

Cabinet

19 January 2022

School Loans Scheme

Ordinary Decision



Report of Corporate Management Team

Paul Darby, Corporate Director of Resources

Councillor Richard Bell, Deputy Leader and Cabinet Portfolio Holder for Finance

Councillor Mark Wilkes, Cabinet Portfolio Holder for Neighbourhoods and Climate Change

Councillor Ted Henderson, Cabinet Portfolio Holder for Children and Young People's Services

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To recommend changes to the council's loan scheme for schools, to take account of energy efficiency, carbon emission and sustainability issues.

Executive summary

- 2 The school loan scheme allows schools to borrow to fund one-off capital projects that will benefit them for more than one year. This is the only form of borrowing that schools can access.
- 3 The council's loan scheme has operated since 2015 and there are currently five outstanding loans, with a total value of £379,000.
- 4 The loan scheme is only available to maintained schools, but loans transfer to academy trusts when schools convert. A school with a loan that closed would have to be written-off by the council.

- 5 Loans cannot be used to fund revenue deficits with loans being charged interest and a premium to cover administration and the risk of changes in interest rates.
- 6 Loans are assessed taking into account the ability of schools to repay and the appropriateness in the context of schools' plans for future education provision.
- 7 There is presently a need to update the scheme, to take account of increasing demand for loans to fund energy efficiency projects and to ensure that loans are for projects that take account of concerns about energy efficiency, carbon emissions and sustainability. Schools were able previously to access SALIX funding to support energy saving initiatives but this funding has been discontinued.
- 8 The ability for schools to invest energy reduction initiatives in this manner is in harmony with the council's aim to achieve 80% carbon reductions by 2030.
- 9 Energy efficiency projects can be self-financing with borrowing costs being financed from savings on energy consumption. One of the proposed scheme revisions is to enable schools that previously would not have been able to access loans to apply for loans that would allow them to reduce their energy costs and be self-financing.
- 10 A second proposal is to require schools to explain how building works projects will affect their energy efficiency, carbon emissions and sustainability.
- 11 A final proposal is to impose a minimum size of advance of £5,000.

Recommendation(s)

- 12 Cabinet is recommended to:
 - (a) remove the restrictions on loans for projects designed to increase energy efficiency where savings are expected to at least equal to the cost of loan repayments and interest from the first year in which a loan repayment is due thus supporting the council's aim to reduce carbon emissions by 80% by 2030;
 - (b) require that for building works not directly linked to carbon reduction or energy efficiency, schools should describe the effect of the proposed works on energy efficiency, carbon emissions and sustainability;
 - (c) require that for building works not directly linked to carbon reduction or energy efficiency, proposals should incorporate

energy efficiency measures where appropriate and within the scope of the proposed works;

- (d) allow loans to be extended to 15 years in exceptional circumstances for loans linked to carbon reduction or energy efficiency interventions and linked to payback periods on reductions in energy costs;
- (e) clarify that the council has the discretion to offer a lower interest rate to loans linked to carbon reduction or energy efficiency; and
- (f) add a provision that the minimum advance through the loans scheme shall be £5,000.

Background

- 13 In normal circumstances, schools can only borrow from external sources with the express permission of the Secretary of State. However, statutory guidance allows local authorities to set up an internal loan scheme for schools to access, though this cannot be financed through the utilisation of Dedicated Schools Grant or schools' retained balances.
- 14 The council operates a loan scheme for schools which was approved in September 2015. This scheme is financed by the council from its own funds. The loan scheme is restricted to maintained schools, but where a school converts to become an academy the liability for the loan transfers to the academy trust that takes on the school. This applies to all conversions, including schools that are directed to become sponsored academies, although the council does have the option to write-off a loan if it thinks that conversion is in the interests of the school and the loan is a barrier to conversion.
- 15 Where any school is required to close, any loan would be written-off by the council.
- 16 Schools can use loans to finance capital expenditure, including building works and ICT, but cannot use loans to finance revenue expenditure, (which means that they cannot borrow to finance a deficit balance).
- 17 The current loan scheme includes limits on the value of loans, based on the accumulated revenue balances and revenue funding of schools, along with limits on the life of loans. Applications in respect of building works require landlord approval, or a feasibility study for Voluntary Aided schools, (which are owned by the Diocese).
- 18 Loans are charged interest, at fixed rates, based on borrowing costs that would be incurred by the council to borrow over the number of years over which the loan will be repaid. A 0.5% premium is charged, to cover the costs of administering the scheme and the risk of changes in interest rates. Loans can be repaid early without penalty.
- 19 There are currently five loans outstanding, including one to a school that has now converted to an academy. The total value of loans outstanding is £379,000. All the existing loans will be repaid by 31 March 2025.

