

## SCHOOLS' FUNDING FORUM

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| <b>SUBJECT:</b> | School Loans – Changes to the loan scheme |
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| <b>DATE:</b>   | 20 November 2015                      |

### **SUMMARY OF REPORT:**

To inform members of the Forum of changes to the School Loan Scheme.

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| <b>FOR:</b> | Information only |
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### **1. Background**

- 1.1 As Forum members will be aware, the Local Authority has for a number of years offered maintained schools the ability to take out a loan (a temporary source of funding which has to be fully repaid) to help finance major purchases e.g. capital building project.
- 1.2 The Scheme for Financing Schools determines the maximum amount of funds that can be loaned out at any one time. The limit is 30% of combined net surplus maintained school balances, which equates to just over £10m.
- 1.3 The loans that we have issued and agreed in principle (but have not yet been drawn down) now exceed our maximum limit.
- 1.4 Although the amount out on loan will be repaid over the next few years, the LA expects net surplus balances (and therefore the amount we can currently loan out) to continue to fall, partly due to schools needing to draw down reserves to balance budgets and partly due to a continuation of schools converting to academy status.

### **2. What is changing?**

- 2.1 Kent County Council is keen to continue to provide a loan scheme to its maintained schools. Following a meeting with colleagues from Corporate Finance where a number of options were considered, the Corporate Director of Finance and Procurement has agreed to the following changes to the scheme:
  - a) Change the loan scheme from a maximum % of school net surplus balances to a financial value. The maximum sum of £15m was agreed with the possibility to extend to a higher figure (it would be for KCC to make this decision following an annual review).

- b) The interest charge to schools who take a loan would increase from 0.5% above the Bank of England base rate to 1% above the Bank of England base rate, to compensate KCC for the loss of interest that it could earn. It was acknowledged that this still represents a good deal for schools and the LA.
  - c) Only maintained schools would be able to access the loan scheme (as now), not academies.
  - d) Schools who have a loan and then convert to an academy will take their loan with them and it will be tied into the legal CTA agreement.
  - e) The terms and conditions for schools with existing loans terms will be unchanged (i.e. they will pay the lower interest charge based on what they signed up to). The higher interest charge will only apply to new loans which will commence shortly.
- 2.2 A copy of the new loan scheme, which will come into effect on 1 December 2015 is attached at appendix 1 and the loan application at appendix 2, and these documents will be uploaded to KELSI shortly.
- 2.3 The Scheme for Financing Schools (Item 10 on the agenda) has been amended in light of the above changes.
- 3. Recommendation**
- 3.1 Members of the Forum are asked to **NOTE** and **COMMENT** on the proposed changes to the loan scheme

### **Background Papers**

None