Department for Education

A guide to new 16 to 19 free school revenue funding 2019 to 2020

May 2019

Contents

Introduction

1. This guide sets out how revenue funding for new 16 to 19 free schools will be calculated and paid for the 2019 to 2020 academic year.

2. This guide also sets out the importance of good financial health and the financial governance and accountability requirements for trusts. A pre-opening financial management and governance self-assessment is available at Annex A, and is a helpful tool for trusts to assess a free school's financial governance and compliance prior to opening.

3. The following funding will be available in 2019 to 2020 to 16 to 19 free schools upon opening:

- national 16 to 19 formula funding
- business rates grant
- teachers pay grant
- teachers pension employer contribution grant
- special educational needs (SEN)/alternative provision (AP) commissioner top-up funding (where appropriate)
- post-opening grant

Each is described in more detail later in this guide.

4. This guide does not cover:

- funding for free schools with pupils aged 5 to 15, special or alternative provision free schools (for which separate guides are available)
- free schools open before September 2019 (who will be receiving updates on future funding arrangements from the Education and Skills Funding Agency (ESFA))
- any initial funding which may be provided by the department to help free school proposers to develop their projects before the opening of the school (e.g. project development grant). Further information on project development grant (PDG) is available on gov.uk
- capital funding, which will depend on the circumstances of individual free schools (and within this heading is included in any ongoing annual costs of leasing premises)
- Value Added Tax (VAT) open academies and free schools do not receive a separate grant to cover these costs, but will be able to claim back, when open, any VAT paid in respect of their non-commercial activity, directly from Her Majesty's Revenue and Customs (HMRC) via the VAT scheme for academies

School resource management and planning overview

Schools resource management

5. Efficient schools make the best use of resources, ensuring that every pound is used to have maximum impact for their pupils and the school. Schools that do this well tend to:

- base their financial planning on delivering educational outcomes, rather than as a separate consideration
- have a strategic approach towards financial planning for the longer term (3 to 5 years)
- deploy their staff effectively and efficiently, linked to their long-term plan
- have robust challenge from financially skilled governors and head teachers
- have skilled staff responsible for managing finances
- have transparent financial systems and processes that encourage constructive challenge within and between schools

6. The school resource management strategy outlines the tools, support and guidance available to schools. This includes the Schools Benchmarking Service, which allows schools to compare their spending patterns to schools in similar circumstances and the department's Teaching Vacancies site, which allows schools to advertise their vacancies for free.

7. The strategy also directs school leaders to the department's national deals, including deals on:

- printers, photocopiers and IT equipment
- Schools Switch, an energy comparison service for schools, to ensure they are getting the best deal, and
- hiring supply teachers and agency workers, which makes fees and mark-ups transparent and removes the temp-to-perm fee

8. The 'school resource management: top 10 planning checks for governors' guidance contains information to help schools manage their resources efficiently to deliver good educational outcomes. In particular, trusts will want to use the key metrics contained within the planning checks to consider the affordability and value of their proposed curriculum and staffing plans.

9. To receive regular updates about the School Resource Management tools, support and guidance, schools can sign up to the department's schools business professionals contact list.

Financial planning

10. Free schools should plan their expenditure using the most up to date financial template to ensure that it is affordable within the funding provided. This should be an on-going process with financial plans updated as plans for the school are more fully developed, staff are appointed, site plans are developed and other costs are more firmly established. Groups should also refresh financial plans as further details of funding arrangements are confirmed, and review regularly to ensure they reflect the likely number of pupils based on the number of applications. In doing this, they will want to make sure they are aware of funding arrangements for each new academic year.

11. The department will need assurance that 16 to 19 free schools are on-course to be financially viable on opening. Free schools will be asked to share their current financial plans with the department before entering into a funding agreement. This should include a version modelled around the lowest number of pupils required in order to deliver an educationally and financially viable offer.

12. Financial plans will need to be resubmitted ahead of the school's readiness to opening meeting (ROM). Please note an adjustment of at least -30% should be applied to take account of historical drop out between accepted offers and start date, due to students being able to hold multiple offers. It should also be noted that not all 16 to 19 students progress from Year 12 to Year 13; this drop off is typically around 15%. The details included in this plan will be used in order for draft funding allocation statements to be issued.

