

Report to Schools Forum

Title: Growth Fund – Start-Up Grant/Diseconomies

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Schools affected: Green Ridge Academy

Background

As set out in a separate paper to this Schools Forum meeting, the Growth Fund can be used to support pre-opening costs of new schools e.g. to fund the appointment of staff and the purchase of any goods or services necessary in order to admit pupils. It is also available to support new schools during the initial years of opening due to diseconomies of scale.

DFE guidance on local authorities' obligation are:

24. Local authorities are expected to work with selected proposers to agree a reasonable and mutually acceptable funding allocation for the local authority to cover pre- and post-opening costs.

Full guidance is included below (Annex 1)

I have also included the DFE guidance for Free schools that the DFE were previously responsible for (Annex 2).

These funds are agreed from a top-slice of Dedicated Schools Grant (DSG), which is available to all schools.

Schools Forum has to agree the DSG top-slice for Growth Fund and the conditions for its use, including start-up funding.

Green Ridge Academy is due to open in September and a decision regarding the funding available for start-up between now and then is needed as well as agreement on diseconomies.



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Update

At the forum in November 2016 it was agreed that a sub group be set-up to review any bids for pre-opening/diseconomies grant from Growth Fund. This was duly created and held its first meeting with Reach2 the successful bidder for the new Berryfields Primary School in Aylesbury to be known as the Green Ridge Academy. Following discussions between the sub group and Reach2, both parties have settled on a figure of £175k for pre-opening.

Subsequently the EFA need us to agree on the level of diseconomies funding before the end of March to allow the funding agreement to be signed in time for national offer day. To allow this to happen in time on this occasion we are requesting that Schools Forum delegates responsibility to the Pre-opening/diseconomies Panel to be able to agree the level of funding with Reach2

We have previously provided diseconomies funding at Lace hill school in the same way.

Although it is difficult to say what pupil numbers will be initially, given its location we would anticipate future take up of places to be high.

Recommendation

The Schools Forum Funding Group and the Schools Forum to formalise the agreement of £175k towards the pre-opening costs.

The Schools Forum to delegate responsibility to the Start-up/Diseconomies Panel to enable the funding for diseconomies to be agreed in time. Currently Reach2 are asking for formula funding based on agreed class sizes which we are unable to calculate the full cost at this point in time as we cannot predict future take-up plus an additional one off 100k to meet costs while pupil numbers grow. The panel will scrutinise the details of the proposals and agree a final figure.

Appendix 1

Funding arrangements

22. As under the previous new school competition arrangements, the local authority is responsible for providing the site for the new school and meeting the associated capital costs.

23. Local authorities are also required to meet the revenue costs of the new provision. They must make provision in their growth funds to support increases in pupil numbers relating to basic need. This relates to the per-pupil revenue funding in addition to all funding for pre-opening development costs and post-opening funding required to address diseconomies of scale until a school reaches full capacity. This is because the new free school will be funded on a recoupment basis. School funding arrangements allow local authorities to retain funding centrally to cover these costs. This is detailed in the [revenue funding guide for local authorities](#).

24. Local authorities are expected to work with selected proposers to agree a reasonable and mutually acceptable funding allocation for the local authority to cover pre- and post-opening costs.

25. The department will provide a one-off payment of £25,000 to the successful proposer for the legal costs associated with establishing a new free school through this route. Upon opening, the school will be funded by the Education Funding Agency on the same basis as other academies and free schools in the same local authority area.

Annex 2

Pre-opening funding: the project development grant (PDG)

7.3. In the run up to opening the department will provide a fixed-rate project development grant (PDG) to help cover essential non-capital costs up to the point at which the school opens. Your trust will need to develop robust financial plans and controls to make effective use of the project development funding. The rate of funding is set out in table 1 below. You will be issued with a grant agreement setting out the terms under which the project development grant will be paid. You must read these terms before signing the agreement and return it to your lead contact. Your trust will need its own bank account into which the funds can be paid. You cannot use a personal or other similar bank account. If your school is part of a MAT, their MAT account may be used, but there must be systems to ensure clear separation and accounting of the expenditure and income that relate to each school.

