(ITEM)

TO: SCHOOLS FORUM
DATE: 15 MARCH 2018

SCHOOL LOAN SCHEME:
RESPONDING TO GOVERNMENT POLICY CHANGE
Director of Children, Young People and Learning

1 PURPOSE OF REPORT

1.1 The purpose of this report is to seek agreement from the Schools Forum to undertake a consultation with schools to replace the current school loan scheme to one that provides cash flow support to schools through a licensed deficit. This reflects changes to the current permitted criteria for agreeing loans anticipated to be made by the Department for Education (DfE) and follows on from the December 2017 meeting of the Forum when these planned changes were originally reported.

2 EXECUTIVE SUMMARY

2.1 The DfE are proposing changes to the criteria for agreeing school loan schemes to restrict their use only to the purchase of significant one-off capital assets. They will no longer be permitted to be granted to finance shortfalls in day to day recurrent expenditure in schools. In future, shortfalls in day to day recurrent expenditure will need to be facilitated through a licensed deficit.

2.2 The impact of this change is that schools converting to an academy as a result of intervention and underperforming schools which the Secretary of State judges are not strong enough to become an academy without a strong sponsor will no longer need to repay deficits, unless they are for the purchase of significant one-off capital assets. Any accumulated deficit at the point of transfer will fall onto local authorities (LAs) to finance or the general contingency in their Schools Budget if the relevant local policy permits such expenditure.

2.3 In order to be able to continue to support schools that are facing medium term cash flow difficulties on their day to day expenditure, the council proposes to offer a licenced deficit scheme on the same basic terms as the existing loan scheme together with additional financing support by including the unallocated balance on the School Budget Reserve to the amount available to finance agreed deficits.

2.4 The anticipated change will not apply to existing loan agreements, and should schools in receipt of a current loan convert to an academy, they will remain liable to repay any outstanding balance.

3 RECOMMENDATIONS

3.1 To AGREE that subject to DfE confirming the anticipated change in criteria to school loan schemes, that a consultation is undertaken with schools to gather views on

1. **replacing the existing Bracknell Forest school loan scheme with an equivalent licensed deficit arrangement.**

2. **Incorporating the unallocated balance on the Schools Budget Reserve into funds that can support the scheme.**

3.2 To NOTE the current level of school balances available to support school loans and the agreements currently in place and to CONSIDER associated risks.

4 REASONS FOR RECOMMENDATIONS

4.1 It is appropriate for the Schools Forum to be aware of, and where relevant, comment on these financial matters.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 None.

6 SUPPORTING INFORMATION

Information previously presented to the Forum

6.1 Paragraphs 6.2 to 6.10 and Annexes 1-3 are largely unchanged from the information presented to the Forum in December 2017. They are included in this report as a reminder of the key issues.

Background

6.2 Members of the Forum will be aware that each LA is required to publish a Scheme for Financing Schools ("the Scheme"). It is an important document that sets out the financial relationship between the LA and the maintained schools which it funds. It is a legally binding document on both the LA and maintained schools relating to financial management and associated issues. Academy schools operate outside the requirements of the Scheme.

6.3 The DfE issues statutory guidance to LAs in respect of the areas that must be covered within Schemes. Parts of Schemes must be in accordance with "directed scheme revisions" and are mandatory, sometimes to the precise wording that must be used. For other elements of schemes, there is discretion to make amendments to best reflect local circumstances. The statutory power to update discretionary parts of Schemes rests with maintained school representatives on the Schools Forum, but changes can only be made after a consultation with all governing bodies and head teachers.

6.4 Statutory DfE Scheme guidance allows LAs to support schools in managing a short term planned over spending either through a licensed deficit agreement, which in essence allows a school to over spend the budget allocation for an agreed period up to a maximum amount, or a school loan scheme, where schools are advanced an agreed amount of additional funding from future budget allocations with an associated repayment schedule. The loan advance and repayment amounts are included in a schools funding allocation which means their accounts are not reported as over spent. Schools in BF supported a loan scheme as opposed to a licensed deficit. The statutory Scheme guidance attaches the same outline conditions that must be applied to both of these options.

