help local authorities to support schools to manage their budgets for the benefit of all schools and learners.

Benefits

7.24 The new Budget Statement form in Part 2 of Schedule 6 to the No. 2 Regulations (“the new Budget Statement form”) will help reduce local authorities’ workload in the longer term. The new Budget Statement form merges Parts 2 and 3 from the 2002 Regulations (see Schedules 2 and 3 of the 2002 Regulations), meaning local authorities will have less forms to complete and this will reduce administrative burden.

7.25 The changes in the No. 2 Regulations to merge Part 2 and 3 of the 2002 Regulations will reduce local authorities’ workloads who will now no longer have to create a form themselves for Part 3. Also, this increases consistency and comparability, which will benefit stakeholders and allow informed budget discussions.

7.26 Welsh Government have developed and tested the new Budget Statement form with local authorities in the School Funding Working Group, who report on its ease of use.

7.27 Consultation feedback was that the notes and new Budget Statement form are clearer, strengthen financial oversight and help ensure consistency, comparability and transparency. The consultation also reported they will assist local authorities in the longer term when there are staffing changes and lessen administration time.

7.28 The new Budget Statement form also includes the funding for the following two funding periods, which will increase transparency and benefit schools as they will be able to plan. This will also lessen the burden on local authorities as they will be able to provide schools with their estimated budgets for the following two funding periods in the new Budget Statement form, rather than having to communicate this separately.

7.29 Local authorities could choose to use the new Budget Statement form for their published school funding formula. This means that local authorities could choose to utilise an existing document they are already completing, reducing administrative burden.

7.30 The new Budget Statement form also separates expenditure reporting into different types of delegated budgets, which will provide better information on individual school budgets. This will increase transparency, clarity and comparability for schools and wider stakeholders. This is particularly the case for reporting of ALN Delegated Budgets which will be split into 2 categories, which will provide clearer information and allow for more informed budget discussions around ALN.

7.31 A new provision to allow federated schools to have amalgamated budgets provides the ability for federations use their budgets more effectively with greater flexibility, benefiting from economies of scale, sharing resources, reducing their administration and reporting, and support a more strategic approach under their single governing body. It was highlighted in the consultation that this would be especially valuable to smaller, rural schools.

7.32 Requiring local authorities to make funding for deprivation more transparent in their funding formula, will help schools to understand the funding available to them and enable more informed discussions about appropriate levels of funding required.

7.33 The amended social deprivation provision requires that the incidence of social deprivation is to be determined by taking into account the number of pupils eligible for free school meals or the residency of pupils at the school in relation to the Welsh Index of Multiple Deprivation (WIMD). This will ensure a more consistent approach to addressing socio-economic deprivation and strengthens the previous deprivation requirement, ensuring local authorities consider deprivation and have a formula element specifically recognising the incidence of social deprivation to meet the needs of pupils.

7.34 Socio-economic disadvantage is linked to worse educational outcomes in children. Higher levels of funding for disadvantaged pupils would help narrow the attainment gap. Amendments to the deprivation factor will ensure a consistent approach to addressing socio-economic deprivation, and enable more informed discussions about appropriate levels of funding required.

7.35 Publishing local authority funding formula and financial schemes on a website which is accessible to the general public will increase transparency for all stakeholders.

7.36 The areas of a local authority's schools budget which are not delegated to schools being included in financial schemes will increase transparency and allow for more informed discussion around different choices across local authorities.

7.37 Local authorities will also be required to include in their financial schemes a statement setting out how the local authority will monitor the use by a governing body of the surplus included in any statement and the processes in relation to a draft deficit recovery plan. This will improve transparency and ensure clear accountability process. It will also ensure support is provided to schools in a timely manner.

7.38 Amending the previously set surplus monetary values to surpluses exceeding 5% of the schools budget, will better reflect schools of different sizes and with different budgets across Wales. A percentage will also not be impacted by inflation in the way a monetary value will be in the longer term.

7.39 The removal of non-domestic rates from school budgets will mean that it's no longer a distorting factor in schools' budgets. It will no longer be paid to schools only to be recouped back by the local authority. This will reduce unnecessary administration and bureaucracy for schools and local authorities and will not be a distorting factor in statistical information, increasing comparability.

7.40 Overall comparisons going forward will be more comparable across schools and authorities. Statistics will be more reflective of the true picture of school funding and clearer, allowing stakeholders the benefit of greater transparency and comparability.

7.41 The No. 2 Regulations will provide greater transparency, comparability and consistency in the system, to allow informed budget discussions at all levels, for the benefit of all learners. They will ensure a more equitable approach to school funding while maintaining the principles of local decision making and democratic accountability. This was reflected throughout comments in the consultation from stakeholders including schools, unions and local authorities.

7.42 It was widely recognized in the consultation responses that the proposed No. 2 Regulations will provide more consistent, comparable and transparent information, enabling any inequalities to be more easily identified and challenged.

Integrated Impact Assessment

7.43 Sections 1 and 8 of the Integrated Impact Assessment for the subordinate legislative changes has been published and can be found here: The School Funding, Budget Statements and Outturn Statements (Wales) Regulations 2026: integrated impact assessment | GOV.WALES. That has been amended to note that the Integrated Impact Assessment which has been prepared for the 2026 Regulations remains applicable to the No. 2

Regulations. The substantive effects of the No. 2 Regulations are unchanged, and no significant additional impacts have been identified.

7.44 A full Equality Impact Assessment, Welsh Language Impact Assessment, Biodiversity Impact Assessment has been completed for the legislative changes.

7.45 A Children's Rights Impact Assessment has also been completed and can be found here: [The School Funding, Budget Statements and Outturn Statements (Wales) Regulations 2026: children's rights impact assessment | GOV.WALES]. That has been amended to note that the Integrated Impact Assessment which has been prepared for the 2026 Regulations remains applicable to the No. 2 Regulations. The substantive effects of the No. 2 Regulations are unchanged, and no significant additional impacts have been identified.

Summary

7.46 Welsh Ministers have agreed to Option 4 – to make the legislative changes in full. Taking this approach will provide greater transparency, comparability and consistency, to allow informed school budget discussions at all levels. They also ensure they reflect current policy and legislation and update terminology accordingly.

7.47 The No. 2 Regulations intend to address a number of the recommendations included in the Children, Young People and Education Committee's School Funding in Wales (2019) report, Luke Sibieta's independent Review of School Spending in Wales (2020) report and the Welsh Government's Review of School Funding Formula (2025).

8. Competition Assessment

8.1 The making of the No. 2 Regulations has no impact on the competitiveness of businesses, charities, or the voluntary sector.

9. Post implementation review

9.1 Local authorities will be required to be compliant with the No. 2 Regulations for the financial year 2027/28.

9.2 We will monitor implementation of the No. 2 Regulations to ensure that it is having the intended effect of increasing transparency, comparability and consistency in the school funding system. As part of this we will continue to liaise with ADEW and have regard to any feedback.

9.3 The Welsh Government will continue to collect and monitor school budget data to monitor impacts. The Welsh Government will support local authorities in their correct interpretation and application, including workshops and published guidance.