7.4. The project development grant will be formed of two elements. You will be given an initial allocation of £30k, which should be sufficient to meet all the pre-opening costs likely to be incurred by your trust up until the site solution is confirmed and we have agreed a provisional opening date with you in writing. The remainder will be allocated at this point with the schedule of payments modelled around the budget profile provided by the academy trust for the remainder of time in pre-opening.

7.5. You must provide regular budget profiles and statements of expenditure throughout the pre-opening stage. The first budget profile should be returned within 14 days of the first payment being received. Details of future returns and templates are provided as part of the grant agreement.

7.6. Future payments will be delayed or stopped at any time if the terms of the grant are not upheld, for example, by not making timely expenditure returns or through inappropriate use of public funds, or if your project does not make satisfactory progress. You must escalate to your lead contact if you forecast to overspend on the project development grant.

7.7. If your project is cancelled before the school opens, you must not incur any further expenditure and must return any unused project development grant funding, in accordance with the conditions of grant set out in the grant agreement.

7.8. If you have any project development grant funding left over when the school opens, you should roll this over into the school's budget. The level of project development grant has been set based on previous free schools' costs in the pre-opening phase. We would not anticipate that schools will roll substantial amounts into their school's budget beyond any unspent contingency, which is likely to be small. We do not expect schools to assume that they will carry forward any funding into their funding plans for the open school.

7.9. After opening, academies can reclaim VAT on expenditure incurred during the pre-opening stage from HMRC. More information can be found on the HMRC website. You should seek advice from your local tax office on reclaiming VAT once open – the DfE and your lead contact are not able to advise on tax policy. The school can also retain any VAT it recoups

from HMRC on project development grant expenditure. (Note: the terms of other grants may differ. For example, schools must return any VAT reclaimed from capital grant expenditure provided by the EFA sites team, in accordance with the terms of that grant from EFA).

Project development grant (PDG) rates

7.10. The amount of PDG you receive will vary depending on whether your trust is opening a secondary, primary, AP etc. Independent schools receive a much smaller allocation, reflecting the fact that they join the programme with much of their staff and other resources in place. Trusts opening a single school in an academic year will receive the full PDG rate for the type of school they are opening. Trusts which have been approved to open more than one school in a given academic year will receive full PDG funding for the first school; however we expect there is scope to realise efficiencies in expenditure and a reduced amount of PDG funding will therefore be received for each additional school – amounts are shown below. Areas where we might expect to see savings are project management; educational services; administration and office costs.

7.11. Where you are opening multiple schools, the amount of PDG will be determined by the provisional opening date of the school agreed with the department, regardless of when the project was approved to pre-opening. The current rates which are payable to projects in the pre-opening stage are set out in the table below.

Table 1	Project development grant rates	(a) Project development grant funding for first school opening in a given academic year	(b) Project development grant funding for each additional school opening in the same academic year
Primary		£220,000	£150,000
Secondary and all-through		£300,000	£200,000
Special		£220,000	£150,000
AP		£220,000	£150,000
16-19		£250,000	£170,000
Independent converters / LA Presumption Schools		£25,000	£25,000

Planning your project development grant budget

7.19. Ensure that all spending is essential to the development of the school during the pre-opening stage and provides good value for money. The department does not expect to provide any other funding to meet pre-opening costs. You should therefore think very carefully about how to allocate your budget before committing to any expenditure.

7.20. The project development grant is intended to cover all revenue costs up to the opening of the school. Capital costs to secure and develop the school's site and ICT to support the curriculum, are provided by the EFA and should not be funded from PDG. Books and other

curriculum materials required on opening may be purchased in the month before opening, using an advance of the materials component of the post-opening grant.

7.21. Typically projects will use their project development grant funding to pay for:

- Project management (support to coordinate all work leading to the development of the school excluding site related issues);
- Educational services;
- Staff recruitment (including the principal designate);
- Salary costs (which often include the principal designate, finance/business manager and administrative support in advance of opening);
- Marketing costs;
- Consultation costs and open evening costs;
- Pre-opening office costs;
- Administration of admissions (including applications and appeals); and
- Trustee induction and support.

7.22. Many projects also use their project development grant to purchase the financial and management information system that the school requires in advance of opening. Where possible, it is good practice to maintain a contingency of about 5% in your initial financial plan to cover unexpected costs. As set out above, if any grant funding is left when the school opens it should be rolled into the school's budget.

