



Department  
for Education

# **A guide to new alternative provision free school revenue funding 2018 to 2019**

**May 2018**

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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 2018 to 2019 academic year. Additional guidance on [2018 to 2019 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 2018:

- per-place (FTE) funding
- commissioner top-up funding
- national 16 to 19 formula funding
- business rates grant
- universal infant free school meals
- PE/sport premium
- 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 2018 (who will be receiving updates on 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)
- 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 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 (HMRC) via the VAT scheme for academies

## Financial health and efficiency

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 [Schools financial efficiency: 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.

## Financial planning

7. 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 places based on evidence of commissioned places from schools and/or local authorities. In doing this, they will want to make sure they are aware of funding arrangements for each new academic year.

8. 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 commissioned places 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). The details included in this plan will be used in order for draft funding allocation statements to be issued.

9. Projects should be ready to submit their plans at these points with evidence to underpin their place 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.

10. Plans should be based on the most up-to-date available estimates of grant funding. The [free schools financial template containing 2018 to 2019 funding rates](#) is available on GOV.UK, and will calculate indicative funding using the up-to-date funding rates.

## Annual revenue funding for AP free schools

11. AP free schools are established in response to demand by local authorities and/or local schools. Evidence of this demand is needed to support the establishment of the school. Local authorities are responsible for ensuring that adequate AP is available for pupils in their area who are not at a mainstream or special school. The detailed funding methodology may vary over time as changes are made to the school and high-needs funding systems.

12. 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 ESFA 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 from a local authority or school.

13. Once open, ESFA will decide on the number of places to be funded each year, based on the free school's plans, the commissioning of places by local authorities and schools (both actual and planned) and the number of pupils actually attending the school. This funding will be paid by ESFA directly to the free school.

14. From the third year after an AP free school opening, ESFA starts to deduct an appropriate proportion of the place funding from the high needs funding block within the dedicated schools grant (DSG) of the local authorities who commission (or whose schools commission) places at the AP free school. This is because 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, because of the data used, the funding deducted from the DSG does not constitute the total funding for places ESFA will pay to the free school.

15. Funding in AP free schools will comprise:

- base funding of £10,000 from ESFA 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 is 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

16. 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.

17. 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. ESFA 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 on evidence of occupancy (i.e. pupil numbers) and commissioning of places by local authorities and schools. ESFA have put in place a process to collect and scrutinise this evidence.

18. 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. 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. Where applicable, AP free schools will also receive the pupil premium of £1,320 per pupil for those in reception to year 6, and £935 per pupil for those in years 7 to 11, for pupils who have been eligible for free school meals at any point in the past six years. They will also receive a £2,300 premium for each looked-after child, and a £300 per-pupil premium for all pupils in reception to year 11 who have a service parent.

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

## National 16 to 19 formula funding

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

22. The national 16 to 19 funding formula:

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

Disadvantage funding]

x

Area cost weighting

23. Schools 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 level.

24. Normally the funding formula factors are based on historic data from the latest full year. For example, to calculate 2018 to 2019 allocations, data from each institution from the end of the 2016 to 2017 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.

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 2018 to 2019 are:

| <b>Band</b> | <b>Annual timetabled hours</b> |  | <b>National funding rate per student</b> |
|-------------|--------------------------------|--|--|
| 5           | 540+ hours                     | 16 and 17-year-olds<br>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<br>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                 |

26. 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.
27. 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 2018 to 2019).
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 schools the national average will be used (1.016 in 2018 to 2019) 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.
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 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 two 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 2018 to 2019) unless a different value can be justified and is approved by ESFA (via the business case exercise)
30. 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.
31. 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 2018 to 2019 this is a standard rate of £298 per student



32. For further information, please refer to the [16 to 19 funding guidance](#) on GOV.UK.

## Education services grant

33. In 2015, the department announced the removal of the education services grant (ESG) general funding rate from 1 September 2017. Academies and free schools continued to receive an annual rate per pupil until August 2017.

34. Academies and free schools that opened before 1 September 2017 will be eligible for the protection arrangements, which will unwind over time. Free schools opening after 1 September 2017 onwards are not eligible for ESG funding or ESG protection.

## Risk protection arrangement (RPA)

35. The RPA an alternative to insurance where UK government funds cover losses that arise. Alternative provision free schools are automatically opted in to the scheme unless they tell their lead contact that they want to opt out. The ESFA will deduct £20 per place at source from the free school's general annual grant (GAG). 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](#) about [RPA](#) can be found on GOV.UK.

## Business rates grant

36. 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.