Carbon Reduction and Energy Saving

- 20 In conjunction with the council's Low Carbon Economy Team, schools are looking at ways to increasing their energy efficiency. This can take several forms, including LED lighting and solar panels. Until recently, schools could borrow from Salix, a government owned company, which was the only external source that the Secretary of State had authorised

for schools to borrow from. This source of funding is no longer available and schools wanting to invest in these projects must either use their revenue resources or borrow from their local authority.

- 21 A major factor in the council reducing carbon emissions relates to the school estate. Any reduction in carbon emissions will assist the council in meeting the target of reducing carbon emissions by 80% by 2030.
- 22 Unlike other loans, loans for energy efficiency have the potential to generate savings which can more than offset the costs of repaying the loan. This needs to be taken into account when assessing applications for loans, because it may be appropriate to approve a loan for a school that is in financial difficulties, because the loan will generate savings which will help the school with its budget difficulties.
- 23 Recent significant increases in energy costs have made it much more likely that an energy reduction project will generate savings over and above the cost of repaying the loan and there has been increased interest in this sort of project from schools.
- 24 In response to this situation, the loan scheme has been reviewed, to allow an appropriate response to applications for loans for these purposes, and to make some other improvements to the scheme. Proposals are set out in the following section.

Proposals for Updates to the Loan Scheme

Criteria for assessing school context statement

- 25 Schools applying for a loan are required to provide information to demonstrate that a loan is appropriate in the context of the school's educational and financial position. This should demonstrate that the school can afford to borrow and that the project is consistent with the school's plans for future educational provision.
- 26 The proposed scheme amendment would mean that where a loan is for the purpose of increasing energy efficiency and the annual forecast saving covers the cost of the annual loan repayment then the requirements about the context statement would not apply. This would result in schools that would not otherwise be able to apply, are able to do so and access the long-term savings that these projects can bring and deliver benefits in terms of reduced carbon emissions. For this to apply, the council's Low Carbon Economy Team would have to confirm that this condition is met.

Purpose of loan

- 27 Schools applying for a loan for building works require landlord approval and a feasibility study from Voluntary Aided or foundation schools. The proposed change is to require schools to describe the effect of the proposed works on energy efficiency, carbon emissions and sustainability. Proposals would be expected to incorporate energy efficiency measures and be sustainable where appropriate and within the scope of the proposed works.
- 28 BREEAM (Building Research Establishment's Environmental Assessment Method) would not apply to school loan projects, because these projects would generally involve a major extension or refurbishment. Loans could be used to supplement funding for a new build project, in which case the overall project would be expected to be BREEAM certified only where the building requires BREEAM Very Good as part of County Durham Planning requirements for new builds over 1,000sqm.

Limits on the length of loans

- 29 Loans are normally limited to a maximum of ten years. The revised scheme will allow this limit to be extended to 15 years in exceptional circumstances where the loan is linked carbon reduction and energy efficiency measures taking into account asset life and payback periods.

Interest rates

- 30 The loan scheme gives the council discretion to set interest rates. Usual practice is to use the relevant rate available for loans from the Public Works Loans Board, with a 0.5% premium to cover the cost of administration and interest rate risk. The revised scheme includes the discretion to offer a lower rate where the loan is to fund the installation of carbon reduction and energy efficiency measures.

Minimum limit on advances

- 31 At present there is no minimum advance. In future there would be a £5,000 minimum advance, with schools expected to fund smaller projects from within their revenue funding.

Revised scheme

- 32 A copy of the revised scheme information is included in Appendix 2.

Main implications

- 33 The proposed changes would allow the loan scheme to be updated to take account of the increasing importance of energy efficiency, reducing carbon emissions and sustainability. The scope of the scheme would be widened to include schools that would otherwise not be eligible for a loan, but which would benefit from investment to reduce energy costs.
- 34 This strategy will support the council aim of reducing carbon emissions by 80% by 2030.

Conclusion

- 35 This report sets out proposals for updates to the council's loan scheme. This is the only source of borrowing available to schools. The proposals would address issues about carbon emissions and sustainability, which are increasingly relevant to applications for loans, particularly in the context of rising energy prices.

Background papers

- None

Other useful documents

- Previous Cabinet report, 16 September 2016

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Appendix 1: Implications

Legal Implications

Statutory guidance given by the Secretary of State pursuant to s.48(4) and paragraph 2A(2) of Schedule 14 to the School Standards and Framework Act 1998, requires local authorities to have a scheme of delegation to schools and permits such schemes to include arrangements for making loans to schools to fund large one-off items of a capital nature that have a benefit to a school lasting more than one financial or academic year.

