



Department
for Education

A guide to new alternative provision free school revenue funding 2016 to 2017

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Introduction

1. This guide sets out how the revenue funding for new alternative provision (AP) free schools is calculated and paid for the 2016/17 academic year. Additional guidance on [2016/17 high needs funding](#) for new AP free schools is available on GOV.UK.

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 is available to AP free schools on opening in September 2016:

- per-place (FTE) funding;
- commissioner top-up funding;
- national 16-19 formula funding;
- education services grant;
- business rates grant; and
- post-opening grant.

Each is described in more detail later in this guide.

4. This guide does not cover:

- funding for mainstream free schools and special free schools (which have separate guides);
- funding for hospital education;
- AP free schools open before September 2016 (who will be receiving updates on funding arrangements from EFA);
- any initial funding which may be provided by the department to help freeschool proposers to develop their projects before the opening of the school (e.g. project development grant);
- capital funding, which will depend on the circumstances of individual free schools (and within this heading is included any ongoing annual costs of leasing premises); and
- VAT – open academies and free schools do not receive a separate grant to cover these costs, but will instead 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 via their VAT scheme for academies.

Financial health and efficiency

5. Good financial health and maximising the efficient use of funding is essential to delivering educational excellence. The current economic climate means there is more impetus than ever for schools to become as efficient as they can. For schools to deliver the best for pupils and parents, they must start from a position of strong financial management. To support schools in achieving this, the department has launched the [financial health and efficiency webpage](#). This is an excellent resource for free schools which brings together relevant information, tools, guidance, and links to external resources, existing and new, into one easily accessible place.

Financial planning

6. Free schools should plan their expenditure 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.

7. 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. Plans will need to be resubmitted ahead of the school's Readiness to Opening Meeting (RoM), and then a final plan will need to be agreed with the lead contact based on the number of confirmed places as of 30 June. The details included in this plan will be used in order for draft funding allocation packs to be issued.

8. 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. Your plans should show that the school will not go into deficit at any point.

9. Plans should be based on the most up-to-date available estimates of grant funding. The [free schools financial template containing 2016/17 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 AP free schools

10. AP free schools will have been established in response to demand by local authorities and/or local schools. Evidence of this demand was produced to support the establishment of the school. Local authorities are responsible for ensuring adequate AP facilities are available for pupils in their area who are not at school. The detailed funding methodology may vary over time as changes are made to the school and high-needs funding systems.

11. AP free schools have different funding arrangements than mainstream schools. In AP free schools funding for school-aged pupils is comprised mainly of two elements: base funding received directly from EFA and top-up funding agreed on a case-by-case basis with the authority, or school, commissioning a place within the provision. AP free schools may also receive funding for commissioned services (such as home tuition) from a local authority or school.

12. Once open, the EFA will decide on the number of places to be funded each year, based on the free school's plans and the number of pupils actually attending the school. This funding will be paid by the EFA directly to the free school.

13. From the third year after opening, the EFA will start to deduct an appropriate proportion of the base funding from the dedicated schools grant of the local authorities who commission (or whose schools commission) places at the AP free school. Some AP free schools accept pupils from local authorities other than the one in whose area they are located, or from schools and academies in other local authority areas. There may be situations where the funding deducted does not constitute the total base funding for places EFA will pay to the free school.

14. Funding in AP free schools will comprise:

- base funding of £10,000 from the EFA for each full-time equivalent place. Please note, like all funding, this will be subject to regular review.
- per-pupil top-up funding paid by the commissioner (local authority or other school or academy) – top-up funding agreed between the provider and commissioner and paid to the provider directly by the commissioner for each individual pupil. Top-up funding is to meet the costs in excess of the base funding threshold.
- any other funding received for commissioned services (e.g. outreach work in local schools) from the local authority or school commissioning the service.

15. AP free schools' continuing financial viability depends on both the ongoing support of local authorities and schools/academies, in terms of a commitment to commission placements and services, and their willingness to provide associated funding.

16. Base funding for the first two years is based upon evidence provided in pre-opening of the estimated number of FTE places required for the number of pupils attending the free school. The EFA will review actual pupil numbers against planned places (occupancy), and under-occupancy in year one may impact upon the number of

places funded for year two. The per-place funding beyond year two will be based upon previous years' occupancy unless the place numbers are planned to be higher in the relevant year. The EFA will put in place a process to scrutinise this, which will be published in due course.

17. As local authorities, with their schools, will bear the cost of AP place funding after the first two years, it will be in AP free schools' interests to make sure that they are meeting local demand for AP places. Local authorities and their schools should also take account of what the AP free schools are offering.

18. There are opportunities to engage with the local authority and schools forum. The regulations governing the role and composition of schools forums provide for: (a) AP academies (and free schools) to have separate representation, in addition to mainstream academies, and (b) the forum to consider the local AP funding arrangements.

