



Department
for Education

Replacing LACSEG: Funding Academies and local authorities for the functions that devolve to Academies

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Introduction

1. When a maintained school converts to Academy status, the Academy takes on a much broader range of responsibilities. This gives Academies greater freedom to secure the right services for their pupils. Academies are responsible for securing or providing a range of education services such as improving school attendance, preparing financial accounts and asset management, whereas local authorities have responsibility for these on behalf of the schools they maintain.
2. The Local Authority Central Spend Equivalent Grant (LACSEG) is paid to Academies to cover the cost of the services that local authorities provide centrally to maintained schools but which Academies must secure independently.
3. It is right that Academies receive funding for their additional responsibilities on a per-pupil basis. The current system, however, designed when there were far fewer Academies, is no longer sustainable. The LACSEG rates are prone to significant year-on-year fluctuation within a single local authority and the rates vary starkly across the country. This leads to uncertainty for local authorities about how much money will be recouped and for Academies about how much funding they will receive from one year to the next.
4. The Government is taking steps to address those problems and this consultation sets out proposals for a simpler, more transparent and fairer system of funding Academies and local authorities for the central education functions that devolve to Academies.
5. The consultation will run for 10 weeks until 24 September 2012. This is less than the normal 12 week period to enable the Department for Communities and Local Government to confirm final start-up funding allocations for the business rates retention scheme in sufficient time and for the Department for Education to calculate the grants for local authorities and Academies well in advance of the 2013-14 financial year and the 2013/14 academic year. Local authorities should read this document in conjunction with the Department for Communities and Local Government's consultation on the business rates retention scheme. This can be accessed on the Department for Communities and Local Government website¹.

¹ www.local.communities.gov.uk/finance/brr/sumcon/index.htm

Background

6. When a maintained school converts to Academy status, the Academy becomes responsible for securing a range of education services that the local authority provides centrally to maintained schools. Currently, Academies receive LACSEG funding to cover the cost of those additional responsibilities.
7. Under the existing system, we have to wait for each local authority to tell us how much they plan to spend on the relevant services for maintained schools before we can calculate an equivalent amount of LACSEG funding for Academies.
8. Local authorities report their planned expenditure for the forthcoming financial year on a form known as the section 251 budget statement. The section 251 budget statement tells us how much money a local authority plans to spend on education and children's services in a financial year. We use the expenditure allocated to the education services and functions that devolve to Academies to estimate how much money the local authority would have spent on the Academy had it been a maintained school. This means that different LACSEG rates are calculated each year for Academies in every local authority.
9. Local authorities receive money for the central education services included in LACSEG from two main sources. Some central education services are paid for by local authorities using money retained from the Dedicated Schools Grant (DSG) which is administered by the Department for Education. The money that Academies receive in lieu of those services is known as Schools Block LACSEG.
10. Local authorities also receive funding for central education services as part of their general funding, or 'formula grant'. Formula grant is an un-ringfenced grant paid by the Department for Communities and Local Government and the education element is for all pupils in the local authority area. The money that is paid to Academies to meet the cost of securing the services funded through formula grant is known as LA Block LACSEG.
11. The current system, established when there were far fewer Academies, is no longer sustainable. The section 251 budget statement was not designed for the purpose of calculating annual funding for Academies. This means that the calculation is not well understood, the LACSEG rates fluctuate significantly each year and the rates vary starkly across the country.
12. From 2013/14, LACSEG will be replaced by simpler and more transparent funding arrangements. We will achieve this in two ways.
13. In March this year we announced that, from 2013/14, Schools Block LACSEG for Academies will be replaced by additional money in the school budget share. This is because local authorities will be required to delegate the maximum amount of money from the Dedicated Schools Grant straight to maintained schools and Academies. These changes were set out in *School funding reform: Next steps towards a fairer system*, published in March, and confirmed in June as part of the follow-up announcement *School funding reform: Arrangements for 2013-14*. Both documents can be accessed on the Department for Education's website².
14. This consultation sets out proposals to replace LA Block LACSEG, and the relevant element of local authority formula grant, with a single national grant from the Department for Education. Moving to a national basis for calculating and distributing this funding to both

² www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding

Academies and local authorities will introduce transparency and simplicity. This will give Academies and local authorities greater confidence in the way their funding has been allocated. The Government's proposals will also help to resolve the double funding that occurs when local authorities continue to receive money for the services and functions that devolve to Academies.

