

REPORT REFERENCE: **7.0**

REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Schools' Forum
DATE OF MEETING:	29 June 2011
SUBJECT:	Loans Scheme for Schools
REPORT BY:	Tony Warnock (Head of Finance – Children's Services)
NAME OF CONTACT OFFICER:	Tony Warnock
CONTACT OFFICER TEL NO:	01522 553250
CONTACT OFFICER EMAIL ADDRESS:	tony.warnock@lincolnshire.gov.uk
IS REPORT EXEMPT?	No

SUMMARY

The purpose of this report is to share with the Schools' Forum the Local Authority's loans scheme for schools.

DISCUSSION

During discussions on the Energy update agenda item at its meeting on 27 April 2011, the Schools' Forum asked for details of the loans scheme for schools.

A copy of the scheme is attached.

RECOMMENDATIONS

The Schools' Forum is asked to note the contents of this report.

APPENDICES (If applicable) - these are listed below and attached at the back of the report.
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Appendix – Loans Scheme for schools.

BACKGROUND PAPERS			
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PAPER TYPE	TITLE	DATE	ACCESSIBILITY
None			

LOANS SCHEME FOR SCHOOLS

L3.1 Introduction

Lincolnshire County Council operates a loans scheme for schools. On the 23 April 1999, the County Council's Finance and Resources Committee agreed to extend the loan facilities previously available to schools, details of which are set out below.

L3.2 Types of Loan available

Loans may be granted for a variety of purposes. Further details are set out in the table attached.

The following officers will be able to provide advice as to which type of loan is most suitable:

Tony Warnock, Head of Finance for Children's Services (tel: 01522 553250, or email: tony.warnock@lincolnshire.gov.uk)

Carla Snowshall, Senior Finance Officer for Children's Services (tel: 01522 553513 or email: carla.snowshall@lincolnshire.gov.uk)

L3.3 Loans with external agencies

Schools may only take out loans with external agencies with the prior permission of the Secretary of State. Schools must consult the Chief Finance Officer prior to seeking the Secretary of State's permission to borrow.

Some loans taken out by former Grant Maintained schools prior to April 1999 have been transferred to the County Council to help reduce the interest charged.

Maintained schools that become academies may, at the Council's discretion, continue to operate existing loans on previously agreed terms and conditions. Loans will not be written off. Once established, new loans cannot be provided to academies.

L3.4 Eligibility

All maintained schools are eligible to apply for a loan.

L3.5 Applications

Schools should consider their financial position very carefully before applying for a loan, especially in tighter financial climates.

Loan applications may be made at any time of the year.

The school's full governing body must formally resolve to apply for a loan and having done so, the following information should be sent to Tony Warnock, Head of Finance for Children's Services, County Offices, Newland, Lincoln, LN1 1YQ:

- the type of loan required (see table attached);
- the purpose of the loan;
- the impact the loan will have upon school improvement;
- the proposed loan period;
- the amount the school wishes to borrow;
- confirmation that the school will be able to meet future repayments.

The County Council adheres to the CIPFA Prudential Code which requires borrowing to be prudent, affordable and sustainable. These features are also an important part of the loans scheme for schools and so each school may be asked to submit a detailed, medium term financial plan to demonstrate to the County Council's satisfaction that the

borrowing is prudent, affordable and sustainable. The content and level of detail required is set out the section J4 of this Finance Handbook. It is recommended that schools submit the finance plan with their application to help avoid delays in the processing of their application.

L3.6 Maximum Loan available

Schools may apply for loans under each of the four categories listed on the schedule attached. The County Council will not ordinarily expect the total value of loans to any one school to exceed 5% of its current budget share, however, exceptions may be made where compliance with the CIPFA Prudential Code is demonstrated.

L3.7 Processing of applications

The County Council will aim to process loan applications within four weeks. There may be instances, however, where officers require further information, or clarification of certain issues relating to a school's application, in which case delays may occur.

The Treasury Manager will provide illustrative loan repayment figures upon request.

Loan applications have to be approved by the Head of Finance for Children's Services, and the Head of Property and Technology Management, Directors and elected members where appropriate.

Schools are asked to note that the County Council has to set an Authorised Borrowing Limit each year which cannot be breached. The overall level of loans to schools may therefore be capped at any particular point in time in light of the County Council balances, e.g. if balances become low and cash flow is affected.

Once a loan has been approved, the Head of Finance for Children's Services will write to the school to confirm the details. Schools will be required to sign a legal document to confirm its agreement to the terms and conditions of the loan. A copy of the signed agreement will be retained by both the school and the County Council.

L3.8 Repayments

Fixed-term loans: repayments of principal and interest will be made on an annuity basis (i.e. the same amount will be payable on each repayment date) six monthly, in arrears, over the lifetime of the loan.

