

Advances of Funding

Of interest to Principals and Directors of Finance at Academies and Sixth Form Colleges

January 2011

► **For guidance**

Requests for Advances of Funding

Introduction

1. In exceptional circumstances, academies and sixth form colleges can request advances of funding from the YPLA. This guidance note explains how you can make requests, and how the YPLA will process them.
2. A sixth form college should exhaust all possible means of borrowing from its bank before requesting an advance of funding. Currently, sixth form colleges must obtain consent for borrowing where the sum to be borrowed exceeds the general consent limits set out in its financial memorandum with the YPLA. The YPLA will issue separate guidance on how to apply for borrowing consent.
3. Academies may only borrow for any purpose or duration, but only with the Secretary of State for Education's approval and such approval is likely to be by rare exception and after detailed deliberations. The Secretary of State will look to the YPLA for advice on an academy's proposal to borrow. Academies considering borrowing should contact the YPLA for advice at the addresses at the end of this guidance, but academies are not required to investigate borrowing before seeking an advance from the YPLA.

What is an Advance of Funding?

4. The YPLA allocates and pays grant-in-aid to academies and sixth form colleges at a value sufficient to fund academies' and sixth form colleges' revenue and relevant capital costs. The YPLA pays grant-in-aid to academies and sixth form colleges in profiled monthly instalments notified by the YPLA to academies and sixth form colleges prior to the start of the academic year. The YPLA considers the value of these monthly instalments to be sufficient to meet academies' and sixth form colleges' normal cash flow needs.
5. Occasionally, academies and sixth form colleges will experience short-term negative cash flows. These negative cash flows may become of a cumulative value such that an academy may exhaust its cash holdings or a sixth form college will exhaust its cash holdings and ability to borrow. In these circumstances, academies and sixth form colleges may wish to request an advance of funding from the YPLA.
6. The YPLA makes advances by paying academies and sixth form colleges more money than originally profiled for one or more months. For example, the YPLA might increase monthly payments by £50,000 for three months or by £150,000 for one month. The YPLA will negotiate the pattern of the advance with the academy or the sixth form college.
7. Advances of funding are not increases in a provider's total annual grant-in-aid, and academies and sixth form colleges must repay advances to the YPLA. On occasion academies and sixth form colleges will experience negative cash flow arising from operating deficits such that the academy or sixth form college are unlikely to be able to repay any advance from the YPLA within a reasonable period. Sixth form colleges may then need to consider requesting exceptional financial support from the YPLA. Academies may need to consider requesting deficit funding. The YPLA will issue separate guidance on such requests.

When Must Advances be Repaid?

8. Academies and sixth form colleges must repay advances of funding as soon as their cash flow has improved to permit repayment. The YPLA will agree a schedule of repayment as a condition of making the advance. Repayment will normally be by reducing the value of one or more profiled monthly payments.
9. The YPLA requires academies and sixth form colleges to repay advances as soon as their cash flow allows. The longest possible period for an advance will be 12 months, and an advance of this duration will be by rare exception. The YPLA cannot advance funding for longer than this as such long-term advances of funding may constitute loans by the YPLA.

The YPLA does not have the power to make loans without the prior written consent of the Department for Education (DFE) and HM Treasury and this consent is very unlikely.

Which Organisations Can Request Advances of Funding?

10. Academies and sixth form colleges are public sector statutory corporations funded by the YPLA through grant-in-aid or equivalent. This close relationship confers mutual obligations on both government and on academies and sixth form colleges. These obligations include allowing government to consider academies' and sixth form colleges' requests for financial support, including advances of funding. The YPLA requires the principals of academies and sixth form colleges, as their accounting officers, to exercise fully their responsibilities for ensuring their institutions' solvency and for safeguarding their assets.
11. The YPLA also funds local authorities, businesses, and private sector charities. The YPLA has no responsibility for the solvency of these organisations. The YPLA will only consider advancing funds to them where this is unavoidable in securing the interests of learners whilst the YPLA secures alternative learning provision. The YPLA may make emergency payments to business and private sector charities if the YPLA has made a payment error.
12. General further education colleges requiring an advance of funding should approach the Skills Funding Agency.