Finance

The report sets out proposals to amend the school loans scheme currently available to maintained schools.

The scheme is operated by the council on a self-financing basis through the charging of interest on the loans, with a 0.5% premium to cover the cost of administration and interest rate risk. The revised scheme includes the discretion to apply a lower premium of 0.3% to loans to fund the installation of photovoltaic solar panels, LED lighting or other energy conservation measures.

The interest charged on the loan is based on the prevailing rates that could be earned on an investment over the period of the loan requested, measured by the cost of borrowing through the Public Works Loans Board.

Schools are encouraged to make contributions towards projects and part finance schemes from their retained balances where it is prudent to do so.

There are no provisions for this scheme to be financed and underwritten from the Dedicated Schools Grant or schools retained balances, but the interest charged and the application of an additional premium ensures that the Council suffers no financial detriment on its investment income.

Loans are normally limited to a maximum of ten years. The revised scheme will allow this limit to be extended to 15 years in exceptional circumstances where the loan is linked carbon reduction and energy efficiency measures taking into account asset life and payback periods.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

The proposed changes will increase the scope of the scheme to lend to schools for projects that will reduce carbon emissions and will require schools to consider energy efficiency, carbon reduction and sustainability in developing proposals for building works.

Human Rights

None

Crime and Disorder

None.

Staffing

None.

Accommodation

Potential for loans to be used for building works to maintain or improve school accommodation or works to improve energy efficiency and reduce carbon emissions.

Risk

There is a risk that loans may not be repaid if schools or academies get into financial difficulties. This can be partly mitigated by limiting the value of loans and scrutiny of applications, but a residual risk will remain. Safeguards are built into the application process with regards to the need to produce feasibility studies and obtain sign off of the scheme via Asset Management, the Low Carbon Economy Team and Resources.

Procurement

None.

Appendix 2: School loans scheme

Background

- 1 Schools can only borrow from external sources with the express permission of the Secretary of State, which is only granted in exceptional circumstances, or for specific loan schemes set up to allow investment in environmental improvements. However, statutory guidance allows local authorities to set up an internal loan scheme for schools.
- 2 The council has established a loan scheme for schools, funded from Council resources. This paper sets out the terms of the scheme and sets out the process for applying for a loan.

Eligibility

- 3 All maintained schools are eligible to apply for a loan, within the restrictions of the scheme (see below). Maintained schools include the following categories:
 - Nursery
 - Primary (including infant and junior)
 - Secondary
 - Special
 - The Woodlands (PRU)
- 4 Academies are not eligible to apply for loans.
- 5 Schools will not be eligible to apply for a loan where the governing body or Interim Executive Board has made an application to become a sponsored academy or where the school becomes eligible for intervention by the Secretary of State, unless the academy trust sponsoring the academy has agreed to take on the liability for repaying the loan according to the loan schedule.

Purpose of loans

- 6 Loans are only available for the purpose of funding expenditure on building works and new furniture or equipment, including ICT. Loans are not available for the purpose of:

- a) covering a temporary revenue funding problem (separate arrangements exist where schools can apply for permission to run a budget deficit temporarily); or
- b) funding works needed for a trading venture, such as altering a room to allow its use by a stand-alone nursery company.

Limits on advances

- 7 The maximum amount that can be lent to a school is 5% of a school's current budget share.
- 8 Schools do not have to repay an existing loan (or loans) before applying for other loans, but the total value of loans outstanding will not be allowed to exceed the 5% of the school's current budget share, as described in the previous paragraph.
- 9 Loans will not be provided where the value requested is less than or equal to £5,000.

Period of loan

- 10 The maximum period for loans is:
 - a) Seven years where the loan is to fund building works;
 - b) Four years, where the loan is to fund furniture;
 - c) Four years or the useful life of the asset, where the loan is to fund equipment;
 - d) For loans where the loan is to fund the installation of energy efficiency or carbon reduction measures, the maximum loan period will normally be ten years, but the council will consider extending this to a maximum of fifteen years in exceptional circumstances, linked to asset life and payback periods.

Interest

- 11 The Council will determine the interest rate for new loans from time-to-time. The interest rate applied to a loan will be fixed for the life of the loan. The Council has the discretion to apply a lower rate to loans to fund the installation of installation of energy efficiency or carbon reduction measures.

