

Maintained Schools' Capital Loans Protocol

School Energy Efficiency Loans Summary

- Funding is only for Capital schemes
- Funding can only be spent on the works agreed in the School's Capital Business Case used to secure the loan
- Schools can borrow up to £30,000
- Schools are expected to contribute 50% of the overall cost which may be waived in exceptional circumstances e.g. solar panels
- Term of the loan is 5 years maximum
- Schools may choose to contribute towards the capital cost and reduce the term of the loan
- Repayment will be made monthly
- Minimum interest will be charged on the loan (less than 1%)
- The loan is subject to financial checks and approval by the School Financial Performance Group chaired by the Council's Director of Finance

Maintained Schools' Capital Loans Protocol - Detail

This document outlines the process by which a maintained school can apply to the Local Authority for a loan to finance a capital scheme, which the school cannot fully fund from its own or other resources. Schools are not permitted to borrow other than through the Authority's scheme, except with the written permission of the Secretary of State, or where borrowing is undertaken by trustees or foundations and the debt is not serviced directly from a school's delegated budget.

1. Purposes for which loans may be applied for

1.1 Loans will only be approved by the Authority for capital schemes, associated with:

- Major maintenance or improvements to school properties
- Investment projects that will produce a future revenue saving e.g. schemes to improve energy efficiency
- Projects to improve school security

1.2 Loans will only be approved for schemes that qualify as capital expenditure under the Local Authority's definition.

1.3 Loans are not available to support day to day expenditure within a school's revenue budget.

1.4 As a general principle, the Authority will be open to consideration of requests for loans from schools, where a loan will enable the school to progress more quickly essential works, spend to save strategies or works that will significantly enhance the ability of the school to immediately improve educational outcomes (as identified in the School's Development Plan).

2. Conditions of Capital Loans

2.1 Paragraph 4.10 of the Scheme sets out the main conditions for the approval, management and repayment of loans. To reinforce these:

- Capital loans are only available for maintained schools covered by the Scheme for Financing Schools.
- All loans are subject to the approval of the Schools Financial Performance Group, on behalf of the Schools Forum and the Council's Finance Director or representative. The decision on whether to approve a loan will be as a result of Technical Assessment. As such, a school does not have a right of appeal where an application is rejected.
- The Authority would expect the cost of the scheme to be matched funded by the school from the school's revenue or capital delegated resources. Under normal circumstances, a maximum of 50% of the overall cost of the works may be provided by a loan. Loans for a greater proportion of the cost may be approved in exceptional circumstances and for loans relating to solar panel schemes.
- The maximum loan available to any one school is the lower of £100,000 or 5% of the school's delegated budget for the year (excluding surplus revenue carry forward), unless the Local Authority gives specific written agreement otherwise. Schools with an annual budget share of £650,000 or less will be exempt from this limit in recognition that a 5% limit places a restriction on the benefits to be gained from the scheme by very small schools.

- The maximum period of loan will normally be 3 financial years. However, in exceptional circumstances the repayment period can be extended to 5 years (such as to support smaller schools manage repayments).
- Schools can only enter into 1 loan agreement at any one time.
- The school must accurately demonstrate that their matched funding of the scheme and the repayment of the loan are affordable from the school's delegated resources. As a general guide, the Authority would take the view that if the scheme and repayment cannot be afforded without the school's revenue balance reducing below (the higher of) 1% of annual funding or £10,000 and / or without the school's capital balance being in deficit, the affordability of the scheme and repayments are not certain. In any case, loans will not be approved where the school does not provide clear and thorough budget forecasts.
- Loans will not normally be approved for schools that are in the RED category of the Authority's Light Touch Financial Monitoring Protocol or are in Category A of the Authority's Financial Classification Protocol.
- Interest will be charged on loans. The details of this are stated in the Scheme provision 4.10. The value of interest will be set at the start of the loan period.
- Where the Council carries out the works associated with the capital loan, no physical payment of a loan amount will be made to the school. The repayment of the loan will be charged by journal to the school's cost centre on the Council's ledger on an annual basis. Where an external supplier carries out the works, a payment will be made, with repayment collected from the school. It is suggested that this repayment is made by reducing the value of monthly advances paid to the school, with the repayment being charged by journal to the school's cost centre on the Council's ledger. Repayments will be collected on a monthly basis. The value of repayment per month will be equal across the repayment period.
- In the management of collective exposure of the Schools Budget to financial risk, the Local Authority has set a maximum value of loans that can be live at any one point in time. This maximum is recorded in the Scheme provision 4.10. Reaching this maximum may be cause for a school's request for a loan to be rejected. Where this is the case, this will be explained to the school and the school's request will be prioritised at the next available opportunity.
- Any change in the legal status of the school such that it ceases to be a maintained school shall not affect the validity of the Loan Agreement. Where a maintained school converts to academy status, the value of the loan outstanding at the point of conversion will be deducted from the value of balance to be transferred to the academy. The value of any outstanding amount, after this deduction, will be recovered from the academy.

