

ACADEMIES' PRE-16 FUNDING: OPTIONS FOR THE 2012/13 ACADEMIC YEAR

1. Introduction

In the White Paper, "*The Importance of Teaching*", the Government set out its long term ambition for a Fair Funding Formula which ensures clear, transparent and fairer funding for all schools, including Academies and Free Schools, based on the needs of pupils.

The main consultation document "*A consultation on school funding reform: rationale and principles*" available on the Department for Education e-consultation website (www.education.gov.uk/consultations) invites views on our aims for the school funding system and high level principles for reform, including how a Fair Funding Formula might operate. This could be a national funding formula, which would involve all schools budgets being set according to a central formula. Alternatively, it could involve locally agreed decisions to vary the level of funding for individual schools to meet particular local circumstances.

The main document also asks for views on when any reform might be introduced. However, if reform is not in place by 2012/13, we believe there is a strong case for making changes to the way Academies are funded, in advance of changes to the rest of the sector. This document explains why we believe the current model for funding Academies is unsustainable going forward and would want to make changes for funding Academies in the financial year 2012/13 (FY2012/13). It sets out the principles behind finding an alternative approach and options for doing so.

2. The current system

The main school funding consultation document sets out the case for change across the sector and sets out the principles which should underpin any system funding maintained schools and Academies. This document does not seek to pre-empt decisions informed by the main school funding consultation on extent and timing of changes across the school sector. However, we believe it is imperative to make improvements in the way Academies are funded from academic year 2012/13 (AY2012/13) and are therefore consulting on interim changes here that can be made in advance of wider reform.

Academy funding for the AY2011/12 will be made up of the following main blocks:

General Annual Grant (GAG): In order to keep to the principle that Academies should receive equivalent funding to a similar maintained school in the same area, the main portion of an Academy's funding seeks to mirror the local school funding formulae. An Academy's School Budget Share is the level of funding which would be provided

through the Local Authority's (LA's) funding formula for FY2010/11 if the Academy had been a maintained school. It includes allocations for grants, such as the Standards Fund Grant, which have been mainstreamed into school and Academy budgets from the FY2010/11. For each Academy the Young People's Learning Agency "replicates" the LA funding model, applies it to the Academy's pupil characteristics and adds in any mainstreamed grants. Funding is based on the previous financial year due to the timing of financial information available from the Section 251 LA return on which models are based.

LA Central Spend Equivalent Grant (LACSEG). As independent institutions, Academies have to provide services which a Local Authority would provide for a maintained school, such as behaviour support services, licences and subscriptions, pensions returns and the production of financial accounts. An Academy may choose to buy services back from the LA or it can make other arrangements to suit its pupils' needs. The LACSEG gives Academies funds to provide these services, at an equivalent rate to which the LA would have provided the services. It is calculated by the Department for Education using financial information supplied by Local Authorities in Section 251 statistical returns. Amounts vary substantially between authorities because of differences in the way LAs delegate funding to maintained schools and can reflect large swings between years as LA funding decisions change to reflect changing patterns of provision.

Insurance: As Academies typically have higher insurance costs than maintained schools, Academies receive a payment to reflect this.

Pupil Premium: Academies receive the Pupil Premiums for pupils known to be eligible for Free School Meals, Service Children and Looked After Children in the same way and at the same rate as maintained schools. This is additional to core funding.

Taken as a whole, this adds up to a complicated system that we believe needs reform for the following reasons.

The process is not transparent. The replication models and LACSEG models are hard to understand at an Academy and local authority level. Funding allocations are based on figures that relate to activities many months behind the activity for which an Academy is providing the service to its pupils.

It does not quickly reflect local circumstances. As pupil characteristics change in an Academy - e.g. the number of pupils eligible for free school meals or identified with special educational needs - the replication process does not ensure that these are reflected in actual funding amounts for the year in which the service is now needed.

There is a risk of error during the replication process. There are risks involved, mainly arising from the difficulty of accurately duplicating a local authority formula without mistakes that can sometimes lead to significant

errors in the level of funding allocations, even from very small formula errors.

The process becomes more difficult with an increasing number of Academies. The method of replication was appropriate for a small number of Academies, where individual anomalies could be discussed and agreed with a local authority. It is not an appropriate mechanism to automatically set funding levels for an increasing number of schools.

It is not sustainable. There are some local authorities which are likely to have no maintained secondary schools soon, as they will have all converted to Academies. This would mean that the local authority would have no need for a formula for their secondary schools, and therefore there would be no formula to replicate. And if all an authority's schools become Academies, then LACSEG will reduce to zero because the local authority would have no need for central expenditure on maintained schools.

It is not administratively efficient. Replication is extremely labour intensive. YPLA estimates that an average replication model takes 3-5 days to build but may take up to three weeks to verify as further information and clarification is sought from a local authority. This funding system also means additional data burdens for Academies.

3. Principles for an alternative funding method

Our view is that an alternative method for funding Academies in AY2012/13 would have certain key characteristics.

It would enable a smooth transition to a new approach across the funding system. This might be a short-term, interim measure to ensure stability in the system before we move to a new approach to funding across the system, or it might mean some kind of trial approach is required.