13. Projects should be ready to submit their plans at these points with evidence to underpin their pupil number assumptions which must be realistic and achievable. The department will want to see that as far as possible the plans reflect the school's income based on the best estimates of available grants, the school's outgoings, and the likely number of pupils. Plans should show that the school will not go into deficit at any point.

14. Plans should be based on the most up-to-date available estimates of grant funding. The free school financial template containing 2019 to 2020 funding rates is available on GOV.UK, and will calculate indicative funding using the up-to-date funding rates. The template includes pre- and post-16 ready-reckoners which show the breakdown of funding based upon estimated pupil numbers and characteristics.

Annual revenue funding for free schools

15. Except where stated below, the funding for each free school will be calculated and paid by ESFA. 16 to 19 funding will be paid monthly in equal instalments.

National 16 to 19 formula funding

16. A national funding formula is used to calculate an allocation of funding for 16 to 19 provision for each institution, each academic year.

17. The national 16 to 19 funding formula:

[Student numbers

x

National funding rate per student

x

Retention factor

x

Programme-cost weighting

+

Disadvantage funding]

x

Area cost weighting

18. New free schools planning to offer 16 to 19 provision in their first 2 years of opening will be asked to submit a short business case in the spring before they open to provide evidence to support their assumptions about the characteristics to be reflected in the formula. This will inform the final funding allocation.

19. Normally the funding formula factors are based on historic data from the latest full year. For example, to calculate 2019 to 2020 allocations, data from each institution from the end of the 2017 to 2018 academic year is used. For new institutions, the first 2 years are based on national or local authority level averages. Where a business case has been submitted and approved by ESFA, the approved factor will be used instead of the average for the first 2 years. In either case, the allocation will revert to using actual historic data from year 3.

20. Students are categorised into funding bands based on the number of planned hours per students. Each funding band is assigned a national funding rate. The bands and funding rates per student for 2019 to 2020 are:

Band	Annual timetabled hours		National funding rate per student
5	540+ hours	16 and 17-year-olds Students aged 18 and over with high needs	£4,000
4a	450+ hours	Students aged 18 and over who are not high needs	£3,300
4b	450 to 539 hours	16 and 17-year-olds Students aged 18 and over with high needs	£3,300
3	360 to 449 hours		£2,700
2	280 to 359 hours		£2,133
1	Up to 279 hours		£4,000 multiplied by FTE

21. For new schools it will be assumed that all students are full-time and under 18, unless ESFA is informed otherwise. Students will therefore attract the national funding rate of £4,000 per student. It is important to note that all funding can be subject to change.

22. The retention factor will reduce funding if the student does not complete their programme of study for the academic year. For new schools the national average will be used (0.980 in 2019 to 2020).

23. The programme cost weighting recognises that some programmes are more costly to deliver than others. All academic and some vocational programmes are weighted at the base rate of 1. Other vocational programmes are weighted higher than 1, dependent on the sector subject area assigned to the programme's core aim. For new schools the national average will be used (1.016 in 2019 to 2020) unless a different factor can be justified and is approved by ESFA (via the business case exercise) due to the specific programmes of study being offered.

24. The disadvantage funding consists of 2 blocks:

- Block 1 recognises the costs associated with engaging, recruiting and retaining young people from disadvantaged backgrounds (based on the index of multiple deprivation (IMD) 2015). For new schools the local authority average will be used, unless a different uplift can be justified and is approved by ESFA (via the business case exercise)

- Block 2 provides additional funding to support students with additional needs including moderate learning difficulties and disabilities. Prior attainment is used to calculate block 2 funding. Each student without GCSE English or mathematics at grade 4 (or better) counts as one instance of block 2. Where a student does not have a grade 4 (or better) in both subjects, this counts as 2 instances. The institution receives £480 per instance of block 2. Where historic data is available, an instances per student rate is calculated and then applied to the student number for that allocation year to calculate total instances. For new schools the national average will be used (0.183 instances per student in 2019 to 2020) unless a different value can be justified and is approved by ESFA (via the business case exercise)

25. An area cost uplift will be applied to reflect the higher costs of learning in some areas of the country. This uplift applies to all elements of the formula.

