**Schools’ Accountancy Team**

Finance Regulations

This document should be used in conjunction with the [Suffolk Scheme for the Financing of Schools](http://www.suffolklearning.co.uk/leadership-staff-development/schools-accountancy/finance-regulations).

# SECTION 4.6: CHARGING OF INTEREST ON DEFICIT BALANCES

# CASHFLOW ADVANCE LOAN

*This document contains regulations relating to:*

* *[Cashflow Advance: Internal loan to maintain a credit bank balance](#CashflowAdvanceIntLoan)*
* *[Principles of the Cashflow Advance Scheme](#Principles)*
* *[Terms and Conditions of a Cashflow Advance Loan](#Terms)*
  + *[Limits to Cashflow Advances](#Limits)*
  + *[Costs associated with a Cashflow Advance](#Costs)*
  + *[Repayment of the Cashflow Advance Loan](#Repayment)*
* *[Cashflow Advance Application Process](#ApplicationProcess)*
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  + [*Timing of Cashflow Advance credits appearing in the bank account*](#Timing)
* *[Non-Compliance](#NonCompliance)*
* *[Help and Advice](#HelpAndAdvice)*

**cASHFLOW ADVANCE: iNTERNAL LOAN TO MAINTAIN A CREDIT BANK BALANCE**

Schools are not permitted to overdraw their budget share bank accounts in accordance with *Section 3.5.1 of the Scheme for the Financing of Schools* *(Scheme).*

* Schools operating a school bank current account with a banker of their choice are required to ensure that the account mandate prohibits any overdraft facility.

School budget shares are paid in regular monthly instalments (*Section 3.2, Scheme)* as follows:

* 2/13th annual delegated budget: weighted April instalment to assist cashflow for any annual service contract payments due in April
* 1/13th annual delegated budget: monthly instalments May – March
* Budget shares are paid on, or immediately before, the day that the monthly teaching salary payments are deducted through the SCC Payroll system. Schools choosing an external payroll provider will need to take into account any timing differences between the budget share payments and salary deductions from the school’s bank account.

Schools may find that their profile of spending does not fit easily with the distribution of budget shares and if reserves are low cashflow difficulties may occur as a consequence. It is the school’s responsibility to ensure that the bank account does not go overdrawn.

The Local Authority’s Cashflow Advance scheme provides schools with a low cost means of borrowing money in order to prevent the school delegated budget bank account from being overdrawn.

Cashflow Advances are loans financed from the collective school bank balances held within the Local Authority’s corporate bank account and therefore constitute an internal loan within the meaning of the Scheme (*Section 3.6, Scheme).*

The liability to repay the outstanding Cashflow Advance balance at the point of converting to an Academy will transfer to the successor Academy, or in the case of a sponsored converter, to the Academy Sponsor (*Section 4.10, Scheme).*

**PRINCIPLES OF THE CASHFLOW ADVANCE SCHEME**

The Cashflow Advance loans are open to all maintained schools and PRUs in Suffolk.

Schools may only use a Cashflow Advance as a means of preventing the school bank account from being overdrawn. It must not be used as a way of financing activities which do not feature in the current school budget plan.

Schools that have been granted a Licensed Deficit are given permission by the LA to increase their expenditure above the funding and reserves available (within agreed limits). These schools will require Cashflow Advance loans in order to prevent the school’s bank account from being overdrawn during the period of budget deficit. The value and repayment schedule of Cashflow Advance will be determined by the school and may not necessarily reflect the same value or profile of Licenced Deficit agreed.

There may be occasions where a school is at significant risk of going overdrawn, or has actually gone overdrawn. In these circumstances the LA may take steps to ensure the bank account returns to a credit balance; any costs incurred in doing this, including administrative and management fees, will be charged to the school’s budget. The school will be liable for the loan and interest payments until fully repaid.

**terms and conditions of a cashflow advance loan**

**Limits to CASHFLOW ADVANCEs**

The LA may refuse an application from a school for a Cashflow Advance where:

* The school already has sufficient resources within the bank account to warrant a Cashflow Advance unnecessary. This would be discussed fully with the school prior to a decision being made.
* The LA had significant concerns regarding the financial administration/management of the bank account by the school
* The school has applied to the DfE to become an Academy

A limit is not applied to the value of Cashflow Advance Loan that any school may request. Any school requesting a Cashflow Advance is required to prepare cashflow forecasts in order to clearly identify the level of Advance they anticipate on a month-by-month basis until full repayment of the total loan has been made. The cashflow forecasts must be provided to the LA/Audit upon request.