6.5 Annex 1 sets out the relevant extract from the statutory DfE guidance with Annex 2 showing the current loan scheme in the BF Scheme with the outline features being:

- Governors need to be able to demonstrate ability to repay
- Loans are generally granted for a maximum of 3 years
- The value of loans should ordinarily be between 5% and 15% of the annual school budget
- Loans are generally granted on an interest free basis
- Total loan advances cannot exceed 40% of the aggregate surplus balances held by all schools

Proposals for change from the DfE

6.6 Whilst the only difference between a licenced deficit arrangement and a loan appears to be the accounting arrangements, there is an important link into the financial arrangements that accompany an academy conversion which are set out in the DfE *Guidance note for schools and local authorities - Treatment of surplus and deficit balances when maintained schools*. This guidance requires an academy to continue to repay loan agreements but any deficit – licenced or otherwise - remains with the LA or general balances of the Schools Budget to fund.

6.7 The main impact of this change is that schools converting to an academy as a result of intervention and underperforming schools which the Secretary of State judges are not strong enough to become an academy without a strong sponsor will no longer need to repay loans unless they are for the purchase of significant one-off capital assets. Any accumulated deficit at the point of transfer will fall onto local authorities (LAs) to finance or the general contingency in their Schools Budget if the relevant local policy permits such expenditure.

6.8 The DfE now intends to issue a directed Scheme revision with prescribed text to limit the use of loan schemes to only “assist schools in spreading the cost over more than one year of large one-off individual items of a capital nature… Loans will not be used as a means if funding a deficit that has arisen because a school’s recurrent costs exceed its current income”.

6.9 The DfE consultation relates to when the changes will be implemented, not if they should be. It follows an earlier consultation in March which sought views on restricting loans to capital purchases only, with the majority of the 75 responses not supporting the changes. The changes will not affect loans agreed before the publication date of the determination of this latest DfE consultation, meaning no immediate risk from repayment defaults on existing loans should relevant schools convert to an academy.

6.10 Annex 3 sets out the DfE consultation document which was issued on 15 November with a response deadline of 13 December.

Impact in BF

6.11 The last meeting of the Forum requested current figures on outstanding loans for the Forum to consider current risk, based on the anticipated future requirement for LAs and their general Schools Budget to cover outstanding deficit balances on schools –

including any loan advances - being forced to convert to an academy through DfE intervention requirements for under performing schools.

6.12 As at 1 April 2017, there was a net £0.738m of outstanding school loans (39% of aggregate school surplus balances) which indicates the need for an effective mechanism to support schools facing short to medium term funding difficulties. Table 1 below provides a summary of aggregate outstanding loan arrangements. Annex D provides a more detailed breakdown of the current loans by individual school.

Table 1: Summary Schedule of School Loan Requests

Item	**Previously Agreed £**	**2017-18 £**	**2018-19 £**	**2019-20 £**	**Total £**
Total advances	850,000	315,000	0	0	1,165,000
Total repayments	-322,600	-114,400	-243,000	-485,000	-1,165,000
Total outstanding	527,400	200,600	485,000	0	0
	728,000				

6.13 In addition to the loans agreed for maintained schools, Brakenhale Secondary Academy School has a loan in the value of £0.130m. A legal agreement is in place with the Trustees that requires full repayment.

6.14 As set out above, the current loan advances are at 39% of aggregated surplus balances where the BF scheme includes an outline cap at a maximum amount of advance of no more that 40%, although there is discretion to set the cap at different amounts. With aggregate surplus balances likely to continue to reduce, there is a strong possibility that this current limit will be exceeded and a review of loan arrangements at other LAs shows that a range of different capping limits have been set from 20% to 50%.

6.15 Whilst this was previously expected to reduce to £0.485m next year (27%), a request to reduce the 2018-19 planned repayment by £0.090m has been received from Sandhurst Secondary School which, if agreed, would increase the outstanding balance to £0.575m.

6.16 If, as expected, the trend of declining balances continues over the medium term, this will also have an impact on the capacity of the Forum to approve loans to schools to manage short term funding difficulties. Furthermore, the recent academy school converters retain aggregate surpluses of £0.168m which will no longer be available to support school loans. Taking account of the anticipated impact from these factors indicates a year end aggregate surplus in school accounts of around £1.4m, placing a limit on financial support to schools at £0.560m which will potentially be below the level of current commitments.