26. Additional funding is allocated in respect of:

- high needs places: £6,000 for each place as identified by local authority commissioning plans and decisions
- student support (bursary) funding: for new schools it is assumed that 36% of students will be eligible for student support funding based on the national average. For 2019 to 2020 this is a standard rate of £298 per student

27. For further information, please refer to the 16 to 19 funding guidance on GOV.UK.

Pupil number adjustment (PNA)

28. It is vital to produce robust and realistic estimates of pupil numbers to ensure that the school is funded accurately (without need for subsequent funding adjustments) and will be financially viable. In the first year of opening, an early PNA exercise shall be carried out and if the October schools census shows the school has not admitted the predicted number of pupils, any excess funding will be clawed back in the following academic year. Where more pupils are recruited than have been funded for, ESFA will carry out an in-year reconciliation and pay any additional funding in February of the current academic year. ESFA will base allocations on estimated numbers of pupils and local authority average pupil characteristic data.

29. From the second year of opening and where free schools are part of the main PNA exercise, ESFA carries out the in-year reconciliation for the number of pupils, with any additional funding paid in July of the current academic year and recoveries commencing in the following academic year.

30. In cases where academies have a positive PNA identified and also a historical PNA liability outstanding;

- where there is a net positive payment ESFA shall, in all cases, reduce the PNA by the amount of the outstanding debt
- where there is a net negative adjustment, ESFA will use the positive amount to offset the debt and ask for any agreed deferrals or repayment plans to be re-confirmed against the lower amount to ascertain if the changed circumstances make earlier repayment possible

Teachers pay grant

31. The teachers' pay grant of £508 million across 2018 to 19 and 2019 to 20 provides additional funding to schools to make sure that the 2018 Teachers' Pay Award is fully affordable to schools. This covers the difference between the 2018 awards and the 1% award that schools were expecting under the previous public sector pay cap. The teachers' pay grant covers the cost of the 2018 award up to the end of the 2019 to 20 financial year for maintained schools and academies.

32. We have introduced this grant to accompany the 2018 Teachers' Pay Award, where we accepted in full the School Teachers' Review Body's (STRB) recommendation for a 3.5% uplift to the minima and maxima of the main pay range. We also announced a substantial uplift to pay ranges for leaders and higher-paid teachers: the minima and maxima of the upper pay range are being uplifted by 2% and on the leadership pay range by 1.5%.

33. All new free schools opening in September 2019 are eligible to receive the teachers' pay grant from their first year of opening. These new free schools (and any schools which have opened since October 2018) will not appear on the census data used. The grant allocation which these schools will receive between September 2019 and March 2020 will be based on a minimum funding allocation based on a minimum level of:

- 100 pupils for mainstream schools
- 40 places for high needs institutions

34. New schools will receive an updated allocation in spring 2020 based on their October 2019 pupil numbers. This will cover the September 2019 to March 2020 period. Schools not fully open in October 2018, which are still growing by adding year groups, will receive an updated allocation in spring 2020. Schools which are growing, but not adding additional year groups will not see any additional payment. Further information will be published alongside the autumn 2019 payment.

35. Further information on the teacher's pay grant is available here.

Teachers' pension employer contribution grant

36. The teachers' pension employer contribution grant provides additional funding to schools to cover the cost of the increase in the employer contribution rate of the Teachers' Pension Scheme from 16.4% to 23.6% from September 2019. The grant covers funding for that pressure for the rest of the financial year 2019 to 20 (through to March 2020). The grant will also cover free schools and academies which are currently open for the period April to August 2020, to the end of their financial year. Funding beyond this point will be decided as part of the upcoming Spending Review.

