Education & Skills
Funding Agency

Guidance

Academy trust deficit recovery

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Contents

This guide comprises 2 sections. The main body discusses the significance of deficits and the arrangements for managing them. There is also an annex containing a number of potential practical steps for reducing expenditure, boosting income and improving liquidity, which have been provided by sector practitioners.

1. Overview

Academy trusts are not businesses, but must run on business lines. This doesn't mean that the objective is to maximise financial surpluses. Financial performance is simply an enabler of the prime objective: the excellent education of young people. However, poor financial health inevitably results in a reduced ability to produce that outcome. In particular, successive deficit budgets will eventually produce a situation where unpleasant choices must be made. Should a deficit arise, academy trusts must be in a position to know at an early point in the financial cycle, have options available that will allow the academy trust to return to balance and have processes to give assurance that recovery plans are on track. Late notification of a deficit may lead to emergency recovery actions detrimental to the prime objective itself.

1.1 Why do deficits matter?

Academy trusts with adequate reserves may have been setting marginal deficit budgets for some years. If the year-on-year increase in overall deficit has been marginal then this may lead to a misplaced sense of acceptance. This may be more understandable in local authority (LA) schools that need not worry about the cash position. However, in academy trusts, where there is no LA acting as “banker of last resort”, no ability to borrow and where budgets acutely reflect financial and operational viability, successive deficits will consume cash, and ultimately could lead to insolvency.

1.2 Do we need to be concerned about in-year deficit?

The academies financial handbook (AFH) requires academy trusts to produce a 3-year budget and to balance for the current year (taking into account carried forward funds). There is no requirement to show a balanced position over the 3 years, but if the trend is toward increasing deficit, then trustees should be concerned.

An academy trust with adequate reserves may make a strategic decision to set a deficit for one or 2 years to respond to specific improvement needs. For instance, if the academy trust has identified weakness in maths (which could jeopardise an Ofsted assessment), then it may be rational to invest additional resources in maths until performance is placed on a sustainable basis. Furthermore, the situation may be easier to justify if the academy trust has data to show that funding is forecast to rise in the medium term.

1.3 Whose deficit?

The AFH balanced budget requirement applies to academy trusts as a whole, not to constituent academies within them. If one or more academies within a multi-academy trust (MAT) was in deficit but the MAT overall was at least breaking even, then that is usually something for the MAT to address without ESFA intervention. MATs provide an environment where resources and capacity are pooled so that financially struggling academies have access to relevant, focused support. Nevertheless, a deficit in a constituent academy that persists year-to-year should not be neglected. MATs vary in terms of the degree of autonomy/centralisation that individual academies experience. Action to address the deficit at academy level may be a matter for local governing bodies or academy trust boards. Whatever the case, accountability rests with the trustees and they must be content that appropriate plans, monitoring and reporting are in place.

1.4 How realistic is it to turn things around in-year?

Decisive action to tackle deficits requires early warning. The need to provide a 3-year budget forecast mean that trustees should have an appreciation of medium-term financial trends. Nevertheless, many academy trusts will be unable to develop a firm budget for the forthcoming year until, perhaps, the preceding spring term. Changed staffing structures need to be in place by September and the Burgundy Book national conditions of service provide that teachers are under 2 months' notice and in the summer term, 3 months. Realistically, this means that decisions to release staff should be made by February half-term. Delayed decisions risk requiring mutual agreement, often requiring additional financial commitments. Similar considerations apply in respect of support staff.

Typically, ESFA will issue funding allocation packs (FAPs) for the forthcoming year in February, though if the academy trust finance team has a grasp of the funding formula it should have been possible to estimate funding based on the prior autumn census. Nevertheless, receipt of the FAP in early spring should enable academy trusts to proceed with budget setting for the following year.

Spring is also the time for annual changes in tax and national insurance rates etc, though these will have been notified by the preceding autumn. Notification of changes in water rates, pension contribution rates and so on. should also occur at about this time, as may annual uplifts in contract rates, utility costs and, usually, inflationary salary increases. Decisions on individual teacher pay progression may not take place until summer term, but principals should be able to predict the range of possible outcomes earlier than this, so it should also be possible to establish the most likely budgetary impact of progression in the spring. Consequently, the weeks between February half term and Easter represent a crucial period to tie down the budget for the forthcoming year. Delay means that academy trusts may miss their best opportunity to make major changes to curriculum and staffing for the forthcoming year.

