

Financial Control no3

Financing Major Purchases, KCC Loans and Leases

(see also Financial Control 3a & 3b)

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1 Introduction

Governing Bodies may borrow money (which includes the use of finance leases) only with the written permission of the Secretary of State. The introduction of IFRS16 for local authorities from 1st April 2024 ended the distinction between operating and finance leases at maintained schools for accounting purposes. Under the Education Act 2002, all leases will be classed as borrowing and will require the Secretary of State for Education's consent.

This provision does not apply to loan schemes run by the local authority see section 2

1.1 Leases

The Secretary of State has, however, agreed to provide blanket consent to a range of the most common leading activities, as set out in the IFRS16 Maintained Schools Finance Lease Class Consent 2024 [The IFRS16 Maintained Schools Finance Lease Class Consent 2024](#). Allowable leases within the consent are as follows:

1. All existing leases in place on 1 April 2024 for items included in this list
2. Leases related to IT equipment (for example laptops, tablets, desktop computers, printers, photocopiers, servers, door entry security systems, CCTV Systems, whiteboards and touch screen boards)
3. Leases related to telephony (for example mobile phones, landline phones and telephone systems)
4. Leases related to catering and cleaning equipment (for example tills, water coolers, vending machines, dishwashers, washing machines, ovens, fridges, freezers, water boilers, small kitchen appliances, crockery and cutlery)
5. Leases related to furniture (for example desks, tables and chairs)

6. Leases related to bathroom and sanitary items (for example hand dryers, towel dispensers, sanitary bins)
7. Leases related to gym equipment (for example treadmills, free weights and weight machines, rowing machines and exercise bikes)
8. Leases related to groundskeeping equipment (for example lawn mowers, string trimmers, leaf blowers and salt spreaders)
9. Leases related to LED lighting system (for example lightbulbs, control mechanisms and control panels) - consent is granted where the product has been sourced with support from the Department for Education through 'Get help buying for schools' or from a recommended route on the DfE 'Find a framework' website)
10. Leases related to minibuses and other vehicles for the use of the school
11. Leases related to temporary classrooms and equivalent structures (but not land leases they sit on, which may require separate consent)

Schools may use any scheme that the Secretary of State has said is available to schools without specific approval.

Leases not included in this Order will still require the written consent of the Secretary of State, and it remains the general position that schools will only be granted permission for other types of borrowing in exceptional circumstances. From time to time, however, the Secretary of State may introduce limited schemes to meet broader policy objectives.

1.2 Considerations

Any lease a school enters into must be done so within the parameters of the School's Finance Policy and Spending the Councils Money.

Schools should seek advice before entering into any lease or asset rental or buy-back scheme to ensure it is legal. All lease agreements are subject to the rules on contracts and the relevant limits apply.

1.3 Accounting for leases

All leases will now count in principle as capital, unless the total value of the lease is below the local capitalisation threshold. Where a lease counts as capital, it must not be included in the revenue expenditure lines E12 to E25. Instead, it must be included in E30 as direct revenue financing of capital. The same sum will appear in CI04, and the expenditure will then be recorded in CE01 to CE04A-E as appropriate.

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 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

Unless specifically agreed, the loan will be repaid by equal monthly instalments over the total period of the loan. Repayments will cover capital and interest; interest only payments (holidays) are not allowed under this scheme.

The Director Education and SEN (and/or the Corporate Director Finance when applying for an Exception – see Section 4) reserves the right to refuse an application for any reason. The school will be notified by email and a reason provided.

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 exceed 10% of the school's core annual revenue budget (I01, I02, I03, I05, I06) for each financial year, unless Section 4 applies.

All loan applications must be made initially to Schools Financial Services (SFS) and must be signed off by the Chair of Governors and 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 a loan and its purpose (Governing Body minutes)
2. Determined amount required (Governing Body minutes)
3. Produced a loan quote/repayment schedule using the tool Financial 3b
4. Obtained in principle agreement from Assistant Director Education
5. Revised school's 3 or 5 yr plan (5yr plan needed for terms of 5 years or more)
6. The most recent School budget template used to produce the Three-Year Plan
7. A copy of the school's costed building maintenance schedule
8. Completed the appropriate section of the Exceptions to the scheme tab- if applicable
9. Considered the procurement process necessary to deliver the project (Governing Body minutes)

Email items 1,2,4, 5, 6, 7, 8 and 9 above, plus application to:

schoolsfinancereturns@theeducationpeople.org

It is important for schools applying for a loan to fund a capital project that they obtain the necessary permissions and approvals for the works (e.g. planning permission, building control approval, KCC approval to self-manage the project) These matters should be discussed with your Assistant Director Education when obtaining their in-principle agreement.

2.3 Approval of Loan

Schools Financial Services are commissioned by KCC to ensure that loan applications are complete, and that due diligence has been completed on the school's ability to repay the loan. The relevant Assistant Director Education reviews the application and due diligence, together with the reason for the loan and confirms whether the application can proceed to the Director Education and SEN for final approval. In circumstances where the application would require an exception to the normal rules of the Scheme to be agreed (set out in section 4 below) the Corporate Director Finance is also required to approve the application.

Schools are permitted to apply for more than one loan at any given time. Each loan must be individually applied for, and will be subject to the same process, assessments and checks as outlined above.

The 10% threshold check will be applied to the consolidated value of existing and new loans.

Monies will not be released to the school until all relevant checks have been completed and a signed loan agreement between KCC and the school is in place. The Assistant Directors Education are delegated (by the Director Education and SEN) to sign the approved loan agreements on KCC's behalf.

Please note, if the loan value is in excess of £1m approval will be required by the Cabinet Member for Education and Skills via a key decision in line with KCC's Constitution. This can take several months to complete start to finish.

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.

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.

The loan application will be subject to an affordability assessment prior to approval.

Following receipt by SFS of all completed documents, the following timeline begins:

- SFS review and undertake affordability assessment (within 20 school working days) and make a recommendation to KCC
- KCC will review and decide the application (within 10 school working days)
- SFS will notify the school of KCC's decision and when appropriate arrange for the Final Loan Agreement document to be signed by both KCC and the School
- SFS will arrange with the school the date of the loan to be drawn down

All loan repayments are automatically deducted by KCC from the school's Statement of Account (advance) monthly. This prevents any school from defaulting on payment.

4 Exceptions to the Scheme:

If any of the following exceptions apply, schools must provide further information on the Exception tab of the application form:

- a. Loan value exceeds 10% of school's core annual income.
- b. Loan term exceeds 7 years
- c. School is requesting a 'top-up' loan for an existing project

5. 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. If the school budget and cash-flow position shows that additional loan repayments can be made, the Local Authority can consult with the school regarding making additional payments.

6. 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. There is an expectation that schools must budget adequately for the upkeep of the building and site. Ledger Code E12 – Building Maintenance and Improvement will be reviewed as part of the affordability assessment Schools Financial Services completes.