37. New free schools (opening in September 2019) will not appear on the census data which is being used. The grant allocation which these schools will receive between September 2019 and March 2020 will be based on a minimum funding allocation based on a minimum level of:-

- 100 pupils for mainstream schools
- 40 places for high needs institutions

38. The new schools will receive an updated allocation in spring 2020 based on their October 2019 pupil numbers. This will cover the September 2019 to March 2020 period. Schools that were not fully open in October 2019 and are still growing by adding year groups, will also receive an updated allocation in spring 2020 to reflect that growth. Further details of these updates will be included alongside the spring 2020 allocations.

39. Additional information on the published teachers' pension grant methodology can be found here

Risk protection arrangement (RPA)

40. Risk protection arrangement (RPA) is an alternative to commercial insurance, whereby government funds cover any losses that arise. The RPA will cover losses that are in scope of the RPA membership rules. The rules can be found here.

41. The RPA membership year runs from 1 September to the following 31 August, however members can join at any time. Please note, free schools can join the RPA scheme and receive cover prior to opening; there is no cost or premium to join the RPA in pre-opening. Free schools in the pre-opening stage, should have discussions with their lead contact regarding RPA and inform them if they require opting in to the RPA scheme at an early stage.

42. Once a school is open, the ESFA funding will deduct the per pupil cost at source from the free school's general annual grant (GAG). From September 2019, the cost of RPA will be £18 per pupil (reducing from £20 per pupil in 2018 to 19).

43. Free schools do not have to enter the scheme and are free to make their own alternative insurance arrangements; however, there will be no additional funding provided should extra costs be incurred. More information on RPA can be found on GOV.UK.

Business rates grant

44. 16 to 19 free schools pay business rates at the 80% discounted charitable rate. They will receive a grant to cover the actual costs paid. This needs to be claimed via the online form on GOV.UK.

SEN/AP commissioner top-up funding (high-needs)

45. Mainstream free schools will receive additional funding from the local authority for pupils aged 5 to 19 with high needs where the local authority has commissioned the place. Schools will be expected to fund the first £6,000 of additional educational costs (over and above standard teaching and learning) for each high-needs pupil from their own budget. More information on high needs funding arrangements can be found on GOV.UK.

Post-opening grant - POG

46. 16 to 19 free schools are provided with a post-opening grant to reflect the additional costs in establishing a new publicly-funded school which cannot be met through the GAG. The post-opening grant provides funding in 2 elements as the school grows: non-staffing resources, paid on a per-pupil basis; and a leadership grant. These titles reflect the basis on which the funding is calculated, but the grant can be spent on any legitimate purpose of the school.

47. The first element (resources) is paid each year that the school builds up to capacity for each new pupil expected to be on roll and is not revisited to reflect actual pupil numbers. It is based on the final finance plan submitted before opening. It is paid at £500 for each new pupil and is not revisited to reflect actual pupil numbers. The resource element is paid over the first 3 months of the academic year 50% paid in month 1, 25% in month 2 and 25% in month 3

48. The second element (leadership) is paid for the first 2 years after opening at a fixed rate payment of £135,000, payable 80% in the first year and 20% in the second. This is paid in equal monthly instalments.

Financial governance and accountability

49. Trusts will need to ensure that spending decisions are transparent and in the school's best interests and should not give rise to criticism of the trust by Parliament, and/or the public, and/or the media. Free schools will need sound financial procedures, the capacity to handle public money and good governance arrangements. On opening, a 16 to 19 free school will need to have a robust framework to manage its funding and ensure proper accountability and procedures are maintained.

The Academies' Financial Handbook

50. The Academies' Financial Handbook, together with the funding agreement, sets out the financial management and governance requirements for academy trusts.

51. Trusts must comply with the handbook throughout the pre-opening period and once open. This is outlined within the grant agreements underlying any funding you receive from the department and/or ESFA. Non-compliance with the handbook is considered a breach of contract and may trigger various sanctions.

52. The handbook includes requirements in relation to financial oversight, financial planning, internal control, financial monitoring and management and proper and regular use of public funds as well as a number of other specific matters. The handbook also sets out the audit requirements for academy trusts.

53. The handbook is aimed at trustees, accounting officers (principals and chief executives), principal finance officers (finance directors and business managers), clerks to the board of trustees, local governing bodies of multi-academy trusts and auditors.