6.17 Loans have been used successfully for a number of years in BF to help schools manage short term funding shortfalls in a measured way that prevents the need to immediately make more drastic budget management action. This minimises disruption in school organisation, which would most likely impact on numbers of staff. Therefore, the council is supportive of an appropriate scheme, provided it contains suitable safeguards.

6.18 To increase the amount available to support schools seeking support to medium term cash flow shortages, the council recommends including the unallocated balance in the Schools Budget to the aggregate surpluses held by schools. There is an opening balance of £0.660m with a forecast under spending in 2017-18 of £0.452m, which would provide a further £1.112m to "borrow" against, which with the 40% cap would equate to additional advances of £0.444m. Added to the amount of anticipated school balances, around £0.990m could be available to finance financial support to schools. If this approach is supported by the Schools Forum, then the unallocated balance in the Schools Budget would be a first call on financing deficits, should any need to be written off.

Annex E sets out the current forecast position on school balances for 31 March 2018, and the amount available to support schools facing deficits.

Next steps

6.19 Whilst the DfE has yet to confirm a directed scheme revision on school loans, one is expected to be made by the end of March 2018, and in order to be in a position to offer support to schools experiencing cash flow difficulties for the first time in 2018-19, plans need to be put into place now.

6.20 The Forum is therefore recommended to agree a consultation is undertaken with schools at the start of the summer term to replace the loan scheme with an equivalent licensed deficit facility and to incorporate the unallocated balance on the Schools Budget Reserve to the amount of funds available to finance the scheme. Any suggested changes to the scheme will need to be considered at the 20 June 2018 meeting.

7 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

7.1 The relevant legal provisions have been considered within the main body of the report.

Borough Treasurer

7.2 The proposals set out in the supporting information present a suitable scheme of financial support to schools facing short to medium term cash flow difficulties. Should any school deficits need to be written off, they would need to be financed from within the balances held in the Schools Budget Reserves.

Equalities Impact Assessment

7.3 There are no specific impacts arising from this report.

Strategic Risk Management Issues

7.4 The main strategic risk relates to being able to produce short term financial support packages to schools with an acceptable risk that repayment of any deficit will be made.

8 CONSULTATION

8.1 Not applicable.

Background Papers
None.

Contact for further information
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mailto:paul.clark@bracknell-forest.gov.uk

Doc. Ref
K:\Pine\Executive\Schools Forum\(87) 150318\Update the school loan scheme to licenced deficits.docx

Annex 1

Extract from DfE statutory guidance on Scheme Content

4.9 Licensed deficits

An authority may include in its scheme provision for an arrangement whereby schools are allowed to plan for a deficit budget. Such an arrangement is normally funded by the collective surplus of school balances held by the authority on behalf of schools (although it is open to an authority with no such surplus to make alternative arrangements if it can do so within the relevant local authority finance legislation). Although such a provision may refer to other guidance on the operation of the deficit arrangement, the scheme itself should specify the following:

• the maximum length over which schools may repay the deficit (i.e. reach at least a zero balance), with appropriate mechanism to ensure that the deficits are not simply extended indefinitely. The maximum length allowed should not exceed three years

• the purposes for which the deficit arrangement may be agreed

• the maximum size of the deficits which may be agreed (this may be by reference to the size of the budget share or in cash terms or some combination)

• the maximum proportion of the collective balances held by the authority which will be used to back the arrangement

• the role of the Director of Children's Services and the Chief Finance Officer of the Authority in agreeing any arrangements for individual schools

It is open to a LA to extend such an arrangement by inviting schools holding balances in external bank accounts to use some or all of those balances to back the arrangement. If so the scheme should make clear the basis on which this would occur.

Balances held by a school in an external bank account remain the property of the authority (if made available by the authority initially) and therefore may legally be taken into account by the authority in assessing the total level of loans which it might wish to make to schools. However, the Secretary of State believes that it is right that schools be asked to give a view as to whether the authority should take them into account in this way, and that this provides assurance for the authority as well as schools.

Under a licensed deficit scheme the only effect on budget and out-turn statements is that in the latter, the balance goes into deficit because expenditure is at a higher level than the budget share, but this deficit reduces to zero by the end of the repayment period because the school has to constrain its expenditure to effect the repayment. No 'payment' to the school is recorded.