Academies Funding Transfer for 2011-12 and 2012-13

15. Local authorities receive the education element of formula grant for all the pupils in the local authority area and, until 2011-12, no reduction was made for pupils educated in Academies. This meant that local authorities kept the same level of formula grant to fund services for schools, even when they had fewer pupils to support because one or more maintained schools had converted to Academy status. At the 2010 Spending Review, Ministers decided that, in order to address the growing extent of double funding in the system, money should be transferred from formula grant to the Department for Education for 2011-12 and 2012-13. It was considered that continued double funding was indefensible in the public sector financial climate.
16. When this transfer was calculated in December 2010, the Government was only able to make estimates about the growth in the number of Academies at a national level. This meant that, in order to provide certainty for local authorities about overall levels of funding, the deductions to formula grant for 2011-12 and 2012-13 were made on a pro-rata national basis. An amount was top-sliced from each local authority's relative needs formula for central education functions according to the proportion of formula grant allocated to that local authority. The top-slice did not reflect the actual number of open Academies in each local authority, nor did it reflect the pattern of growth in Academy numbers which could take place over the following two years.
17. The *Government Response to the Consultation on the Academies Funding Transfer for 2011-12 and 2012-13* was published on 17 July. It sets out the steps taken by the Government to ensure that the deductions from local authority formula grant budgets for 2011-12 and 2012-13 better reflect the pattern of Academy provision across the country. A refund will be paid to any local authority where the amount deducted in 2011-12 or 2012-13, was bigger than it would have been had the deduction been based on the number of Academies in the local authority during that financial year. Where the amount deducted was not sufficient, no further recoupment will be made. This is to provide stability in local authority budgets. You can access the Government response to the Academies Funding Transfer consultation on the Department for Education's website.³

³ www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/financeoffice/news/a00200594/consultation-on-the-minded-to-decision-for-the-academies-funding-transfer-for-2011-12-and-2012-13

Summary of proposals

18. We are proposing to change the way that Academies and local authorities are funded for the central education functions currently included in LA Block LACSEG. The Government has concluded that, from April 2013, the funding for these functions should be transferred from the business rates retention scheme start-up funding allocation to the Department for Education. The Department for Education would then administer and distribute a separate un-ringfenced grant to local authorities and Academies proportionate to the number of pupils for which they are responsible.
19. Moving to a transparent national system would:
- end year-on-year fluctuation in the LACSEG rates within a single local authority;
 - end uncertainty for local authorities around recoupment;
 - end the very wide variation in the LACSEG rates across the country;
 - give Academies greater confidence in, and increased certainty about, the amount of funding they will receive; and
 - introduce simplicity, transparency and hugely reduce the scope for error.
20. The central education functions that devolve to Academies and that are currently included in LA Block LACSEG are grouped into the main headings below:
- Asset management;
 - Education welfare service;
 - Monitoring national curriculum assessment;
 - Music services;
 - Outdoor education including environmental and field studies (not sports);
 - Premature retirement costs/redundancy costs (new provisions);
 - Pupil support;
 - School improvement;
 - Statutory/regulatory duties;
 - Therapies and other health related services; and
 - Visual and performing arts (other than music).
21. Under our proposals, the amount deducted from each local authority's business rates retention start-up funding allocation for 2013-14 would equal the amount paid back for all pupils in the local authority area. This money would then be allocated to Academies and to the local authority proportionate to the number of pupils for which they are responsible.