54. The handbook clearly articulates that the accounting officer is personally responsible to Parliament, and to the accounting officer of ESFA, for the resources under their control. This personal responsibility extends to ensuring regularity, propriety and value for money. The accounting officer also has responsibilities for keeping proper financial records and accounts, and for the management of opportunities and risks.

Financial statements

55. Free schools, including those in the pre-opening phase, with a signed funding agreement must submit audited financial statements to ESFA, for each year ending 31 August, by 31 December. The Academies Accounts Direction prescribes the form and content of the financial statements. Prior to signing the funding

agreement financial statements should be prepared in accordance with company law.

56. Trusts should set their accounting reference date to 31 August at Companies House. This is the date to which their financial statements will be produced.

57. Additionally trusts must publish accounts on their website as soon as possible after approval by trustees, but by no later than 31 January each year.

58. The accounts must also be filed by 31 May (i.e. within 9 months of the end of the accounting period) with Companies House. Further information can be found on the Companies House website.

Other financial returns

59. Trusts must also submit the following financial returns to ESFA once open:

- Budget forecast return submitted to ESFA by 31 July or 6 weeks after receiving the final funding letter, whichever is the later
- Academies accounts return due where the free school did not prepare audited accounts at 31 August but had opened by 31 March, or where the free school did prepare accounts at 31 August but has opened between 1 September and 31 March. The return must be submitted to ESFA by 31 May in the first year only. Subsequent returns will be for the year ending 31 August and must be submitted to ESFA by 31 January
- Land and buildings valuation return, new free schools should complete the land and buildings valuation online form within 6 weeks of opening. This allows the department to produce desktop valuations of the land and buildings of all new academies. ESFA will send academies that opened in the year between 1 September and 31 August a copy of the desktop valuation in the following January. The copy is for information only.
- Financial management and governance self-assessment submitted to ESFA within 4 months of opening. The self-assessment highlights the main requirements academies must have in place soon after opening. A pre-opening self-assessment is available at Annex A, and is a helpful tool for trusts to assess a free school's financial governance and compliance prior to opening

60. Trusts are responsible for keeping up to date with the latest deadlines and requirements. More information is available on GOV.UK.

61. Trusts can also keep up to date through the ESFA Update

ESFA Information Exchange

62. ESFA Information Exchange is a secure website, accessible via the department's secure access system. It enables academies to use:

- Document Exchange to receive and exchange documents with ESFA
- Help Centre to provide support and advice on using the Information Exchange
- Calendar to check key business cycle dates and deadlines
- Digital forms for accurate financial returns and other transactions

63. A secure access account for new free schools will be automatically set up using information shared from Get Information About Schools (GIAS), the department's register of educational establishments. This usually happens within 2 weeks of opening. Prior to a free school opening, ESFA will send an email to the secure access approver of the free school who will then be able activate the account and add up to 7 end users to use secure access and have access to Information Exchange.

Further information

64. Further information on academies revenue funding is available on the ESFA pages on GOV.UK.

65. There are also training videos available which trusts may find useful.

Annex A – Pre-opening financial management and governance self-assessment

This self-assessment is comprised of questions from the financial management and governance self-assessment (FMGS). The requirements in the FMGS checklist apply from the date on which the funding agreement is signed, so it is a helpful tool for trusts to assess a free school's financial governance and compliance prior to opening. The self-assessment must be completed in full and sent to ESFA within 4 months of opening.

1. Has the board appointed a principal or chief executive?
2. Has the trust permanently designated only one senior executive leader (principal or chief executive) as the accounting officer?
3. Have the directors/trustees been provided with the information for them to fully discharge their duties as company directors and charity trustees to undertake their roles effectively?
4. Does the accounting officer, under the guidance of the board, ensure appropriate oversight of financial transactions;
    - by having all the trust's property under the control of the trustees;
    - having measures in place to prevent losses or misuse;
    - having bank accounts, financial systems and financial records operated by more than one person;
    - keeping and maintaining full and accurate accounting records;
    - preparing accruals accounts, giving a true and fair view of the trust's use of resources, in accordance with existing accounting standards?
5. Does the board have arrangements in place to meet at least 3 times per year and conduct business only when meetings are quorate?
6. Does the trust prepare management accounts every month, including budget variance reports, cash flow forecasts and information on cash, debtors and creditors?
7. Are management accounts shared with the chair of trustees every month and other trustees 6 times a year?
8. Has the board made arrangements to consider information about the financial performance of the trust when it meets? This must be at least 3 times a year.