4.10 Loan schemes

It is open to an authority to include in its scheme a form of loan arrangement for schools which does not operate by way of a licensed deficit but rather by way of actual payments to schools or expenditure by the authority in respect of a particular school on condition that a corresponding sum is repaid from the budget share. If so, the same parameters for the arrangement should appear in the scheme as listed at 4.9 above for licensed deficits.

Again, an authority may wish to invite schools with balances in external accounts to use some or all of those balances to back a loan scheme, and the scheme should make clear on what basis this would occur.

If there is a loans scheme on this basis the authority must show in its budget statements the amount centrally retained for what would be a devolved payment to schools, and the payment should appear in the out-turn statements.

Annex 2

BFC Loan Scheme

4.9 Loan arrangements

In exceptional circumstances, in agreement with the Schools Forum and Executive Member for Children, Young People and Learning, the authority will permit schools to receive a loan in advance of future budget allocations. The funding of such agreements would be through the collective surplus of school balances held by the authority on behalf of schools, and will be considered on an individual basis. General features of the scheme are detailed below:

Circumstances in which a loans may be agreed:

1. if in the opinion of the Director of Children Young People and Learning a school could not otherwise achieve its improvement targets (there will still be a requirement of the governing body to demonstrate repayment),

2. if in the opinion of the Director of Children Young People and Learning and Borough Treasurer a school could not reasonably be expected to effect immediately the savings required as a result of a significant reduction in pupil numbers (there will still be a requirement of the governing body to demonstrate repayment),

3. where major capital projects which would otherwise result in the project not being undertaken (there will be a requirement of the governing body to demonstrate repayment),

4. to finance invest to save schemes e.g. energy efficiency investments which result in net annual savings after making the required loan repayments.

Outline features of the scheme.

- the maximum length over which schools may repay the loan is 3 years (i.e. reach at least a zero balance), where the loan is granted under 1 and 2 above, with longer periods available for items 3 and 4.,which will be determined on a case by case basis, linked to the expected useful life of the asset and the ability of individual schools to repay any loan.

- arrangement for a loan will only be agreed where the governing body produces a plan which demonstrates to the satisfaction of the Director of Children Young People and Learning and Borough Treasurer the savings or additional income required to repay the deficit within an agreed timescale,

- arrangement for a loan will only be agreed where the governing body agrees in writing that should the school convert to an academy, that the liability to fully repay any outstanding balance in accordance with the agreed loan schedule will be incorporated into the transfer arrangements to become the obligation of the new Academy body.

In general the minimum size of loans which may be agreed will be the lesser of the following:

Primary schools	£10,000
Special schools	£20,000
Secondary schools	£30,000

OR

For all types of school, 5% of the size of the budget share as determined by the authority.

In general the maximum size of loans which may be agreed will be the greater of the following:

Primary schools	£50,000
Special schools	£150,000
Secondary schools	£250,000

OR

For all types of school, 15% of the size of the budget share as determined by the authority.

- interest will be charged at 1% above the Council's cost of borrowing on the date on which the loan is advanced unless the authority agrees for it to be waived. The requirement to pay interest will be assessed on the merits of each individual application, and in general, loans under categories 1 and 2 above will not attract interest with loans under categories 3 and 4 likely to attract interest.

<u>Outline controls on loans</u>

- the maximum proportion of the collective balances held by the authority which will be used to support the arrangement shall not exceed 40%,

- the Director of Children Young People and Learning and the Borough Treasurer of the authority will make recommendations to the Schools Forum and Executive Member for Children, Young People and Learning to agree any loans and the terms on which they are offered.

The authority may request those schools operating external bank accounts to allow some or all of those balances to support the above arrangements.

Department for Education

Annex 3

Implementation of the changes to the criteria for agreeing loan schemes

Government consultation

Launch date 15 November 2017
Respond by 13 December 2017

Contents

Introduction

The Department for Education (the Department) ran a consultation from 24 March to 21 April 2017 to seek views on a proposed directed revision to local authorities' schemes for financing schools. Local authorities are required to publish schemes for financing schools setting out the financial relationship between them and the schools they maintain. The scheme for financing schools guidance lists the provisions that a local authority's scheme should or may include. We proposed to make a directed revision inserting new wording into local schemes and to make a related revision to section 8.1 of the Treatment of surplus and deficit balances when maintained schools become academies guidance note for schools and local authorities.