It would ensure that funding is equivalent between Academies, free schools and maintained schools. We would want to avoid any option which gave a financial advantage or disadvantage to schools wishing to convert to Academy status.

It would be transparent and easy to understand. If an alternative method is implemented, local authorities and Academies must be clear about how calculations are made and how funding levels may change.

Questions for consultation

Do you agree with our analysis that the current system is not appropriate to fund an increasing number of Academies in a fair and transparent way?

Do you agree with the principles for an alternative method of funding Academies in 2012/13?

Are there other aims we should have for the Academy funding system in the absence of cross-system reform, such as a Fair Funding Formula?

4. School budget share

We think that there are three main options for funding Academies in 2012/13. It would be impossible, at this stage, to show the precise impact on actual funding levels if we pursued any of the particular options for an individual Academy as this would involve detailed modelling work for which the data is not currently available. However, we are able to provide an initial assessment of the options based on how they would most likely work.

The largest element of an Academy's funding is the school's core funding, known as its delegated school budget share. This is currently the same as a maintained school's current budget share received from the local authority, with some small adjustments. In AY2012/13 we could change how the school budget share is calculated for Academies.

The proposals here concentrate on Sponsored Academies and Converter Academies. We will want to consider further whether any changes are necessary to the way the budget share for Free Schools is calculated for AY2012/13. We are conscious that as the first Free Schools will open in September 2011 and new applications are currently being developed for AY2012/13, any interim changes would need to be considered against ensuring a necessary degree of certainty going forward for what will be very new institutions. The main consultation document, which is consulting on the principles on wider reform, includes Free Schools within its scope for wider system reform going forward.

Roll Forward. We would ensure that per pupil funding amounts are kept level, rolling forward the per pupil school budget share figures from the previous year. This approach would mirror the Spending Review's overall Schools Budget Settlement for FY2012/13 for maintained schools. We would intend to roll forward the per pupil school budget share that was the basis of the calculations for the previous year's budget, before any transitional protection, such as the Minimum Funding Guarantee (MFG) was applied. This consultation does not propose any MFG (or similar) protections next year but our assumption would be that if there were to be any additional protection for the maintained sector going forward, this would also be applied to Academies.

For Academies that are open before September 2012 we would roll forward their per pupil funding for the AY2011/12. Schools converting to Academy status during AY2012/13 would receive their allocation as if they were still a maintained school with additions for LACSEG.

It is important to note that this would not mean that Academies would receive the same total budget as in the previous year. This could either increase or decrease depending on how pupil numbers fluctuate at an Academy.

An important advantage of this approach is that funding for Academies and schools converting to Academy status would be predictable. The main drawback is that certain funding levels - such as deprivation funding - would remain tied to historical funding levels. However, this would be a relatively simple option which could work in the short term. Academies would also still receive Pupil Premium funding relating to their pupils as this is additional to core funding.

We believe that the roll forward option would give us a transparent interim method of funding Academies in FY2012/13 that maintains the comparability between Academies and the maintained sector. For these reasons, it is our preferred option going forward.

A fair funding formula for Academies only. We would fund Academies through a single formula on which we would consult later in the spring. This would be a useful way to trial a Fair Funding Formula for all schools. However, funding for Academies would move significantly away from comparable maintained schools and therefore does not meet our principle that Academies should not have a financial advantage or disadvantage.

Local authority based calculations. We could require local authorities to calculate Academy budgets using formulae they already hold. This would be advantageous in that Academy funding would be calculated on the financial year data closest to the academic year going forward and would not be lagged in the way it currently. However it has the disadvantage that Academies would receive indicative and final funding allocations later than now. Currently Academies receive indicative funding letters in the December in advance of the following September, with final allocations in March. This option would shorten the advanced notice that Academies have of budgets in the following year. Another disadvantage would be that Academies, as autonomous institutions, would be more reliant on local authority formulae and decisions.

Questions for consultation

Do you agree with the broad analysis of how each option might work?

Which option do you think is the best way of funding Academies in 2012/13?

Are there potential advantages and disadvantages in implementing each option that we have not considered?

5. Local authority central spend equivalent grant (LACSEG)

This is additional money for an Academy to cover central services that a local authority no longer provides. This is not a uniform figure nationwide and reflects the amount that a local authority spends on particular central services

on behalf of schools.

Currently there are services and costs funded from a local authority's Schools Budget, which form 30% of the total grant. There are also services and costs funded from other local authority sources, which form 70% of the total grant nationally. We will consider how LACSEG calculations should be made in FY2012/13, how they could be simplified and how they could reflect changes in LA settlement for FY2012/13. Our assumption is that any changes to LACSEG would also apply to Free Schools.

Questions for consultation

Are there changes you think we should consider to the way the local authority central spend equivalent grant (LACSEG) is calculated for FY2012/13?

What factors would you want us to take into consideration if we were to make changes?

6. Next steps

This document is part of the first stage in our consultation on changes to the schools funding system. As such, we would welcome comments on the questions asked in this document by 25 May 2011 rather than to the usual full 12 week consultation period. In the interim, we will continue to discuss the options for funding Academies in FY2012/13 with partner organisations.