

Financial Control no3

Financing Major Purchases, KCC Loans and Leases

(see also Financial Control 3a & 3b)

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March 2023 updates:

Section 2.2

Removed reference to Salix loans

Updates Sept 2023: none

1. Introduction

When schools are considering purchasing assets – primarily ICT, printing and photocopying but also other items such as electronic whiteboards and energy efficiency schemes they are often offered various forms of lease, rental or hire by equipment vendors, suppliers, or their partners. Whilst the provider will claim that these are ‘operating leases’ it is likely they could be classified, under accounting regulations, as finance leases.

There are strict financial guidelines in place regarding lease classification and without detailed knowledge of these it is impossible for schools to decide what they can sign. Trying to distinguish between different types of leases simply taking the supplier’s word or the fact that the agreement ‘looks right’ is not sufficient. Whilst technically schools have the freedom to sign Operating Leases, Finance Leases are not allowed as stated in Section 3.6 of the Scheme for Financing Schools.

It is important for the Headteacher and/or Governors to seek independent legal advice to determine what type of lease they are being offered prior to signing.

If a school finds it has entered into a finance lease, it must immediately notify the Local Authority as it forms part of KCC’s overall borrowing.

Agreements offered to schools broadly fall into two categories:

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1.1 Rental Agreements/Operating Leases

These are arrangements to pay for the USE of equipment/services over a set period of time. Ownership of the equipment/service remains with the supplier who will expect to sell the asset at the end of the lease period. Payments under this type of agreement must be made from the school's annual revenue delegated budget.

1.2 Hire Purchase Agreements/Finance Leases

These are arrangements to make payments for equipment, which will normally last for the entire expected life of the equipment and enable the supplier to recover the full cost through the repayments. These agreements constitute a credit arrangement and are classed as borrowing. Consequently, schools are not permitted to enter into such agreements. If the school has insufficient funding to purchase an item an alternative is to apply for a KCC Schools loan.

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2. KCC Loan Scheme

The Loan Scheme enables schools to borrow money; schools will pay the money back to the LA over an agreed timescale.

2.1 Applying for a loan

Loans that are requested for premises projects will need to be discussed initially with your Assistant Director of Education.

Loan applications will be vetted to check that as far as possible no school entering into a loan agreement will be subject to merger or closure. If it becomes apparent that a school is to be closed or merged, the remaining balance of the loan becomes payable immediately.

Schools closing to become academies may continue with their loan as this will be signed and agreed under the Commercial Transfer Agreement.

The term of each loan is as follows:

- Capital projects - three, five or seven years
- ICT equipment - up to a maximum of three years

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Unless specifically agreed, the loan will be repaid by equal monthly instalments over the total period of the loan. The Director of Education reserves the right to refuse an application for any reason.

If there is greater demand than the amount of money available, loans directly related to the Asset Management Priorities will be given priority.

The size of the loan shall not normally exceed 10% of the school's annual revenue budget; however, schools may be able to borrow larger sums if sufficient evidence is provided to demonstrate an ability to afford repayments.

Applications should be made initially to Schools Financial Services and all loans will be signed off by the Chair of Governors or the Headteacher.

2.2 To apply for a loan you need to complete the loan application form (see Financial Control 3a), ensuring you have:

1. Determined the necessity for loan
2. Determined amount required
3. Produced a loan quote/repayment schedule using the tool Financial 3b
4. Obtained in principle agreement from Assistant Director of Education
5. Obtained planning permission (if required)
6. Obtained Education Asset Board approval whether managed by KCC or self-managed
7. Revised school's 3 or 5 yr plan (5yr plan needed for terms of 5 years or more)
8. The most recent School budget template used to produce the Three Year Plan

Email items 4, 5, 6, 7 and 8 above plus application to:

schoolsfinancialservices@theeducationpeople.org

3. Administration of the loan scheme

Interest is charged above Bank of England base rate by a set percentage which is detailed on the loan application form.

An administration fee for setting up and maintaining the loan will be charged as follows:

Set up fee: - to be charged with the first monthly repayment. These charges are detailed on the application form.

Interest will be calculated on a daily basis from the date of the amount advanced.

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A loan must be taken up within one calendar year of application. Interest will only be charged from the date monies are drawn down.

Loans will only be approved based on income assumptions at current year budget levels.

Loan advances can be drawn down as a maximum of 2 instalments. These will always be made with the normal monthly budget advance.

4. Repayment of the loan

Loan repayments will be deducted monthly from the budget advances.

If schools wish to pay loans more quickly than the original agreement this is welcomed and there will be interest savings. This will enable more schools to take advantage of the scheme.

5. General Information

Expenditure financed by loans should follow the Spending the Council's Money Code of Practice as laid down in the KCC Constitution.

All building projects must abide by the usual regulations of Health and Safety, Insurance, and the Construction Industry Scheme just like any other building project.

Any fees incurred in securing appropriate advice will need to be incorporated into the project's costs.

The loan should be shown in the school's financial accounts as a commitment. To request this procedure note please contact Schools Financial Services.

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