The severity of the situation may not become fully apparent until several months into the financial year. If so, it may become necessary to take emergency measures, which, otherwise, might have been avoided had there been more time to plan for reducing expenditure. Such measures (such as an embargo on printing, supplies, training, etc.) may yield short-term economies, but may defer a problem rather than resolve it. Deferral of a problem will sometimes be a rational choice, but trustees in this situation need to examine why they did not have more warning.

Effective financial planning and monitoring requires determining how the academy trust is performing against the current year budget while at the same time forecasting how it will perform next year. The following table illustrates how both of these strands might be coordinated over the financial year:

-	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July	Aug
For current year	Establish opening balance	-	-	Refresh budget and estimate outturn	Consider any "emergency measures"	-	Impact unplanned inflationary changes taking effect from April	Refresh budget and estimate outturn	-	-	-	Estimate budget outturn
For next year	-	Use census to estimate next year's funding	Use autumn statement to estimate impact of changes in ERNIC etc	-	-	Receive funding allocations pack	Discuss possible staff changes from Sept	Consider pay progression	-	Pay progression decisions	Set budget	-

2. Process

Once a deficit has been established, a plan must be developed to place the academy trust back on a financially sustainable basis. This will involve a number of “moving parts” and the severity and timing of actions will be influenced by the acuteness of the situation and the medium-term financial outlook. The plan must be “owned” by both the senior leadership team (SLT) and the board. The plan is not simply a spreadsheet or something that the chief financial officer (CFO) develops in a “bubble”: it is a commitment to a series of possibly difficult decisions by the academy trust’s leaders.

Academy trusts with deficits are subject to ESFA intervention. This is more likely to be “light touch” when academy trusts have credible deficit recovery plans. Academy trusts without such a plan are more likely to have a financial notice to improve (FNtI) imposed which may then mandate how recovery will be achieved. Even if ESFA has accepted the academy trust’s recovery plan, if that plan fails to show sufficient progress then further intervention by ESFA is more likely. Consequently, failure by trustees to get a grip of the situation is likely to lead to a significant reduction in the academy trust’s financial autonomy.

2.1 Set a realistic timescale

Deficits that emerge apparently unexpectedly may still be symptomatic of long-term issues. These issues may be revealed by analytical review of changes over past periods and the forward look needed for a three-year budget. However, unless an academy trust encounters a financial catastrophe, it should not come as a surprise to trustees that the budget has gone, or is going, into deficit. If this happens, trustees must consider seriously the degree of attention they devote to monitoring financial performance and the quality and timeliness of the financial information they receive.

Decisive action by trustees, on the advice of the CFO, in the spring preceding the academic year may be enough to stave off an in-year deficit. If the deficit is small, that action may place the academy trust back on a financially sustainable basis. However, a deficit may be the result of chronic structural issues in the academy trust and it may not be realistic to plan for the academy trust to return to balance in less than 3 or more years. If so, trustees should commission a plan that sets out the income and expenditure flows, on a line-by-line basis, for at least 5 years. If this plan indicates that the academy trust will not achieve an in-year balanced position for the first 2 or 3 years, then trustees must focus on forecast cash balances. A “paper” surplus position in 5 years’ time will be rendered null if the academy trust becomes insolvent by year 2 or 3. An academy trust unable to show that it can achieve balance within 5 years may never do so.