Calculating the amount to be transferred

22. The amount to be transferred to the Department for Education is £1.22 billion in 2013-14 and £1.19 billion in 2014-15⁴.
23. These amounts have been calculated based on total net expenditure on the functions currently included in LA Block LACSEG, as reported on 2011-12 section 251 budget statements. The 2011-12 top-slice to formula grant of £148 million was added to the total. Basing the transfer on expenditure, and adding back the 2011-12 top-slice, helps to ensure that the amount to be transferred properly reflects the funding required for all pupils in state funded schools in England, including Academies.
24. The 2011-12 section 251 budget statements are the best source of recent information about the amount spent on the relevant education services by local authorities. At the time the transfer was calculated, the 2012-13 data was not yet available. Moreover, the significant growth in the number of Academies between April 2011 and April 2012 means that, for many local authorities, the 2012-13 section 251 budget statements would not provide a suitable record of expenditure for all schools in the local authority area.
25. The table below sets out how the total amount to be transferred was calculated:

	2011-12 section 251 budget statement line	Total net expenditure
2.0.3	Therapies and other health related services	£13,412,423
2.1.2	Pupil support	£10,220,030
2.1.8	Education welfare service	£100,822,151
2.1.9	School improvement	£295,250,706
2.2.1	Asset management - education	£108,036,370
2.2.3	Music services	£24,789,237
2.2.4	Visual and performing arts (other than music)	£4,094,122
2.2.5	Outdoor education including environmental and field studies (not sports)	£10,610,080
7.0.1	Statutory and regulatory Duties	£457,056,999
7.0.2	Premature retirement costs/redundancy costs (new provisions)	£69,685,862
7.0.7	Monitoring national curriculum assessment	£3,984,955
	2011-12 top-slice	£148,000,000
	Total	£1,245,962,936

26. The total amount of £1.25 billion was deflated from 2011-12 to 2013-14 and 2014-15 by the decrease in national formula grant, forecasted council tax requirement and council tax freeze grant levels. These elements are broadly the equivalent of the old Budget Requirement definition.

⁴ £1,218,420,146 in 2013-14 and £1,193,117,236 in 2014-15.

Higher levels of funding for pupils in special schools/Special Academies and Pupil Referral Units/Alternative Provision Academies

27. As set out when we published the 2012/13 LACSEG rates in February this year, Special Academies and Alternative Provision (AP) Academies currently receive LA Block LACSEG at 4.25 and 3.75 times the amount allocated to Academies in mainstream settings. In order to measure the different levels of per-pupil funding that these institutions require, we compared levels of whole school funding for special schools and Pupil Referral Units (PRUs) with funding for mainstream schools.
28. Many of the functions that this grant is intended to fund relate to staff and premises. These include asset management, administering pension contribution payments, advising on terms and conditions of non-teaching staff, appointments checks and dismissals, early retirement costs and redundancy payments. Special schools/Academies and PRUs/AP Academies have much higher staffing ratios per pupil, and need more space per pupil, as a result of smaller group sizes and the intensive support they offer.
29. The teacher to pupil ratio in these schools is around four to five times higher than in mainstream settings. This means that a special school of 100 children, for example, can employ as many adult staff as a mainstream school of 400-500 pupils. Special schools/Special Academies and PRUs/AP Academies are also likely to host a wide range of external professionals, such as therapists, educational psychologists and nurses. This leads to increased overheads and higher staff-related costs.
30. We have analysed the budget data showing the funding provided to special schools and PRUs over the last three years. This confirmed that, as for 2012/13, we should apply multipliers of 4.25 and 3.75 respectively for special schools/Special Academies and PRUs/AP Academies.

Question 1: Do you agree that a multiplier of 4.25 should be applied for pupils in special schools/Special Academies?

Question 2: Do you agree that a multiplier of 3.75 should be applied for pupils in PRUs/AP Academies?

