

LCC Finance Handbook

Business World Schools

Section L – Loans Scheme for Schools

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SECTION L1 – Loans Scheme for Schools

L1.1 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.

L1.2 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:

Mark Nunn, Senior Finance Technician – Schools Finance Team (contact number: 01522 554603, or email: mark.nunn@lincolnshire.gov.uk)

Elizabeth Bowes, Strategic Finance Manager – Schools Finance Team (contact number: 01522 554905, or email: elizabeth.bowes@lincolnshire.gov.uk)

Mark Popplewell, Head of Finance – Children's Services (contact number: 01522 553326, or email: mark.popplewell@lincolnshire.gov.uk)

L1.3 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.

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.

L1.4 Eligibility

All maintained schools are eligible to apply for a loan.

The Department for Education will however not recognise as a loan any arrangement that is agreed between the Local Authority and a maintained school after the governing body or interim executive board has made an application to become a sponsored academy or after the school becomes eligible for intervention by the Secretary of State. The County Council will be unable to agree a loan in this situation.

L1.5 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 agree to apply for a loan and having done so, the following information should be sent to Mark Nunn, Senior Finance Technician – Schools Finance Team (email: mark.nunn@lincolnshire.gov.uk, or postal address: Orchard House, Room 5.03, Lincolnshire County Council, Newland, Lincoln, LN1 1BA) through the loan submission template:

- 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 minutes from the full governing body supporting the loan application i.e. its purpose and indicative monetary amount; and,
- the school's latest medium term finance plan

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 will be required to submit a detailed, medium term financial plan with their application to demonstrate to the County Council's satisfaction that the borrowing is prudent, affordable and sustainable.

L1.6 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 10% of its current budget share, however, exceptions may be made where compliance with the CIPFA Prudential Code is demonstrated, namely the borrowing is prudent, affordable and sustainable.

L1.7 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 Senior Finance Technician – Schools Finance Team will provide illustrative loan repayment figures upon request.

Loan applications have to be approved by the Strategic Finance Manager – Schools Finance Team or the Head of Finance - Children's Services, in consultation with key

Local Authority departments, such as Property and School Place Planning; Early Years; Special Educational Needs & Disability, and Sustainability Team.

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 Senior Finance Technician – Schools Finance Team will write to the school to confirm the details. The Headteacher and Chair of Governors of the school 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.

L1.8 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 a daily basis, 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.

Maintained Prime Account school operating bank accounts and academy schools will be sent invoices by the Council for the repayments of principal and interest.

L1.9 Early repayment

Loans may be repaid earlier than planned, although the Council expects this to be in exceptional cases only. Schools will 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.

L1.10 Write off of loans

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

L1.11 Monitoring arrangements

The County Council will monitor the school's ability to repay its loan through the Council's 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 and end of year school financial forecast position.

L1.12 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 Elizabeth Bowes, Strategic Finance Manager – Schools Finance Team or Mark Popplewell, Head of Finance – Children's Services.

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 be required to set up a Cash Flow Loan for Maintained Prime Account schools operating with a bank account to support a schools financial commitment (details are set out in the table attached).

L1.13 Further information

For further information about the Loans scheme, please contact the officers detailed in section K3.2

TYPE	PURPOSE	MAXIMUM LOAN PERIOD	MAXIMUM LOAN VALUE	MINIMUM LOAN VALUE	INTEREST RATE	REPAYMENT OF INTEREST AND PRICIPAL	NOTES
1. Cash Flow Loan	To meet temporary budget pressures.	In accordance with the plan agreed with Head of Finance - Children's Services or Strategic Finance Manager – Schools Finance Team	To be agreed with Head of Finance - Children's Services or Strategic Finance Manager – Schools Finance Team	£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 - Children's Services or Strategic Finance Manager – Schools Finance Team. Repayments will accepted no more frequently than once per month.	Interest payable half-yearly, in arrears, on the outstanding balance. Principal to be repaid in accordance with the plan agreed with Head of Finance - Children's Services or Strategic Finance Manager – Schools Finance Team. Repayments will accepted no more frequently than once per month.
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 0.5% 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 to assists schools in spreading the cost over more than one year	Flexible	10% of the school's budget share, however exceptions may be considered	£10,000	For loans of £1,000 to £150,000 - 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.

TYPE	PURPOSE	MAXIMUM LOAN PERIOD	MAXIMUM LOAN VALUE	MINIMUM LOAN VALUE	INTEREST RATE	REPAYMENT OF INTEREST AND PRICIPAL	NOTES
					For loans of over £150,000 plus - PWLB rate plus 0.5% to cover admin costs	Six monthly in arrears, to coincide with LCC's repayments to the PWLB	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. There is no flexibility to repay the debt early or change the terms.
4. Rescheduling of existing loans	To replace existing, commercial loans	Flexible	Current loan plus early termination charges	£1,000	For loans of £1,000 to £150,000 - Bank base rate, plus 0.5% to cover admin costs For loans of over £150,000 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 to repay the debt. PWLB rates vary over time but are typically lower than commercial bank rates.