2.2 High-level in-year reporting and scrutiny

Some academy trusts do not forecast a year-end outturn position throughout the financial year. Budget variances may be analysed month-on-month, but without a systematic re-forecasting the outturn position until a mid-year review in the spring term. This is akin to driving a car using the rear view mirror and fuel gauge without looking through the windscreen. If trustees do not make themselves aware of the in-year position until, say, February, then it may be too late to consider effective, non-damaging mitigation action. Month-on-month in-year reporting does not have to be forensic. Even if the budget has simply been flat-profiled, an extrapolation of year-to-date (YTD) income and expenditure over the remainder of the financial year, whilst never going to be 100% accurate, would at least indicate whether or not the budget is broadly on track. Even high-level monthly line-by-line examination of variance above a certain threshold of materiality can prompt timely intervention. For example:

- Total budgeted spend for printing: £10,000
- Anticipated spend to 01/09 to 30/11: £2,500 (25%)
- Actual spend 01/09 to 30/11: £3,500 (35%)
- Therefore projected spend to 30/08: £14,000

Why are YTD printing costs running £1,000 higher than anticipated? Investigation of the copier logs could reveal that certain members of staff are exceptionally high users of colour printing compared to others. If so, steps could be taken to remedy the situation now to bring the printing budget back on track.

2.3 Detailed in-year reporting and scrutiny

If the budget situation is acute, trustees must ensure that there are processes to enable them to keep track of the situation. Academy trusts must produce monthly management accounts that should provide a basis for tracking of progress in-year. Monthly targets should be set for each line of income and expenditure, as well as creditor and debtor balances. If the situation is such that the deficit has come close to exhausting cash reserves, it may be necessary to put in place weekly monitoring. Line-by-line reporting of expenditure needs to take into account both expenditure incurred (bills paid) and expenditure committed (orders placed) so that trustees are not unintentionally misled into thinking that all unspent budget is available.

2.4 Be realistic and challenge

CFOs tend to be prudent and accounting principles mean that income is never anticipated but expenditure recognised in its entirety as soon as possible. Trustees should consider whether in past years they have been presented with a deficit budget at the beginning of the year that never transpires in reality, or at least the situation turns out to be less bleak than had been forecast. A pattern can develop where trustees expect that the academy trust will always, somehow, recover the situation. There are obvious risks in “crying wolf”, especially if the SLT are panicked into structural changes to staffing or curriculum that may not have been necessary. Alternatively, CFOs and accounting officers charged by trustees with turning around an in-year deficit may be tempted to be over-optimistic about income generation in the second half of the year, or pupil numbers in future years. Budgets need to balance in reality not just on paper and trustees must be prepared to challenge every line in the budget and every assumption that underpins them.

3. Actions for balancing the budget

Annex A sets out a number of practical options for recovering a deficit situation. Specifics will depend on circumstances, but generally steps must be taken to reduce expenditure, boost income and collect monies owed. Any planned development and “discretionary” expenditure should be frozen until trustees are aware of what remains of the budget. Close scrutiny of all budget lines is required, with any showing a potential underspend explored. These should be used to reduce overspend in others and a revised budget set. Academy trusts should have procedures in place for all such budgetary virements to be approved and routinely reported to the board.

4. Conclusions

Deficit recovery must be owned by trustees. The CFO and the accounting officer can present information, options and recommendations, but the decisions, including sometimes tough and even unpleasant choices, are for trustees. The deficit recovery plan needs to be a real plan, not just a spreadsheet where the numbers show balance. The process of overseeing recovery requires sustained commitment and attention by trustees, who must be prepared to challenge all of the assumptions underpinning the numbers presented to them. Effective multi-year forecasting over the medium term should provide early warning, and early action is the best way to avoid dislocation and emergency measures that would otherwise be avoidable.

5. Acknowledgements

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Maxine Adams, Chief Finance & Operations Director, Apollo Partnership Trust; Chair, Leicestershire Academies Group.

ESFA Finance & Assurance Steering Group, working group 3.

ESFA will review and update this guide by March 2021.

6. Annex A - potential measures for recovering from a deficit situation

6.1 Overall

Academy trusts should consider accessing the school resource management self-assessment tool, which will show how the trust's own data compares against a range of performance measures that are indicators of good resource management. It should assist in identifying "hotspots" where remedial action can then be considered.