Funding local authorities for the responsibilities that they retain for pupils in Academies

31. Local authorities remain responsible for providing a small number of functions to pupils in Academies, as well as to pupils in maintained schools. As the number of Academies continues to grow, we expect that local authorities will be able to make higher levels of savings and that the amount of funding required for these responsibilities will reduce accordingly. The responsibilities that stay with the local authority are grouped under three main headings and are set out below:

Education welfare services	Asset management	Statutory and regulatory duties
Prosecutions for non-attendance Tracking children missing from education Other statutory duties e.g. child employment	Strategic capital programme planning Management of BSF schemes and PFI contracts Functions in relation to Academy leases	Strategic planning of children's services including Director of Children's Services and other statutory/regulatory duties relating to both maintained schools and Academies Planning for education services on an area-wide basis Finance, HR and legal functions relating to central services that do not transfer to Academies Maintenance and development of local school funding formula Standing Advisory Council for Religious Education

32. The *Government Response to the Academies Funding Transfer for 2011-12 and 2012-13* was published on 17 July. The Government response confirmed that, in determining how much should have been recouped from each local authority in 2011-12 and 2012-13 as part of the Academies Funding Transfer, we have included only a proportion of the planned expenditure recorded against the three headings above. Excluding some of the money spent under these headings recognises that local authorities retain some responsibilities for pupils in Academies as well as for those in maintained schools. The proportion of expenditure excluded from the calculation of the per-pupil amount to be recouped from each local authority is smaller in 2012-13 than in the calculation for 2011-12. This reflects the expectation that, as local authorities have had longer to adapt to the Academies programme, they are now better able to make savings through changes to the way they provide central education services.

33. In moving to a new national system from 2013-14, we want to ensure that local authorities

receive appropriate levels of funding for the responsibilities that they retain for pupils in Academies. That is why, under our proposals, local authorities would receive some of the funding for each pupil in an Academy, as well as for all pupils in maintained schools.

34. Based on the 16 responses received to a survey with all local authorities last summer, we think that the appropriate per-pupil amount to be distributed directly to local authorities for pupils in Academies is within the range of £8 - £15 for 2013-14. The Government believes that the funding levels set for these responsibilities should incentivise new ways of delivering central services in order to generate savings and maximise the level of funding delegated straight to Academies. £8 per pupil is the average per-pupil amount spent by the five local authorities that reported the lowest levels of expenditure on these responsibilities. £15 per pupil is derived by: excluding the local authorities spending all or none of the money allocated under these three headings on their retained responsibilities; ranking local authorities according to the lowest amount spent; and taking the 75th percentile.

Gathering more evidence about the appropriate amount of funding for retained responsibilities

35. We want to build a more detailed understanding about how much money local authorities are currently spending on pupils in Academies. We would welcome responses from local authorities, maintained schools and Academies about where we should set the per-pupil amount for the responsibilities that local authorities retain for pupils in Academies.

Question 3: Do you agree that a rate of approximately £8 - £15 per pupil is appropriate for the responsibilities that local authorities retain for pupils in Academies?

Area cost adjustment (ACA)

36. We believe that the new grant should be allocated in as clear and transparent a way as possible. This will allow Academies and local authorities to understand how the grant has been calculated and to plan properly for the year ahead. This could be achieved through a single national rate or we could include additional factors.
37. The costs of the central education services included in this grant are likely to be affected by the salary levels in different areas. Analysis of section 251 budget data, however, showed no link between the amount spent on these functions by local authorities and the general labour market costs for their area. It is therefore not clear from the data we hold whether the salary levels in different parts of the country are a significant factor in determining how much money is needed for these central education services.
38. There are 28 different ACA bandings and, rounded to the nearest pound, this would result in around 14 different per-pupil rates for Academies and local authorities, depending on where they are in the country. We need to decide whether to apply an ACA or whether to distribute the funding on the same basis to pupils in all areas of the country.

Question 4: Do you think that an ACA should be applied when distributing the grant to Academies and local authorities?