Temporary loans: interest will be calculated on the last day of each month, in arrears, on the outstanding balance. The interest will be payable half-yearly on 30 September and 31 March, in arrears. Repayments of principal will be accepted no more frequently than once per month.

Schools with bank accounts will be sent invoices by the Council, using its recurring debtors system.

L3.9 Early repayment

Loans may be repaid earlier than planned, although the Council expects this to be in exceptional cases only. Schools may be required to pay a £100 administration fee for early repayment of fixed term loans and they will be required to meet in full any termination costs attributable to the early repayment of an associated Public Works Loan Board loan taken out by the County Council on the school's behalf.

L3.10 Write off of loans

The Scheme for Financing of Schools expressly prohibits the writing off of school loans.

L3.11 Monitoring arrangements

The County Council will monitor the school's ability to repay its loan through Children's Services existing monitoring and intervention process. A school may be asked at any point in time to demonstrate that it will be able to repay its loan within the agreed timescale. This will usually require the submission of an up-to-date medium term financial plan similar to that shown in section J4 of this Handbook.

L3.12 Reporting arrangements

Details of a school's outstanding loans will be shown in part 4 of the school's section 52 outturn statement, published by the County Council each year. Schools must publish the existence and details of all loans in their annual reports to parents each year.

L3.13 Deficits

The Scheme for Financing of Schools clearly states that schools are not permitted to overspend. Neither are schools permitted to negotiate overdraft facilities with an external lender.

Where overspending is unavoidable, schools must seek prior, written approval from the County Council. The County Council may, in certain circumstances, approve plans that allow schools to overspend for a limited period. In such cases, the County Council may set up a loan under the Temporary Loans Facility (details are set out in the table attached).

L3.14 Further information

For further information about the Loans scheme, please contact:

Tony Warnock, Head of Finance for Children's Services on 01522 553250 or tony.warnock@lincolnshire.gov.uk

Carla Snowshall, Senior Finance Officer for Children's Services on 01522 553513 or carla.snowshall@lincolnshire.gov.uk

Type	Purpose	Maximum loan period	Maximum loan value	Minimum loan value	Interest rate	Repayments of interest and principal	Notes
1. Temporary Loans Facility	To meet temporary budget pressures.	In accordance with the plan agreed with Head of Finance for Children's Services	To be agreed with Head of Finance for Children's Services	£1,000	Bank base rate plus 2%	Interest payable half-yearly, in arrears, on the outstanding balance. Principal to be repaid in accordance with the plan agreed with Head of Finance for Children's Services. Repayments will be accepted no more frequently than once per month.	This facility is appropriate when additional funds are required, but the length of time required is initially uncertain.
2. Internal Loan Scheme	To secure extra funds for school improvement, where the school is not overspent.	5 years	Greater of £15,000 or 5% of the school's budget share	£1,000	Bank base rate, plus 0.25% to cover admin costs	Six monthly in arrears on an annuity basis	This scheme utilises schools' collective underspends. Lending may be limited to 25% of the previous year's underspends held in the County Council fund. Schools may use this scheme as a viable alternative to leasing.
3. Loans for Capital purposes	To fund capital works	Flexible	Greater of £100,000 or 5% of the school's budget share	£10,000	For loans of £10,000 to £50,000 - Bank base rate, plus 0.25% to cover admin costs For loans of £50,000 plus - PWLB rate plus 0.5% to cover admin costs	Six monthly in arrears on an annuity basis Six monthly in arrears, to coincide with LCC's repayments to the PWLB	This scheme utilises schools' collective underspends. Lending may be limited to 25% of the previous year's underspends held in the County Council fund. The County Council will borrow from the Public Works Loan Board (PWLB) to repay the debt. PWLB rates vary over time but are typically lower than commercial bank rates. The PWLB can only be used to finance capital projects.

4. Rescheduling of existing loans	To replace existing, commercial loans	Flexible	Current loan plus early termination charges	£1,000	<p>For loans of £1,000 to £50,000 - Bank base rate, plus 0.25% to cover admin costs</p> <p>For loans of £50,000 plus - PWLB rate plus 0.5% to cover admin costs</p>	<p>Six monthly in arrears on an annuity basis</p> <p>Six monthly in arrears, to coincide with LCC's repayments to the PWLB</p>	<p>This scheme utilises schools' collective underspends. Lending may be limited to 25% of the previous year's underspends held in the County Council fund.</p> <p>The County Council will borrow from the Public Works Loan Board to repay the debt. PWLB rates vary over time but are typically lower than commercial bank rates. So, the rescheduling of existing loans is likely to be less expensive than continuing to repay loans at commercial rates. The PWLB can only be used to finance capital projects.</p>
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Notes:

1. Loans can only be taken out with the Public Works Loan Board (PWLB) if the loan extends for at least two years.