When are Advances of Funding Appropriate?

13. The YPLA will only advance funding to meet an immediate cash need. The YPLA will not advance funding to meet academies' and sixth form colleges' expenditure if that expenditure can reasonably be deferred. The YPLA will only advance the minimum sum necessary.

Applying for Advances of Funding

14. An academy or sixth form college should contact the YPLA as soon as it identifies that it may need an advance of funding. It should submit a request, signed by the academy's or sixth form college's principal as its accounting officer that sets out:
 - The circumstances leading to the request;
 - The sums needed and the date or dates each sum should be received into the academy's or sixth form college's bank account; and
 - A schedule of dates and sums for repayment of the advance as soon as the academy's or sixth form college's cash flow permits but no longer than 12 months from the first sum advanced.
15. Requests for an advance of funding should always be accompanied by:
 - The latest management accounts, including a income & expenditure account forecast to the academic year end and balance sheet projection for the year-end;
 - A weekly cash flow forecast extending 3 months beyond the final date of repayment of the advance of funding, clearly showing the timing of major cash receipts and payments within the monthly cycle; and
 - A monthly cash flow forecast to the academic year-end following the date of final repayment of the advance.
16. The academy or sixth form college should send its written request to the YPLA's director of finance at Cheylesmore House, Quinton Road, Coventry CV1 2WT at least 10 working days before the advance needs to be paid into the academy's or sixth form college's bank account. The YPLA may not have sufficient time to properly review and process an advance if we are given fewer than 10 workings days notice. The academy or sixth form college should also copy its request to the addresses at the end of the guidance.

Conditions of Advances

17. The YPLA will pay advances of funding in accordance with the academy's or sixth form college's demonstrated need to use the advance, and remain solvent.
18. The YPLA normally pays advances of funding together with the next routine monthly payment made after the date the academy or sixth form college requested the advance. On request, the YPLA will make a payment sooner than this to meet cash flow needs. The YPLA can arrange BACS transfers within three working days.
19. Academies and sixth form colleges must repay advances of funding and these should be repaid as agreed with the YPLA. If an academy or sixth form college becomes aware that it cannot repay according to the agreed schedule it should inform the YPLA as soon as possible.
20. The YPLA may impose, at its discretion, further conditions as appropriate to safeguard public funds. For example, the academy or sixth form college may be required to submit its management accounts and consult with the YPLA before committing to new expenditure above a certain sum.
21. Requests for advances of funding may lead to the YPLA re-assessing the academy's or sixth form college's financial health and /or financial management and control arrangements. This reassessment may lead to the YPLA to formally intervening to secure improvements in the academy's or sixth form college's financial health and / or financial management and control arrangements.

YPLA Review of Requests for Advances

22. Upon receipt of a written request for an advance of funding, the YPLA's assurance and financial monitoring team will carry out necessary enquiries to ensure that an advance of funding is appropriate and that the above conditions can be met. The YPLA is especially concerned to ensure that the academy or sixth form college can repay the advance of funding within appropriate timescales.
23. The YPLA may ask to see longer-term financial projections as part of the review process.
24. Where approval to an advance is given, the YPLA will write to the academy or sixth form college to confirm the terms and conditions of the advance. The academy's or sixth form college's principal, as its accounting officer, must accept these terms and conditions in writing within three working days.

Accounting for Advances

25. An YPLA advance of funding is not a grant to an academy or sixth form college. Academies and sixth form colleges should reflect an advance as a liability on the balance sheet. Similarly, the academy or sixth form college should treat an advance as a cash movement rather than income in their management accounts and cash flow forecast.

Emergency Support for Disaster

26. By rare exception, an academy or sixth form college will suffer catastrophic loss or destruction and will need immediate cash support. In such circumstances, the YPLA will waive the above procedures. On email or telephone request by the principal or most senior available manager the YPLA can make a same day CHAPS transfer provided the YPLA receives the request before 10:00.

Contacts

27. For further information, or to submit a request for an advance of funding, please contact either:
 - Mike Croker (mike.croker@ypla.gov.uk); or
 - Chris Patterson (chris.patterson@ypla.gov.uk).

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