* Applications should normally be for a minimum of £5,000.
* Applications above £2,000 will be considered from small schools (below 200 on roll).
* A school already in receipt of a Cashflow Advance may request further loans where necessary.

Chairs of Governors/Finance Committee of schools in receipt of Cashflow Advances will need to confirm a continuation of the loan on an annual basis at the start of each financial year.

**costs associated with a CASHFLOW ADVANCE**

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| --- | --- | --- |
|  | **Schools in the LA’s in-house banking scheme** | **Schools who have withdrawn from the LA’s in-house banking scheme** |
| **Interest on the outstanding balance of loan\***  \*calculated on a daily basis and charged quarterly in arrears (June/Sept/Dec/Mar) to Ledger Code 38950 – *Interest Paid* | Equivalent to rate earned each quarter on schools’ invested balances within the LA’s in-house banking scheme  plus  1% admin/management charge | Rate equivalent to that charged for loans for schools in the LA’s in-house banking scheme  or  an alternative rate, to be advised by SAT, where it is necessary for the LA to borrow additional funds |
| **Interest on the bank account closing daily balance** | Will continue to receive quarterly interest on the whole positive balance at the LA’s in-house banking scheme rate | Will continue in line with the school’s banking agreement |
| **Non-urgent cashflow advance request\***  \* allow two weeks for credit to reach the school’s bank account | £0 | £0 |
| **Urgent cashflow advance request \***  \* to be credited to the school’s bank account within two weeks of the request being received by the LA | £50 admin/management fee | £100 admin/management fee  +  CHAPS fee |
| **Failure to identify insufficient funds held in bank account\***  \* poor financial management unless evidence of mitigating circumstances can be verified | £50 admin/management fee  +  Banking fees resulting from being overdrawn  +  Any additional costs incurred by the LA | £100 admin/management fee  +  CHAPS fee  +  Banking fees resulting from being overdrawn (N.B. Direct Debits and Cheques will not being honoured whilst overdrawn)  +  Any additional costs incurred by the LA |

Variations to the terms and conditions for individual schools is not possible as the low admin/management charges being recouped via the interest rate is dependent on schools accepting a simple system which requires a minimum of administration.

**repayment OF THE CASHFLOW ADVANCE loan**

Currently there are no restrictions on the level of advance that can be made to an individual school.

* A Cashflow Advance Loan Application Form must be submitted annually at the start of each financial year to confirm the continuance of an original loan. Where a Loan Application Form is not received the Local Authority will require repayment of the outstanding loan balance from the school’s bank account.
* There may be occasions when a school requires additional Advances before repayment of the initial Advance has been made. An increase in the loan value may be permitted during the year if requested by a school
* The loan should be seen as a temporary solution to a cashflow situation; the school should have a clear expectation as to the maximum value and duration of the Advance.
* Schools are required to inform the LA when they no longer require all or part of the loan.
* Cash repayments of the loan from the bank account can be made as single/multiple lump sums, or as staged payments over several months.
* For schools converting to an Academy, the liability to repay the outstanding balance of the Cashflow Advance loan at the point of conversion will transfer to the successor Academy, or in the case of a sponsored converter, to the Academy Sponsor (*Section 4.10, Scheme).*

**cashflow advance application process**

**governing body approval**

The Chair of Governors must give formal approval in order for the school to apply for a Cashflow Advance and is required to sign the Cashflow Advance Loan Application Form.

* Where the Governing Body has delegated responsibility for approval of the Budget to the Finance Committee, either the Chair of Governors or the Chair of Finance Committee may sign the Application
* Where responsibility for approval of the Budget has not been delegated to the Finance Committee it is recommended that the Chair of Finance is informed of the Application at the earliest opportunity
* The Governing Body should be informed of the action(s) taken at their next meeting

The Finance Committee should receive regular cashflow forecasts and statements whilst the school is in receipt of the Advance.

