

Title of meeting: Schools Forum

Date of meeting: 25th September 2013

Subject: School Loan Scheme

Report from: Julian Wooster, Director of Children's & Adult's Services

Report by: Richard Webb, Finance Manager for Children's Services

Wards affected: All Wards

Key decision: No

Full Council decision: No

1. Purpose of report

The purpose of this report is to provide Schools Forum with an update on the current issues facing the School Loan scheme and proposals for the future operation of the scheme.

2. Recommendations

It is recommended that Schools Forum consider and approve one of the following options:

- (a) discontinue the operation of the loan scheme for new loans with immediate effect; or
- (b) continue the operation of the loan scheme, whilst recognising the potential financial risks to all schools.

3. Background

- 3.1. Contained within the Scheme for Financing Schools is a school loan scheme (see appendix 1) which provides maintained schools with the opportunity to apply for a loan from the schools collective balances in order to fund capital improvement or maintenance projects.
- 3.2. After some five years without loan advances, 2012-13 saw approval of three such loans amounting to 288,600. A further two loans have been approved in 2013-14. The current outstanding loan balance is £427,280, which amounts to 4.5% of the school revenue balances at 01 April 2013.

4. Future of the Loan Scheme

- 4.1. As Schools convert to Academy status they generally take any surplus balances at the time of conversion with them, in accordance with 'The Academy Conversions (Transfer of Surpluses) Regulations 2010. Ultimately this is leading to a reduction in the balances available to fund the loan scheme.
- 4.2. The current scheme for financing schools states that if a school converts to Academy status during the loan period it will become repayable in full at the date of conversion.
- 4.3. There has recently been a significant increase in the number of maintained schools that have either converted or are in the processes of converting to Academy status. At the time of writing this report, 5 schools had converted and a further 6 were due to convert by 31 March 2014.
- 4.4. There is a significant financial risk that at the date of conversion, if a school has a loan issued through this mechanism, that it will have insufficient reserve balances to be able to repay the loan. This could ultimately leave the maintained school with a deficit balance at the date of conversion. It may be possible to agree a repayment plan with an Academy Trust, but there is no legal requirement for them to agree to this.
- 4.5. Generally, any deficit balances will remain with the Local Authority and will need to be funded from the Dedicated Schools Grant. In order to ensure that a balanced budget is maintained, it would be necessary to fund any deficit balances, through a reduction in the level of funding provided to all schools through the school funding formula.
- 4.6. Although the loan scheme clearly provided a useful mechanism for schools to finance projects in the past. In this increasingly uncertain environment, the risk that the loan scheme could result in maintained schools having deficit balances at the date of conversion to Academy status is increasing. It is therefore recommended that the loan scheme is withdrawn from operation for new loans.

5. Reasons for recommendations

As set out in section 4, the financial risks associated with the school loan scheme are now too significant, as a result of the recent increase in schools converting to Academy status. Two options are set out in section 2, and it is recommended that Schools Forum approve option 2(a).

6. Equality impact assessment (EIA)

This report does not require an Equality impact Assessment as the proposal does not have any impact upon a particular equalities group.

7. Head of Legal Services' comments

Legal comments have been included within the body of this report.

8. Head of Finance's comments

Financial comments have been included within the body of this report.

.....
 Signed by:

Appendices:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
School Loan Financial Records	Education Finance
Scheme for Financing Schools	PCC website and Intralink
The Academy Conversions (Transfer of School Surpluses) Regulations 2010	www.opsi.gov.uk

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
 Signed by:

Appendix 1 - Extract from the Scheme for Financing Schools

4.10 Loan schemes

The City Council will give all maintained schools the opportunity to apply for a loan from school's collective balances. All such loans will be considered by the Director of Children's Services (or nominated representative).

A loan arrangement will be considered according to the following criteria:

- It is for the purposes of capital improvement / cyclical maintenance;
- It has a high probability of raising educational standards or generating future savings;
- It is for a minimum of 2% of the schools budget share or £30,000 whichever is the least;
- It is for a sum not exceeding 5% of the schools budget share or £150,000 whichever is the least;
- It will be repaid to the City Council over a period of between 2 and 5 years and the school has agreed a repayment plan with Portsmouth City Council.

The City Council will also apply the following conditions when considering loan applications:

- In approving a loan the total amount of loans approved does not exceed a limit of 40% of aggregated schools balances;
- The following interest rates will be charged on the outstanding balance of any loan:
 - Primary schools - Base rate less 0.5%, divided by 2
 - Secondary schools - Base rate less 0.5%
- Schools with an existing budget deficit will not be considered for a loan
- Schools may only have one loan in force at any time.

Changes to repayment plans will only be approved in exceptional circumstances and must be agreed in advance with the Section 151 Officer / Director for Children's Services

If a school converts to academy status during the repayment period the loan will become repayable in full at the date of conversion.