Deprivation

39. The Government has always been clear that deprived pupils must attract additional funding. Not only are local authorities required to target higher levels of DSG funding at deprived pupils through revised local funding formulae, we are also investing £2.5 billion in the Pupil Premium over the spending period. We now need to decide whether this new grant for central education services should also be weighted towards deprived pupils.
40. Section 251 budget data shows very varied levels of expenditure by local authorities on the central education services included in this grant. Moreover, we do not have information about how this money is allocated to different schools within a single local authority, or how spend varies among Academies. It is therefore not clear from the data we hold whether levels of deprivation are a key factor in determining how much money is needed for central education services, and whether it is significantly less expensive to provide or secure these services for schools with fewer deprived pupils.
41. We could identify between 1% and 10% of the total amount of money for this grant and allocate this separately to deprived pupils. This would reduce the rate for pupils who are not deprived but would increase the rate for pupils who have been eligible for free school meals at any time during the previous six years. The impact on the rates would depend on the proportion of the total funding pot that is identified for deprived pupils.

Question 5: Do you think that a deprivation factor should be applied?

Question 6: If a deprivation factor is applied, where between 1% and 10% should we set the proportion of the funding pot to be allocated separately to deprived pupils?

How the funding would be deducted from local authority start-up funding allocations

42. The Department for Communities and Local Government intends to calculate the deduction from each local authority's business rates retention scheme start up funding allocation for 2013-14 using the same per-pupil rates that the Department for Education will use to allocate the new grant. The total amount of funding deducted from each local authority would then be allocated to the local authority and to all Academies in the area based on the number of pupils for which they are responsible.
43. This means that, under our proposals, the amount deducted from each local authority in 2013-14 would equal the amount paid back for all pupils in the local authority area. For a local authority without any pupils in Academies throughout 2013-14, the amount deducted would equal the amount paid back in the form of a separate un-ringfenced grant from the Department for Education.
44. This approach will ensure that our proposals will have very little impact on the current funding levels of local authorities without any, or relatively few, pupils in Academies throughout 2013-14.
45. You can find out more about the Government's proposals for making the transfer of funding to the Department, and for calculating local authority start-up allocations from 2013-14, in the Department for Communities and Local Government's consultation on the business rates retention scheme. The consultation closes on 24 September and can be accessed on

the Department for Communities and Local Government's website⁵.

Question 7: Do you agree that the funding should be deducted from local authorities using the same national rates that we will use to allocate the new grant?

Data used to calculate the rates and to allocate total grant funding to local authorities and Academies

46. We intend to use the October 2012 School Census to calculate the new rates. This will bring the system into line with the Dedicated Schools Grant allocation for 2013-14. Local authorities and Academies will receive a grant according to the number of pupils for which they are responsible, with local authorities also receiving a proportion of the funding for pupils in Academies (see paragraphs 31 – 35).
47. The October 2012 School Census pupil numbers will be used to allocate the grants to local authorities and Academies. This will include all pupils aged 3-19 in mainstream state funded schools (including maintained schools, Academies and Free Schools)⁶. Some adjustments will need to be made for certain groups of pupils who cannot be identified from this data set. For schools that convert to Academy status after October 2012, the grant allocation for local authorities will be adjusted accordingly. For Academies that open after the grant is allocated, an adjustment, pro-rated across the financial year, will be made to the monthly payment for that local authority.
48. The 2013-14 rates will be published this winter following the outcome of this consultation. Draft Academy funding allocations for the 2013/14 academic year will include the total allocation for the new grant. We will also write to local authorities in advance of the 2013-14 financial year setting out the total allocation for the new grant for 2013-14.
49. As the October 2012 School Census data will not be available until December 2012, the Department for Communities and Local Government intend to use the January 2012 School Census data to illustrate the effect of this transfer in the provisional 2013-14 Local Government Finance Settlement. The final 2013-14 Local Government Finance Settlement will be based on the October 2012 School Census data.