6.2 Salaries

Salaries form the main portion of expenditure, so any deficit recovery plan that does not start with consideration of salary costs is not a serious one. Trustees must challenge the assumption that salary costs are fixed. Even when there is no pressing need to shed staff, there should still be opportunities for economies. Options for identifying long-term savings in respect of staffing include:

- reduce staffing budgets via natural wastage and a moratorium on recruitment wherever operationally possible
- internal promotion of lower paid staff rather than recruiting more expensive teachers (assuming parity in operational effectiveness)
- review use of any surplus staffing including non-contact times in excess of statutory PPM allowances
- review TLR allowances. Are they truly being used to recognise additional responsibilities or to address retention? Have some been in place for some time and which reflect legacy issues rather than current ones? Academy trusts should develop middle leaders, but if scrutiny of the staffing structure indicates that the majority of MPS teachers are "leaders", how realistic is this?
- look at redeployment in areas with potential surplus staff (classroom support could be reviewed enabling redistribution of duties and hours)
- review any fixed term contracts. Can the academy trust operate without these posts? Consider non-renewal at earliest opportunity

Academy trusts will know that they have taken serious steps to control their staff costs once the budget shows that staff costs fall within reasonable parameters. An ideal level (as a rough guide) would be between:

- 70% and 75% to ESFA revenue income
- 65% to 70% of total income
- 60% to 75% total expenditure

6.3 Performance related pay

Performance related pay for teachers is highly regulated and inevitably represents an ongoing upward pressure on costs, especially taking into account potential “double jumping” due to exceptional performance. Choices here include: * Remain as expected if performance is appropriate * Pay for any “double jumping” for exceptional progress out of any static salaries that have not performed sufficiently for progression

6.4 Controlling staff supply costs

Academy trusts taking steps to recover deficits commonly see reducing supply costs as a way to close the gap. Budgeted supply costs may look high, but often there is a gap between ambition and reality, with the result that a recovery plan hinging on a cut in supply costs may be simply a paper exercise with no real buy-in from the SLT. Both cultural and organisational steps must be taken to make the ambition a reality. Supply is a legitimate response to an unforeseen staffing shortfall through sickness, but some academy trusts routinely buy-in teaching supply to cover PPM. PPM sessions are planned and predictable, so alternatives may exist. For instance, the hourly rate of a HLTA or sports or dance coach is likely to be less than that of a supply teacher. Could PPM sessions be clustered to allow for scheduled cover using non-teachers? Is there a member of the SLT, such as an AHT or DHT that could step in for half a day a week to provide backfill for PPM? In the case of longer-term absences, if it is necessary to use supply cover then a reduced day rate should be negotiated, reflecting the extended period. However, academy trusts should look to their own resources and see if there is a way to re-assign existing teaching staff, with appropriate backfill. If a MPS teacher can cover for a UPS teacher, then a NQT may be able to cover for that MPS teacher in turn, and a sports coach or HLTA may be able to cover for that NQT for some of the time. Such considerations highlight the extent to which financial recovery needs the active involvement of the academy trust’s teaching leadership. Even if there is limited scope within the academy to find cover for absence, there may be across MAT. This may not always be possible, but in MATs where each constituent academy has its own legacy supply arrangements, consideration should be given to rationalising these to obtain lower day rates.

6.5 Controlling insurance costs

Many academy trusts have not adopted DfE’s risk protection arrangement (RPA) that, often, has proven more economic than commercial insurance. Even where academy trusts have joined the RPA, some have retained commercial cover for staff sickness absence and maternity pay. This may be rational if each academy is a small, stand-alone body. However, as part of a MAT, consideration might be given to replacing some commercial cover in favour of MAT-wide pooling arrangements, building up a central reserve that could be accessed when cover is needed.

6.6 Goods and services

Academy trusts must review all goods and services contracts to identify potential savings. Are these services still needed? Could they be undertaken in-house at reduced cost? For example:

- subscriptions and licences: these should all be reviewed. Has the academy trust signed up to a “free trial” that has rolled over? Has a subscription been taken out for a product or service that is no longer relevant? Are you paying a licence for software that you no longer use?
- printing and newsletters: could the academy trust reduce its copier and printing costs by moving to an on-line newsletter? Might a school app with push notifications be more effective than newsletters and letters home? Consider not just the direct costs involved but also the “opportunity cost” of in office staff time
- training: does the academy trust still routinely send staff off-site for classroom style training for things like first aid or fire risk refresher training? There may be options available for accredited training to be provided on-line on a self-service basis at a much cheaper cost and with less disruption to school life

As above, consideration should also be given to the academy trust’s cash position. Finance staff that have previously worked in LA schools usually consider it best practice to pay supplier invoices quickly. However, if the academy trust’s cash position is weak, it makes more sense to defer payments where possible, taking into accounts suppliers’ normal terms of trade. If it can be done without causing lasting damage to commercial relationships and without foregoing any discounts dependant on early settlement, deferred invoice payment should be considered.