3. Application Process and Decision Making

3.1 To obtain a capital loan, the school should initially contact the Education Buildings Team to submit an 'informal' application, which should set out:

- The nature of the scheme and the benefits the scheme will achieve, including any supporting documentation e.g. School Development Plan, architects plans, Ofsted reports
- The estimated costs of the project, including quotations where relevant
- Which company is being contracted to carry out the works (the Council or an external company)
- The proportion of the cost of the scheme that is being met from the school's a) revenue and b) capital resources and the net amount for which the loan application is being made

- The anticipated phasing of expenditure
- The period over which the school wishes to repay the loan (normal maximum of 3 years)
- The anticipated date of the first repayment
- The latest 3 year budget forecast for the school, which excludes the expenditure relating to this scheme or to the repayment of a loan amount

3.2 On receipt of the initial application, the Authority will:

- Carry out a Technical Assessment, to test the suitability of works for which a loan is requested e.g. with solar panels, that the school's aspect allows for benefits be achieved and that the school is not planning to have significant roof repairs in the near future, that would mean panels would have to be removed.
- Check that the application meets the conditions on which loans can be approved. This may require further discussion with the school.
- Check that the capital scheme, and the repayment of the loan, would be affordable from the school's budget. This may require further discussions with the school.

3.3 Subject to the outcomes of these checks, the Authority will then calculate the total cost of the loan, including interest, and the amount the school would need to repay monthly on an annuity basis over the period of the loan. This information will be sent back to the school.

3.4 On the basis of this information, if the school wishes to submit a formal request for a capital loan, it must submit a letter of application to the Education Buildings Team, which must include an attachment containing the following information:

- Estimated total project costs
- Funding from other sources
- The amount of the loan required
- The period of years over which the school would repay the loan
- The start date of repayments
- The monthly repayment, calculated at the quoted interest rate
- Budget plans over the loan period, which demonstrate the school's ability to pay for their matched contribution and to repay the loan
- An assessment of the key risks affecting the school's ability to repay, and how the school will manage these risks
- Details of how the Governing Body will monitor the ability to repay the loan
- Confirmation that the Governing Body has considered and approved the application (to be evidence by a copy of the minutes of the relevant meeting) and will prioritise the repayment of the loan within its budget setting
- Whether the school wishes to repay the loan amount by monthly cheque or by BACS, or by a deduction from the school's monthly advances

3.5 The school will then be notified whether the loan has been approved or otherwise. Following approval, the school will receive a Capital Loan Agreement Form. The loan will only be activated

(and any cash advanced, where appropriate for works through suppliers external to the Council) after the Headteacher and the Chair of Governors have signed the form on behalf of the school and returned this to the Authority.

3.6 Following receipt of the signed Agreement the Local Authority will transfer the loan cash to the school's bank account (where the works are being carried out by an external supplier). Repayments will commence on the agreed date and at the agreed amount. Where the Council carries out the works associated with the capital loan, no physical payment of a loan amount will be made to the school.

4. Monitoring

4.1 Schools must incorporate the repayments into its budget setting and monitoring. The financial position of the school will be monitored by the Authority following the provisions outlined in the Scheme for Financing Schools. The Local Authority reserves the right to initiate closer monitoring, where the Authority becomes concerned at any point over the school's ability to repay.

4.2 The school must notify the Local Authority as soon as possible if they suspect they may not be able to meet their repayment plan and maintain a surplus budget position.

4.3 Where a school forecasts a deficit budget, or goes into deficit, during the loan period, the procedure for the licensing of deficits will be activated. This does not affect the requirement of the school to continue to repay the loan according to the Loan Agreement.

5. Accelerated Repayment

5.1 If it so chooses, the school can repay the value of the loan in a shorter timescale that originally agreed. In these cases, a deduction will be made to the interest charged for the number of complete financial years the loan period has been reduced by.