* The Finance Committee must be confident that effective controls are in place within the school to prevent the bank account from going overdrawn, particularly where there have been instances of this occurring in the recent past.

**cashflow advance loan application form**

Requests for Cashflow Advances should be made by completing the Cashflow Advance Loan Application Form prior to submission to the Schools Accountancy Team

* The Form may be downloaded from [Suffolk Learning](http://www.suffolklearning.co.uk/leadership-staff-development/schools-accountancy/banking/cash-flow-advances)
* It should be signed by the Headteacher and the Chair of Governors/Finance Committee
* The original signed copy should be retained in school and must be made available for inspection by Internal Audit or the Schools’ Accountancy Team if required (*Section 11.1, Scheme).*
* The Form will need to be completed annually for the start of each financial year

A copy of the completed, signed Form should be e-mailed to [sat@suffolk.gov.uk](mailto:sat@suffolk.gov.uk).

* Ideally this will be a PDF scanned copy of the original signed form.
* Alternatively a photocopy of the original may be posted to: Schools’ Accountancy Team, Floor 3, Constantine House, 5 Constantine Road, Ipswich IP1 2DH. Schools using this method will need to take account of potential postal delays.

The Schools’ Accountancy Team will confirm receipt of the request. They will provide details to the school regarding:

* when the cash will be credited to the bank account
* whether a fee is being applied.

**TIMING OF CASHFLOW ADVANCE CREDITS APPEARING IN THE BANK ACCOUNT**

Cashflow Advances are made via the weekly Oracle Extract system. Extract files are finalised each Friday, however the bank balance will not be credited until the Friday of the following week.

* It is the school’s responsibility to request a Cashflow Advance in sufficient time to maintain a credit bank balance and will therefore need to bear this timescale in mind when monitoring cashflow
* Urgent Cashflow Advances will incur additional charges and fees, including CHAPS fees\* where appropriate; all additional charges will be passed to the school’s budget

\*a CHAPS transfer will normally only be required by schools who have opted out of the LA’s in-house banking scheme and have gone overdrawn (or will go overdrawn in less than two weeks)

**Non-Compliance**

A formal warning letter will be sent to the Chair of Governors where a school has gone overdrawn at the bank, unless the school can provide adequate evidence of acceptable mitigating circumstances. The warning will be considered discharged after six months providing that the following conditions have been fully met:

1. no further instances of being overdrawn have occurred during that period
2. the school has provided adequate evidence of cashflow forecasting and monitoring to the Schools Accountancy Team
3. the school has not overspent the budget or remains within the limits of a Licensed Deficit agreement

If the school’s bank account becomes overdrawn on a second separate occasion within a year of the first occasion then the school may be subject to additional interventions from the Schools’ Accountancy Team.

Where the LA has evidence that a school is persistently and/or repeatedly failing to maintain a positive balance in the bank account then a Notice of Financial Concern may be issued to place restrictions on the Governing Body (*Section 2.15, Scheme for the Financing of Schools).*

* These may include a limit to the value/volume of local payments that may be made from the bank account
* All costs arising from a school’s bank account going overdrawn are chargeable to the school’s budget (*Sections 3.5 & 6.2.20, Scheme for the Financing of Schools).*

# HELP AND ADVICE

SCHOOLS’ ACCOUNTANCY TEAM

Statutory and compliance queries should be raised with the Schools’ Accountancy Team:

* [sat@suffolk.gov.uk](mailto:sat@suffolk.gov.uk)
* Tel: 01473 265626
* Schools’ Accountancy Team, Floor 3, Constantine House, 5 Constantine Road, Ipswich, Suffolk, IP1 2DH

SCHOOLS’ CHOICE

Help and support on implementing the Finance Regulations is available from Schools’ Choice:

Finance Helpline:

* [finance@schoolschoice.org](mailto:finance@schoolschoice.org)
* Tel: 0345 603 7684
* Schools’ Choice, Endeavour House, 8 Russell Road, Ipswich, Suffolk, IP1 2BX

Enhanced Finance Service:

* [efs@schoolschoice.org](mailto:efs@schoolschoice.org)
* Tel: 01473 264054

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