Overall, we received 75 responses to the initial consultation; the majority of the respondents did not agree with the two proposals:

1) Do you agree with the proposal to issue a directed revision to clarify the purpose of loan schemes?

2) Do you agree with the proposal to amend the guidance on the treatment of surpluses and deficits when a maintained school becomes an academy?

The highest proportion of responses received were from local authority representatives (71% of the total response). Out of the local authority responses 65% did not agree with proposal 1 and 71% did not agree with proposal 2. The majority of the responses we received focused on how the revisions might give maintained schools an incentive to run up deficits and using a loan is a way for local authorities to mitigate against this risk. We also received a high number of comments on how local authorities cannot be responsible for all deficits as the responsibility for spending decisions sits with individual schools.

These comments failed to take into account that it is a local authority's responsibility to ensure that a school is managed correctly and that the local authority has the power to intervene where it has concerns over the financial management of maintained schools. Where a local authority has highlighted a school at risk of falling into deficit, it can issue a notice of concern. These notices can be issued where actions need to be taken to safeguard the financial position of the school or the authority.

The notice can include restrictions, limitations or prohibitions on the governing body in relation to management of funds delegated to it. These may include:

- Insisting all relevant staff undertake appropriate training to address weaknesses in financial management
- Insisting an appropriately trained person chairs the finance committee of the governing body
- Placing more stringent restrictions on the day-to-day financial management of a school including the provision of monthly accounts to the authority
- Insisting on regular financial monitoring meetings at the school attended by the local authority

Further information on this can be found in section 2.15 of the schemes for financing schools guidance.

As a last resort, local authorities have the ability to completely withdraw financial delegation from maintained schools to prevent further deficits being incurred.

We also received many comments that were not substantially related to the proposals to make a directed revision to local authorities' schemes for financing schools to clarify purpose of loan schemes, for example on the treatment of sponsored academies and converter academies. We additionally received comments on how there should not be a financial advantage or disadvantage of being a maintained school or an academy.

The comments received do not change the Department's view that the proposals in the consultation are appropriate, and we do not intend to change the original proposals. Loans were only ever intended to be used to assist schools in spreading the costs over more than one year of large one-off individual items of a capital nature. A directed revision to local authorities' schemes for financing schools is needed to make this clearer and ensure consistent implementation. The responses that were in favour of the changes welcomed this clarification.

Other responses we received to the consultation raised some additional points and Ministers have agreed that it is necessary to launch an additional consultation to address the technical implication of the changes. The Department is now seeking views on how we will challenge breaches to the criteria for loan agreements and when the changes will come into force. We are also clarifying that we are proposing to make a directed revision to local authorities' schemes for financing schools. The revision to the criteria for agreeing loan schemes will not be applied retrospectively to existing loans when schools convert.

Who this is for

- Chief finance officers and finance officers at local authorities
- Governors and school leaders, particularly of maintained schools which are planning to convert to academies
- Chairs and clerks of schools forums
- Diocesan representatives
- Other interested parties

Issue date

The consultation was issued on 15 November 2017.

Enquiries

If your enquiry is related to the policy content of the consultation you can contact the team via email:

loanschemes.consultation@education.gov.uk

If your enquiry is related to the DfE e-consultation website or the consultation process in general, you can contact the DfE Ministerial and Public Communications Division by

email: Consultations.Coordinator@education.gov.uk or by telephone: 0370 000 2288 or via the DfE Contact us page.

Additional copies

Additional copies are available electronically and can be downloaded from GOV.UK DfE consultations.

The response

The results of the consultation and the Department's response will be published on GOV.UK in early 2018. This will include the full response to the original consultation.

About this consultation

This consultation document makes two proposals:

- that breaches of the criteria for loan agreements may be subject to a direction under Schedule 1 to the Academies Act 2010 that the loan will not transfer when schools affected convert to academies
- that the change to the criteria for agreeing loan schemes will come into force from the date of publication of the government response to this consultation

It is important to note that this document clarifies that we are proposing to make a directed revision to local authorities' schemes for financing schools. The document additionally clarifies that the changes will not be applied retrospectively to existing loans when schools convert.