9. Does the trust have an individual in place discharging the role of chief financial officer, with appropriate qualifications and/or experience?

10. Has the board approved a written scheme of delegation of financial powers that maintains robust internal control arrangements?

11. Has the board of trustees approved a balanced budget and minuted its approval?

12. If a deficit revenue budget was set, was ESFA informed within 14 days?

13. Has the trust submitted all relevant budget returns as detailed in the Academies Financial Handbook by the relevant deadline?

14. Has the board been made aware of the Academies Financial Handbook requirements when making investments?

15. Has the trust implemented a risk management strategy which includes the regular review of its risk register by an appropriate committee of the board?

16. Has the board approved a whistleblowing policy?

17. Has the trust prepared a contingency and business continuity plan?

18. Has the trust established an appropriate internal control framework?

19. Is the trust a member of the department's risk protection arrangement (RPA) or does it have alternative, adequate insurance cover?

20. Has the board been informed of the requirement to obtain ESFA approval for the following transactions beyond the delegated limits as per the Academies Financial Handbook?

    - severance, compensation and ex-gratia payments
    - write-offs
    - indemnities
    - acquisition and disposal of assets
    - leasing

21. Has the board been informed of the requirement to obtain ESFA approval for the following transactions?

    - novel, contentious and repercussive transactions
    - borrowing

22. Has the board been informed that goods or services provided by individuals or organisations related to the trust must be provided at 'no more than cost', on the basis of an open book agreement and supported by statements of

assurance, in accordance with the conditions set out in the Academies Financial Handbook?

23. Does the trust have procurement controls ensuring that:

- spending has been for the purpose intended and there is probity in the use of public funds;
- spending decisions represent value for money;
- internal delegation levels exist and are applied within the trust;
- a competitive tendering policy is in place and applied, and Official Journal of the European Union (OJEU) procurement thresholds are observed;
- relevant professional advice is obtained where appropriate?

24. Have all decision makers including the trustees, members, local governors of academies, if a multi-academy trust and senior employees, completed the trust's register of business and pecuniary interests?

25. Has the academy trust published on its website, its governing structure and remit and the relevant business and pecuniary interests of the accounting officer and members and trustees, including local governors where the trust is a MAT?

26. Does the trust have in place measures to manage any conflicts of interest?

27. Is the trust aware that they must report all transactions with related parties to ESFA in advance of the transaction taking place, using ESFA's on-line form? This requirement applies to transactions made on or after 1 April 2019.

28. Is the trust aware that they must seek approval for transactions with related parties agreed on or after 1 April 2019 on or above the Academies Financial Handbook limits?

29. Do senior officers' payroll arrangements meet tax obligations fully?

30. Do decisions about executive pay follow a robust evidence-based process reflective of the individual's role and responsibilities, and that the board's approach to pay is transparent, proportionate and justifiable and in line with the Academies Financial Handbook?

31. Has the board been made aware of the requirement to prepare an annual report and accounts, which incorporates accounting policies which need to be approved by the board of trustees?

32. Has the board agreed the appointment of an external auditor for the trust?

33. Has the trust established a committee to provide assurance to the board about the suitability of, and compliance with financial systems and

operational controls, and to ensure that risks are being adequately identified and managed? Trusts with annual income over £50m must have a dedicated audit committee for this. Other trusts can include this within another committee.

34. Has the audit committee or equivalent agreed and implemented a programme for the independent checking of financial controls and risks?

35. Does the trust have plans for this FMGS full return to be included in the programme for the independent checking of financial controls and risks?

36. Has the board been informed of the requirement to report to ESFA any instances of fraud or theft above £5,000 against the trust, whether by employees, trustees or third parties, or where fraud is unusual or systematic in nature?

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