19. If the AP free school caters for pupils from more than one local authority, it should seek to engage with them all.

20. Where applicable, AP free schools will also receive the pupil premium of £1320 per primary pupil and £935 per secondary pupil for all pupils aged 5-15 who have been eligible for free school meals at any point in the past six years. They will also receive a £1900 premium for each looked-after child, and a £300 per-pupil premium for all pupils aged 5-15 who have a service parent.

21. More information on the [pupil premium](#) is available on GOV.UK.

National 16-19 formula funding

22. AP free schools can receive funding for this age group in the same way as other providers of education for 16 to 19-year-olds. Most of the annual revenue funding for 16-19 provision in mainstream free schools will be based on the national formula applied to all 16-19 places, including maintained schools and academies. Schools will be asked to submit a short business case early in the January before they open which provides evidence to support their assumptions about the characteristics to be reflected in the formula. This will inform the final funding level.

23. Funding is based on a national 16-19 funding formula:

$$\begin{aligned} & \text{[Student numbers} \\ & \quad \times \\ & \text{National funding rate per student} \\ & \quad \times \\ & \text{Retention factor} \\ & \quad \times \\ & \text{Programme-cost weighting} \\ & \quad + \\ & \text{Disadvantage funding]} \end{aligned}$$

Area cost weighting

24. Normally these factors are based on latest available data from 1 to 3 years prior to the allocation year; however, for new institutions the first 2 years are based upon the business case submitted and from year 3, will be based on available data from the school census. EFA will review these business cases prior to opening, usually from January to March. **If no business case is submitted, or case is not approved, the factors will be based on averages appropriate to the institution at either national or local authority level.**

25. 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 2016/17 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 divided by FTE

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

27. The retention factor will reduce funding if the student does not complete their programme of study for the academic year. **For new free schools the national average will be used (0.976 in 2016/17).**

28. 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 free schools the national average will be used (1.016 in 2016/17) unless they can justify a different amount** due to the specific programme(s) of study offered, which must be agreed by the EFA prior to opening via the business case exercise.

29. The disadvantage funding is made of two blocks:

- block 1 recognises the costs associated with engaging, recruiting and retaining young people from disadvantaged backgrounds (based on IMD 2015). **For new free schools the local authority average will be used, unless they can justify a different amount** in the business case; and
- block 2 awards additional funding to the institution for the numbers of students without either or both of GCSE English and mathematics at grade C or better. The institution receives £480 per student per subject (so a student without both of English and mathematics attracts £960 for the institution). Allocating based on poor prior attainment is the best proxy we currently have for identifying those young people who are likely to need additional support with their study programmes in order to succeed. **For new free schools the national average will be used (0.209 in 2016/17) unless they can justify a different amount in the business case.**

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

31. Additional funding is then added in respect of:

- **high-needs places:** £6,000 for each place as identified by local authority commissioning plans and decisions; and
- **student support (bursary) funding:** for new free schools it is assumed that 36% of students will be eligible for student support funding. For 2016/17 this is a standard rate of £298 per student.

32. More information on [16-19 funding](#) is available on GOV.UK.

Education services grant

33. In 2016-17, free schools will receive the Education Services Grant (ESG) for all students aged 5-15, and for students aged 16-19 provided they are at a school which also provides for younger pupils (pupils in post-16 only institutions do not attract ESG). The general funding rate, which is £77 per pupil in 2016-17, is paid to both local authorities and academies/free schools to fund the duties that local authorities deliver for maintained school pupils and that academies/free schools are responsible for delivering for their pupils.

34. In the 2015 Spending Review, the department announced a saving of £600m from the ESG by 2019-20. This is likely to be achieved by making efficiencies, removal of duties and by removing the general funding rate from 2017-18. Further information on the future of the ESG can be found in our [national funding formula consultation](#).

Risk protection arrangement (RPA)

35. Free schools are able to opt in to a voluntary risk protection arrangement provided by the government. The RPA is an alternative to insurance where UK government funds cover losses that arise. There is no cost or premium to join the RPA. The EFA will deduct £25 per pupil (per place in special and AP free schools) at source from the free school's General Annual Grant. 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](#) can be found on GOV.UK.

Business rates grant

36. All free schools will receive a grant to cover the actual cost of business rates (at the 80% discounted charitable rate). This needs to be claimed via the [online form](#) on GOV.UK.

Post-opening grant

37. AP free schools, like all 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 general annual grant (GAG). The post-opening grant provides funding in two elements as the free school grows: non-staffing resources, paid on a per-place 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.

38. The first element (resources) is paid each year that the school builds up to capacity for each new place it will create. It is paid at the following rates:

- £250 for each new FTE place created in the primary phase (years R to 6); and
- £500 for each new FTE place created in the secondary and 16-19 phases (years 7 to 13).

39. The second element (leadership) will be agreed on a case-by-case basis following negotiation based on the needs of the new school.