## Universal infant free school meals

37. All children in reception, Y1 and Y2 are entitled to free school meals under Universal Infant Free School Meals policy, and where they would not otherwise have been eligible for benefits related free school meals. This is funded at a rate of £2.30 per meal. In their year of opening, free schools will initially be funded based on the estimates of the pupil numbers used to issue their indicative funding letter. They will receive payment on 1 September. Adjustments to reflect actual pupil numbers will be made in January, based upon data from the October schools' census.

## PE/sport premium

38. Free schools with primary age pupils receive PE and sport premium funding based on the number of pupils in years 1 to 6. They receive the [PE and sport premium](#) once they are open based on data from the school census. This grant is for a specific purpose, and will be paid separately to the GAG funding.

## Post-opening grant

39. 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 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.

40. The first element (resources) is paid each year that the school builds up to capacity for each new place it is *expected* to create and is taken from the final finance plan submitted prior to opening. It is paid at the following rates and is not updated to reflect actual places:

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

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

42. 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. Lead contacts will talk to trusts about this.

## **Financial governance and accountability**

43. 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**

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

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

46. 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.

47. 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.

48. 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.

## ESFA Information Exchange

49. ESFA Information Exchange is a secure website, accessible via DfE'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

50. A secure access account for new free schools will be automatically set up using information shared from Get Information About Schools (GIAS), the Department for Education's register of educational establishments. This usually happens within two 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 to activate the account and add up to 7 end users to use secure access and have access to Information Exchange.

## Financial statements

51. 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.

52. 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.

53. 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.

54. 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

55. 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 DfE 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 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

56. Trusts are responsible for keeping up to date with the latest deadlines and requirements. More [information](#) is available on GOV.UK.

57. Trusts can also keep up to date through the ESFA [e-bulletin](#).

## Further information

58. Further information on academies revenue funding is available on [the ESFA pages](#) on GOV.UK.

59. 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 was 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 four months of 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 to discharge their responsibility?
3. Has the trust permanently designated only one senior executive leader (principal or chief executive) 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 at least three times per year and conduct business only when meetings are quorate?
6. Does the board receive, consider and act upon information about the financial performance of the trust at least three times a year?
7. Has the trust appointed a chief financial officer, with appropriate qualifications and/or experience?
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?
10. Was the Education and Skills Funding Agency (ESFA) notified within 14 days of setting a deficit budget if applicable?
11. Was the budget forecast submitted to ESFA by the relevant deadline?
12. Has the board been made aware of the academies financial handbook requirements when making investments, including having an investment policy to manage, control and track financial exposure, and ensure value for money; and regularly reviewing the policy and the trusts investments?

13. Has the board been made aware of the requirement to obtain approval from ESFA where it is considering borrowing funds or entering into liabilities such as leases or tenancies beyond delegated limits? If any payments have been made beyond delegated limits, full details must be provided in the commentary section below.
14. Has the trust established an appropriate internal control framework?
15. Has the trust prepared a contingency and business continuity plan?
16. Has the trust implemented a risk management strategy which included the regular review of its risk register by an appropriate committee of the board?
17. Has the trust obtained adequate insurance cover?
18. Has the board been informed of the delegated authority limits for the categories of transactions set out in the [Academies Financial Handbook](#)? If any payments have been made beyond delegated limits, full details must be provided in the commentary section below.
19. Has the board been informed of the requirement to ensure that all the 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?
20. Has the board been informed of the requirement to obtain approval from ESFA before making any novel, contentious or other such payments (for example, staff severance payments) as detailed in the [Academies Financial Handbook](#)? If any payments have been made beyond delegated limits, full details must be provided in the commentary below.
21. Have all decision makers including the trustees, members, local governors of academies if a multi-academy trust (MAT); and senior employees completed the register of business and pecuniary interests?
22. Has the academy trust published, on its website, its governing structure and remit and the relevant business and pecuniary interest of the accounting officer, members, trustees, including local governors where the trust is a MAT?
23. Does the trust have in place measures to manage any conflicts of interest?
24. Has the board approved a competitive tendering policy?
25. Do senior officers' payroll arrangements meet tax obligations fully?
26. 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 [Academies Financial 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.

27. Has a set of accounting policies been approved?
28. Has the board appointed an external auditor for the trust?
29. Has the trust established an audit committee or a committee that fulfils the functions of an audit committee?
30. Has the trust implemented a process for the independent checking of financial controls?
31. Has an appropriate committee of the board agreed a programme to address the risks to financial control?
32. 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? Full details must be provided in the commentary section where any such fraud or theft has occurred.
33. Has the board approved a whistleblowing policy?



Department  
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