Repayments

- 12 Repayments will be annually in advance by journal transfer, debiting the school's delegated budget.

- 13 Schools may choose repayments on either an annuity or equal instalment of principal basis
- 14 Schools may decide whether to start repayments in the year of the loan or the year after.
- 15 Loans may be repaid early without penalty.

Transfers of loans

- 16 Any outstanding loans will transfer to:
 - a) Any successor school, in the event that the school is included in an amalgamation to form a new maintained school; or
 - b) An academy trust, in the event that the school converts to academy status, whether by choice or as a sponsored academy.

Applying for a loan

- 17 Applications should be submitted to the School Funding Team in the first instance, copied to both:

david.shirer@durham.gov.uk

- 18 Applications should provide the following information:

Purpose of loan

- a. A description of the works to be funded by the loan.
- b. For building works:
 - i. Applications from maintained community schools must have prior approval from Asset management:
propertyhelpdesk@durham.gov.uk
 - ii. In addition, projects linked to carbon reduction / energy efficiency measures must have prior approval from the Council's Carbon Management Team as a viable and cost-effective solution
carbon.management@durham.gov.uk
 - iii. For building works not directly linked to carbon reduction or energy efficiency, schools should describe the effect of the proposed works on energy efficiency, carbon emissions and sustainability. Proposals should incorporate energy efficiency measures where appropriate and within the scope of the proposed works.

- iv. Schools should note that, depending upon the nature of the works, there may need to be a feasibility study prior to approval; where this is necessary the school will be responsible for funding the cost of the study;
- v. Applications from voluntary aided schools should be accompanied by a feasibility study from the Diocese for review by the Council;
- vi. Foundation schools should submit a feasibility study procured by the Trust.

Voluntary aided and foundation schools should note that there may be a charge for the review of their feasibility studies.

- c. For equipment, Council approval is not required, but schools are encouraged to seek advice from Corporate ICT:

ictschoolservices@durham.gov.uk

School context statement

- d. Schools should provide a context statement to address the criteria set out below. The statement will be evaluated by officers from Children and Adults Services and the School Funding Team:

Criteria

- i. The loan should be used to fund expenditure that is appropriate in the context of the school's forward planning for educational provision
- ii. The loan can be funded without cuts to other areas of expenditure that will harm standards of education or inhibit necessary improvements to standards;
- iii. The school carried forward a surplus balance at the end of the last financial year and that the current budget plan is for a surplus at the end of the current financial year of at least 2.5% of the current year's budget share plus Pupil Premium income;
- iv. The school has submitted a robust three-year budget plan, which demonstrates that the school can afford the annual cost of the loan over that period without going into deficit or reducing its surplus balance to less than 2.5% of the total of funding plus income from the Pupil Premium;

- v. That the school has an appropriate plan for managing its surplus and has given consideration to making a contribution towards the cost of the project from its balance.
- e. These requirements shall not apply where:
- i. loans are for the purpose of increasing the energy efficiency of a school; and
 - ii. the council's Low Carbon Economy Team confirm that the savings on energy costs to the school's delegated budget are expected to be at least equal to the cost of the loan (repayment and interest) from the first year in which a loan repayment is due.

Approval

- a. Applications must include minutes confirming that the application has been approved by both the governing body and the finance committee of the governing body.
- b. These approvals should take the form of resolutions which acknowledge:
 - i. The financial commitment being made by the school, (with reference to a schedule of repayments and the three-year budget plan, both of which should be provided to governors in advance of their being asked to approve these resolutions);
 - ii. The transfer arrangements for any outstanding loan in the event of the school amalgamating or converting to an academy;
 - iii. Acknowledge the duties placed on the Council in relation to health and safety, and the Council policy on health and safety matters in the management of its budgets.¹
 - iv. Acknowledge that where schools employ contractors directly that they then have a responsibility to ensure that:
 - v. The contractor is competent, adequately insured and that he/she has an appropriate health and safety policy in place

¹ The Council has powers to issue directions to the governing body and head teacher of a Community, Community Special or Voluntary Controlled School on health and safety matters. These directions are enforceable on governing bodies via S.497 of the Education Act 1996 if not complied with. Section 39(3) of the School Standards and Framework Act 1998 enables LA to direct schools to take specific action (e.g. remedy a health and safety failing) or require a governing body or head teacher to comply with a specific aspect of the LA's Health and Safety policy.

- vi. The school undertakes all necessary risk assessments to ensure that the contractor can comply with safeguarding requirements for working in the school environment.

Council's discretion

- 19 The Council reserves the right to refuse any application at its absolute discretion.