40. For the purposes of initial calculation of the post-opening grant, the department will use a maximum of four years for the non-staffing resources element and three years for the leadership element.

Financial governance and accountability

41. 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, free schools will need to have a robust framework to manage its funding and ensure proper accountability and procedures are maintained.

The Academies' Financial Handbook

42. The [Academies' Financial Handbook](#), together with the funding agreement, sets out the financial management and governance requirements for academy trusts.

43. You 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 EFA. Non-compliance with the handbook is considered a breach of contract and may trigger various sanctions.

44. 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.

45. 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.

46. The handbook clearly articulates that the accounting officer is personally responsible to Parliament, and to the accounting officer of the EFA, 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.

The EFA Information Exchange

47. EFA Information Exchange is our secure website, accessible via DfE's secure access system. It enables academies to use:

- Document Exchange to receive and exchange documents with us
- Knowledge Centre to find their own answers to common questions
- Business Calendar to check key business cycle dates and deadlines
- Digital forms for accurate financial returns and other transactions

A secure access account for new free schools will be automatically set up using information shared from EduBase, the Department for Education's register of educational

establishments. Prior to a free school opening, we will send an email to the secure access approver of the free school who will then be able to activate the account and add up to 6 people to use secure access and have access to Information Exchange.

Financial statements

48. Free schools, including those in the pre-opening phase, with a signed funding agreement must submit audited financial statements to EFA, 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.

49. 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.

50. Exceptions to submitting audited financial statements are:

- Extended accounting period - New trusts that have not previously prepared financial statements can extend their first accounting period to a maximum of 18 months. For example a trust incorporated at Companies House on or after 1 March 2016 can defer preparing their first financial statements until 31 August 2017. A trust incorporated before 1 March 2016 must prepare their first financial statements to 31 August 2016.
- Dormant accounts – Trusts that have been dormant since incorporation can prepare dormant accounts. These do not have to be audited but still need to be submitted to Companies House and (if the trust has signed its funding agreement) to EFA.

51. This guide does not substitute for the full requirements in the [Academies Accounts Direction](#).

52. The timetable for submission and publication of accounts, including how accounts are submitted, is set out in detail in the Accounts Direction. Key deadlines are given below:

- **By 31 December** – trust to send audited accounts, including an independent reporting accountant's report on regularity and auditor's management letter to EFA.
- **By 31 January** – trust to publish accounts on their website.
- **By 31 May (i.e. within 9 months of the end of the accounting period)** – trust to file their audited accounts with Companies House. Further information can be found on the [Companies House website](#).

Other financial returns

53. Trusts must also submit the following financial returns to the EFA once open:
- **Budget forecast return** – submitted to the EFA 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 EFA by 31 May in the first year only. Subsequent returns will be for the year ending 31 August and must be submitted to the EFA by 31 January; and
 - [Financial management and governance self-assessment](#) - submitted to EFA within four 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.
54. Trusts are responsible for keeping up to date with the latest deadlines and requirements. More [information](#) is available on GOV.UK.
55. You can also keep up to date through the EFA [e-bulletin](#).

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](#). It is a helpful tool for trusts to assess a free school's financial governance and compliance **prior to opening**.

1. Has the board appointed a principal or chief executive?
2. Do the directors/trustees fully understand their duties as company directors and charity trustees?
3. Has a named individual been designated as the accounting officer and does this person fully understand the duties and responsibilities of the role?
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, 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; and 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 and appropriate committees meet as often as required and at least three times per year? Do they conduct business only when meetings are quorate?
6. Does the board receive and consider information about the financial performance of the trust as often as required and at least three times a year?
7. Has a chief financial officer, with appropriate qualifications and/or experience, been appointed by the board?
8. Has the board approved a written scheme of delegation of financial powers that maintains robust internal control arrangements?
9. Has the board approved a balanced budget for the financial year and the approval been minuted?
10. Has an appropriate internal control framework been established?
11. Has a contingency and business continuity plan been prepared?
12. Have the risks arising from your operations been assessed?
13. Has the board been informed of the requirement to ensure that all the academy trust's spending has been for the purpose intended; that there is probity in the use of public funds; and that all spending decisions represent value for money?
14. Have all trustees completed the register of business interests?

15. Are there measures in place to manage any conflicts of interest?
16. Has the board approved a competitive tendering policy?
17. Do senior officers' payroll arrangements meet tax obligations fully?
18. Has the board been informed that goods or services provided by individuals or organisations connected 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 Handbook? If any goods or services have been provided that exceed 'no more than cost', not on the basis of an open book agreement or without statements of assurance, full details must be provided in the commentary section below.
19. Has a set of accounting policies been approved?
20. Has an external auditor been appointed?
21. Has a process for independent checking of financial controls been implemented
22. Has an appropriate committee agreed a programme to address the risks to financial control?



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