Protecting Academies from significant reductions in funding

50. As we move to a new national system it is important that we do so in a way that does not cause destabilising reductions in Academies' budgets. As in 2011/12 and 2012/13, the Government is committed to protecting Academies from significant year-on-year reductions in LA Block LACSEG funding. That is why we will put protection arrangements in place so that no Academy will see more than a 10% reduction in its per-pupil LA Block LACSEG allocation in 2013/14 when compared with the previous year. The cost of any protections would not be met from the core funding for this grant or from the DSG. Protection arrangements for Academies would therefore have no impact on the money allocated to local authorities for these functions, or on wider funding for maintained schools.
51. In addition, the recent school funding announcement, *School funding reform: Arrangements for 2013-14*, published on 28 June, confirmed that the EFA will calculate and pay Minimum Funding Guarantee (MFG) protections for Academies at -1.5% per pupil. These will be

⁵ www.local.communities.gov.uk/finance/brr/sumcon/index.htm

⁶ As is currently the case for both formula grant and LA Block LACSEG, this will not include pupils in 16-19 only institutions, other than those that are currently, or were formerly, maintained by the local authority.

calculated separately to the local authority's MFG calculations and will compare like-for-like funding paid to Academies in the 2012/13 academic year, including through Schools Block LACSEG, to their 2013/14 school budget share. Any additional cost of these protections will not need to be found from within the local DSG and will therefore have no impact on either the funding allocated to maintained schools or the amount recouped from the local authority.

Transferring the funding for statutory induction into the DSG

52. From September 2012, the induction regulations will change so that teaching schools can act as the 'appropriate body' for the induction of newly qualified teachers (NQTs) in maintained schools. The appropriate body monitors and quality assures statutory induction. As set out in the consultation on proposed changes to the statutory induction regulations, which closed on 1 December 2011, the new regulations will also allow appropriate bodies, including local authorities, to charge for their services. Before these changes were proposed, only local authorities could act as the appropriate body for maintained schools. They received funding for this in formula grant under 'regulatory/statutory duties'. Moreover, local authorities were not able to charge for carrying out this role.
53. In order to allow schools to pay for the services of their preferred appropriate body, the funding for statutory induction will need to move into the DSG so that it can be delegated directly to all schools through local funding formulae. Based on average costs, and the number of NQTs entering the system each year, we propose that £12 million should be removed from the funding for the new grant and distributed instead through the DSG.
54. This means that the rates used to calculate the deduction from local authorities (see above) will be slightly higher than the rates used to calculate the total grant to be paid for all pupils in the local authority area. Local authorities will then see a corresponding increase in their DSG allocation.

Question 8: Do you agree that the funding for NQT induction should transfer into the DSG so that it can be delegated to all schools in the school budget share?

Equality Statement

55. In developing these proposals, the Department for Education has considered the impact on protected groups under the 2010 Equality Act. The Equality Act defines the characteristics of nine protected groups. These are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief, gender and sexual orientation. We do not believe that the proposals for replacing LA Block LACSEG from 2013-14 will impact on specific protected groups. We have also considered the impact on: pupils in special schools/Special Academies and PRUs/AP Academies; deprived pupils; and pupils in areas of the country with higher labour market costs.
56. The impact on different groups with protected characteristics under the Equality Act will depend on decisions taken by local authorities and Academies about how the un-ringfenced grant funding should be spent from 2013-14.
57. The Department for Education will take into consideration any additional information which is provided regarding the potential equality impact of these proposals. Respondents are asked to provide details of any alleged impact on groups with protected characteristics, including relevant evidence, for the Department to consider. Final decisions about how the

funding should be distributed will take into account the impact on protected groups under the Equality Act, including any evidence submitted in response to the consultation.

58. A full equality statement has been published by the Department for Communities and Local Government in respect of the overall proposals for the business rates retention scheme, including transfers into and out of the start-up funding allocation for each local authority. The equality statement can be accessed on the Department for Communities and Local Government website.

How to respond

Download a response form at:

www.education.gov.uk/aboutdfe/departmentalinformation/consultations

Send completed response forms to:

Email: reform.LACSEG@education.gsi.gov.uk

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The consultation will run for 10 weeks and will close on 24 September 2012.

Additional copies

Additional copies are available electronically and can be downloaded from the Department for Education's consultation website at:

www.education.gov.uk/aboutdfe/departmentalinformation/consultations

Plans for making results public

The results of the consultation and the Department's response will be published on Department for Education's consultation website this winter.



Department
for Education

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