6.7 Rationalising procurement

In some MATs little progress has been made to rationalise procurement across constituent academies, even to the extent of retaining multiple payroll providers as well as overlapping contracts for grounds maintenance, IT, cleaning, catering, supply, stationery and so on. This locks in higher fixed costs and reduces scope to negotiate lower prices for bulk buying. Perhaps the finance function is stretched and essentially unable to do much more than pay invoices as they fall due and produce periodic management accounts. In this situation academy trusts need to consider why it might be that finance has so many invoices to process in the first place.

6.8 Capital funding

The commitment of capital funding should be planned over a period of 5 to 10 years and academy trusts should have a strategic site development plan that takes into consideration annual maintenance cycles and long term large maintenance projects such as boiler renewal as well as ongoing health and safety related maintenance and upgrades rather than a slightly unspecific “wish list”. Academy trusts should make best use of the condition improvement fund (CIF) grant opportunities to pay for large and specific capital projects. However, a short or medium term deficit in the revenue budget should cause academy trusts to revisit their capital plans in line with the following sections.

6.9 Is planned expenditure capital or revenue?

If an academy trust has a big capital reserve then, unless it has been earmarked for a specific purpose, could the academy trust access it to help balance the revenue budget? Even if it has been earmarked, is it a worthwhile project and something that will benefit the academy trust in the long term (such as a new sports hall) as opposed to something that may just be a “nice to have” (such as a suite of new iPADs or interactive whiteboards). There may be items on the margins of revenue and capital where, previously, the revenue budget would have paid for it such as painting or replacement of lights. Can these costs be capitalised? CFOs may need to speak to auditors about this as they may not agree and the academy trust could come under pressure to reverse capitalisation when they conduct the audit or face a finding on regularity.

Does the academy trust have a policy of regularly transferring GAG into its capital fund? Is this the cause or a contributory factor to this year's revenue budget deficit? If so, it may be appropriate to suspend any transfer until the budget is balanced.

6.10 IT development and major maintenance

IT Infrastructure should be maintained on a planned cycle allowing budgeting over 3 to 5 years. This should be set by true organisational need rather than custom and if the budget is in deficit, academy trusts should consider whether older IT kit that would otherwise have been replaced might serve for longer? Academy trusts should also explore leasing options if they provide consistency in budget planning, provided that these do not contravene the AFH borrowing restrictions.

6.11 Site development

Some academy trusts place a premium on the physical environment, paying annually for painting, and so on. However, would it really matter if the painting programme was deferred a year? Academy trusts should halt or defer, wherever possible, any planned site development until the budget can sustain it, though if some discretionary grant or matched funding might be lost because its availability is time-limited, academy trustees should consider where or not it nevertheless be prudent to proceed if the alternative would be higher net financial strain in the near future.

6.12 Furniture and equipment

Except for action to address health and safety risks, when possible trusts should defer plans for refurbishment of classroom furniture until the budget allows. A prioritised list of areas requiring furniture and equipment renewal should be made so that when funds become available the appropriate areas can be addressed. If old or redundant furniture or equipment needs to be disposed of then residual value should be realised, either on auction sites or even just scrap payments (though caution should be taken with IT hardware where there is risk of data loss).

6.13 Joint projects and external service providers

Academy trusts should review all joint projects and subscriptions. Do they provide value for money? What is their impact on the learning outcomes of pupils? Are they still relevant? Can savings be made by not renewing? Does the academy trust have clear agreements for any outcomes of consultancy services procured?