We would like to hear your views on our proposal. In particular, please let us have any representations on any impacts you consider the proposals may have on protected characteristics.

Respond online

To help us analyse the responses please use the online system wherever possible. Visit www.education.gov.uk/consultations to submit your response.

Other ways to respond

If for exceptional reasons, you are unable to use the online system, for example because you use specialist accessibility software that is not compatible with the system, you may download a word document version of the form and email it or post it.

By email

- loanschemes.consultation@education.gov.uk

By post

AMSG: Funding Division
Level 5
Department for Education
2 St Pauls Place
Sheffield
S1 2JF

Deadline

The consultation closes on 13 December 2017.

Proposal 1 - How breaches to the criteria for loan agreements will be challenged

Background

Local authorities are required to have a scheme for financing schools, setting out the financial relationship they have with their maintained schools. We publish statutory guidance setting out the detail of what schemes should or may contain. This includes guidance for authorities about how to operate an internal loan scheme (section 4.10). The original purpose of loan schemes was to allow internal arrangements within the authority that would enable schools to spread the cost of large one-off individual items of a capital nature, over more than one year to make these more affordable. Loans were not intended as a means to support schools in general financial difficulty, as explained in section 4.9 of the guidance, local authorities should agree for a maintained school in financial difficulties to have a licensed deficit. As explained in the initial consultation we are aware that some authorities are now using, or considering using, loans in place of licensed deficits.

Proposal and rationale

We proposed to make a directed revision to local authorities' schemes for financing schools to clarify the purpose of loan schemes and distinguish them from licensed deficits. We consider that any loans made to fund a deficit of a school in general financial difficulty (and not to spread the cost over more than one year of large one-off individual items of capital expenditure) should not transfer to an academy on conversion. We are therefore proposing to put in place a process for determining what should happen to loans that have been made in breach of the loan scheme criteria.

Paragraph 13 of Schedule 1 of the Academies Act 2010 sets out what happens to land, property, rights and liabilities on the conversion of a maintained school. There is a presumption that loans will transfer to the person running the academy. However, we are proposing to use powers the Secretary of State has under paragraph 13(4)(d). These enable her to make a direction to the effect that a loan does not transfer in individual cases. We propose making use of this power in cases where loans have been made in breach of the directed revision that we are making to schemes. We propose to create a new approach whereby each decision will be considered carefully and on a case-by-case basis, taking into account the purpose of the loan and the extent to which it is compliant with the revised guidance. Local authorities and converting schools would then be specifically notified as part of the conversion process where a loan was not going to transfer. We would welcome views on how this process should operate.

The current guidance for schemes for financing schools states:

4.10 Loan schemes

It is open to an authority to include in its scheme a form of loan arrangement for schools which does not operate by way of a licensed deficit but rather by way of actual payments to schools or expenditure by the authority in respect of a particular school on condition that a corresponding sum is repaid from the budget share. If so, the same

parameters for the arrangement should appear in the scheme as listed at 4.9 above for licensed deficits.

Again, an authority may wish to invite schools with balances in external accounts to use some or all of those balances to back a loan scheme, and the scheme should make clear on what basis this would occur.

If there is a loans scheme on this basis the authority must show in its budget statements the amount centrally retained for what would be a devolved payment to schools, and the payment should appear in the out-turn statements.

We propose making a directed revision to all local authorities' schemes, inserting the new wording:

"Loans will only be used to assist schools in spreading the cost over more than one year of large one-off individual items of a capital nature that have a benefit to the school lasting more than one financial or academic year. Loans will not be used as a means of funding a deficit that has arisen because a school's recurrent costs exceed its current income. If loans are made to fund a deficit, the Secretary of State will consider using the power under paragraph 13(4)(d) of Schedule 1 to the Academies Act 2010 to make a direction to the effect that such a loan does not transfer in individual cases.

Proposal 2 - When the changes to the criteria will come into force and how these changes will be applied retrospectively

Background

We have published guidance on the treatment of surpluses and deficits when a maintained school becomes an academy. The guidance includes our expectation that an academy will continue to repay loans made by the local authority to its predecessor maintained school under an internal scheme. During the initial consultation, a number of respondents raised questions about the proposed timing of the change to the definition of loans. Questions were raised about whether the change would be retrospective and so apply to loan arrangements that are already in place.