7.23. It is up to you to decide how you allocate your project development grant spending. Requirements vary from project to project depending on the local context, the school and the wider resources available to the trust. You may want to look at these sample pre-opening budgets for mainstream primary and secondary schools and think about the different needs of your project to develop your own budget. We cannot, of course, guarantee that you can deliver the activities for the figures shown and if some costs are higher you will need to adjust elsewhere. The New Schools Network provides a budget planning tool which you can use to plan your spending during pre-opening. The tool includes examples of how different types of proposers have used this funding in the past, in order to help you benchmark your spending. They have also published guidance on how to manage your project development grant to accompany this tool.

Developing a viable financial plan for a proposed mainstream school

7.50. Once the school is open, it will be funded by the EFA. The funding for free schools is set at an equivalent level to funding for all other state-funded schools, after taking account of functions that a free school will have to fulfil for itself rather than relying on a local authority.

7.51. Funding is largely based on a payment for each pupil who attends the school, but the detailed funding methodology may vary over time with changes to the funding of the school system as a whole. Financial, and therefore, educational viability is dependent upon you admitting sufficient pupils.

7.52. In order to provide a sustainable, broad and balanced curriculum, there is a presumption that primary provision should have a minimum of two forms of entry of 30 pupils, and secondary provision have a minimum of four forms of entry of 30 pupils. We do not expect financial plans submitted to the department to be based on fewer pupil numbers. If you expect this to be the case then please contact your lead contact to discuss the rationale.

7.53. The free school financial template is updated in spring each year to reflect the changes in national and local funding rates. When you make your application, therefore, the rates in the template you use may not be the ones for the year in which you will open. You will need to ensure that you refresh your financial plan in the spring before opening when the new rates are available. Your lead contact will keep you updated on any changes. The approval of your application to the pre-opening stage is therefore conditional on you submitting revised financial plans at key points during pre-opening so that the department can be assured that your school is on-course to be financially viable on opening. In particular, you will be asked to share your current financial plans with the department before entering into a funding agreement (this should also include a version modelled around the lowest viable number of pupils for year 1) and in June before opening in order for draft funding allocation packs to be issued.

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

7.55. Developing your school's financial plan should be an on-going process with financial plans updated as plans for the school are progressed, further details of funding arrangements become available, staff are appointed, site plans are firmed-up, the number of pupils become clearer and other costs are more confidently established.

7.56. Further updates should take account of the number of staff required to cater for these pupils. This may change over time and updates will ensure staffing structures are affordable and appropriate.

7.57. The assumptions boxes on the plan should be used to set out the basis for any estimates of pupil numbers and pupil characteristics, income from sources other than the EFA, and expenditure (including service contracts and salaries).

7.58. A guide to mainstream free school revenue funding on the GOV.UK website explains how your funding will be calculated and also contains details of how the post-opening grant – which is provided to new schools as they build up to full capacity – will be calculated.

7.59. Your lead contact may ask you to revise your plans or give further information if needed to show that the school will be viable. They will need to see that the school has complete and robust financial plans and financial governance arrangements, that the plans are consistent with up-to-date educational and staffing plans, and that the school will be viable and not go into deficit in any year.

7.60. The department will not enter into a funding agreement if it is not confident that the school has a viable financial plan. Trusts must escalate to their lead contact if they are unable to submit a viable financial plan.

7.61. Once open, 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, EFA will carry out an in-year

reconciliation and pay any additional funding in January/February of the current academic year.

Post-opening grant

42. 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-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.

43. The first element (resources) is paid each year that the school builds up to capacity for each new pupil expected to be on roll. It is paid at the following rates:

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

44. The second element (leadership) is paid annually based on the number of year-groups that the school will ultimately have that do not yet have pupils. The amount paid to mainstream schools with pupils aged 5-15 each year depends on how many year-groups (cohorts) are empty, and is set out in the table below.

Empty cohorts	6	5	4	3	2	1	Maximum
Primary	£80,500	£67,500	£54,000	£40,500	£27,000	£13,500	£283,000
Secondary	£125,000	£93,500	£62,500	£40,500	£27,000	£13,500	£312,000
All-through	£125,000	£93,500	£62,500	£54,000	£40,500	£27,000	£402,500