6.14 Pupil premium funding

Pupil premium funding must be spent on the identified pupils. These funds may be used to offset some salary costs, but only if the staff are working directly with the identified pupils and with a clear remit in respect of improving attainment. Many academy trusts work hard to ensure that they receive all the pupil premium funding due to them, but this requires constant attention. Since the advent of universal infant free school meals (UIFSM), the number of children registered for means-tested free school meals has fallen. Academy trusts should focus on reception children, and also those transitioning into KS2. Some academy trusts have found that take-up (and, so, funding) increases if parents better understand that the additional funding will directly improve the experience of their own children. Some academy trusts have found it worthwhile to contract with specialist who can identify families with an unclaimed entitlement and so focus their efforts on these parents.

6.15 Debt recovery

It is easy to lose track of parental debt especially in relation to school lunches. The daily focus will be on understanding the numbers of pupils in attendance and ensuring that kitchen staff are notified quickly. Even when cashless payment systems have been adopted, it is easy to allow sizeable debt to accumulate. Parents can make mistakes, some choosing to pay in advance, others in arrears and others on a pay-as-you-go basis. All uncollected monies are a strain on the budget, and even a weekly shortfall of a few pounds by a number of parents can, over time, build up into individual debts of hundreds of pounds, and thousands for the academy trust as a whole, perhaps making the difference between a budget that breaks even and one that is marginally in deficit.

Cashless systems may signal to both parent and finance staff the balance owing at any one time, but CFOs must instigate regular reconciliations and reporting of debt through to the accounting officer and trustees. Decisive action may be difficult where the staff need and want to maintain a healthy relationship with families that could be facing challenges in addition to their ability to pay for school lunches. But, in cases where it is evidently a case of unwillingness rather than inability to pay, the result of mounting debt that produces increasing financial strain affecting all pupils, trusts need a clear-sighted approach that parents understand. If the finance function lacks capacity to collect and monitor debt effectively, trustees might consider working with a catering provider that undertakes most of the administration and shares risk in relation to uncollected monies. It would be intolerable for an academy trust to find itself in a position where it was compelled to reduce staff resources as the result of a deficit that arose in this way.

6.16 Wraparound care

Many academy trusts provide wraparound care to provide families with stability. Parents, however, may not appreciate that the major cost of running a breakfast club is simply the cost of cereal and juice. Adequate staffing cover must be provided and, whether the club is attended by 10 pupils or 30, this is effectively a fixed cost. Care should be taken when calculating the charge of all types of wraparound care to take into account all direct costs incurred: food, supervisory staff, additional cleaning, administration, etc. Academy trusts may decide that this non-statutory provision is something where it would not be appropriate to charge pupils from deprived backgrounds, but if each aspect of wraparound care is treated as a “profit centre”, then the notional contribution from pupil premium or the general school budget will be visible. Academy trusts should charge the “going rate” for those who can pay. If the academy trust checks its charges with those of over local providers, it will be able to see if it is out of step. Generally, parents prefer their children at school so that wraparound at both ends of the day is seamless.

6.17 Deficits on conversion

Some academies will have converted from LA status with a deficit budget and, as part of that process, DfE will have paid off the LA and agreed a repayment plan with the academy trust. Normally, these repayment plans are structured to effect full recovery within 3 years. This may place a substantial drain on the academy trust budget and, in effect, could be the main cause of the deficit position. If it is the case that the repayment plan was overly optimistic and the repayments are adversely affecting educational progress then representations can be made to the ESFA.

6.18 Can the school fund help?

Most academies have a “school” fund, built up through countless Christmas fayres, donations and uniform sales. Some have been fortunate enough to have benefitted from legacies. These funds, sometimes held on separate charitable trusts to the main revenue fund, are generally used for “nice to haves” for the academy trust, such as a trip to the pantomime or additional playground equipment. While it would not be appropriate to use the school fund to “prop up” mainstream expenditure such as salaries, it may be that there are “nice to haves” that have been funded from the main revenue account previously. If this is the case, accounting officers should consider whether it would be appropriate to ask the trustees of the fund to make a contribution to those costs either as a one-off or even on an ongoing basis.