Proposal and rationale

The changes to the criteria for agreeing loan schemes will not be applied retrospectively to loans that are already in place. We are now seeking views on when the changes to the criteria for agreeing loans schemes will come into force. We are proposing that this should be from the date of the publication of the government response to this consultation. Where a maintained school converts to an academy, it would be our expectation that the academy will only continue to repay the loans agreed between the local authority and its predecessor maintained school under an internal scheme if any loans agreed after the publication date of the government response meet the definition below.

'to assist the school in spreading the cost over more than one year for a large one-off individual item of capital nature that has had/will have, a benefit to the school lasting more than one financial year'

Paragraph 8.1 of the guidance currently states:

"The Department would expect that the liability to repay a loan made by the LA to a maintained school (which is technically an advance of funding from the LA) would normally transfer to the academy, which would continue repayments from its revenue budget on the previously agreed schedule, unless the LA and school agree to liquidate the loan and pay it off at the point of transfer. The transfer of responsibility for the loan should be reflected in a legal agreement between the LA and the AT, either by amending the Commercial Transfer Agreement (CTA) or in a separate agreement. Any current loan repayments a maintained school has to make will need to be checked for their affordability alongside the repayment of any deficit at the point of conversion. The Department will not recognise as a loan any arrangement that is agreed between the LA and a maintained school after the governing body or IEB has made an application to become a sponsored academy or after the school becomes eligible for intervention by the SoS, unless the AT sponsoring the academy has agreed to take on the liability."

We propose adding to paragraph 8.1:

"The Department will also not recognise as a loan any sum that has been provided in order to fund a deficit that has arisen because a school's recurrent costs exceed its current income and where this has been agreed or an existing loan arrangement was revised on or after [PUBLICATION DATE]."

Consultation questions

Proposal 1 - Do you agree with the proposal to create a new process for loans made in breach of the loan scheme criteria?

Proposal 2 - Do you agree with the proposal for when the changes to the criteria for agreeing loans will come into force?

Department for Education

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Annex D

Summary school loan agreements

School	Loan No.	Previously Agreed £	2017-18 New Proposals £	2018-19 £	2019-20 £	Total £
Advances in year						
Birch Hill	1	30,000	0	0	0	30,000
Wildmoor Heath	1	15,000	0	0	0	15,000
Wildmoor Heath	2	15,000	0	0	0	15,000
Wildmoor Heath	3	0	40,000	0	0	40,000
Great Hollands	1	25,000	5,000	0	0	30,000
Ascot Heath Infant	1	0	20,000	0	0	20,000
Easthampstead Park	1	250,000	0	0	0	250,000
Easthampstead Park	2	200,000	250,000	0	0	450,000
Sandhurst	1	75,000	0	0	0	75,000
Sandhurst	2	240,000	0	0	0	240,000
Total		850,000	315,000	0	0	1,165,000
Repayments in year						
Birch Hill	1	0	-10,000	-10,000	-10,000	-30,000
Wildmoor Heath	1	-15,000	0	0	0	-15,000
Wildmoor Heath	2	0	-7,000	-8,000	0	-15,000
Wildmoor Heath	3	0	0	-25,000	-15,000	-40,000
Great Hollands	1	0	-30,000	0	0	-30,000
Ascot Heath Infant	1	0	0	-20,000	0	-20,000
Easthampstead Park	1	-250,000	0	0	0	-250,000
Easthampstead Park	2	0	0	-40,000	-410,000	-450,000
Sandhurst	1	-57,600	-17,400	0	0	-75,000
Sandhurst	2	0	-50,000	-140,000	-50,000	-240,000
Total		-322,600	-114,400	-243,000	-485,000	-1,165,000
Closing balance outstanding						
Birch Hill	1	30,000	-10,000	10,000	0	0
Wildmoor Heath	1	0	0	0	0	0
Wildmoor Heath	2	15,000	-7,000	0	0	0
Wildmoor Heath	3	0	40,000	15,000	0	0
Great Hollands	1	25,000	-25,000	0	0	0
Ascot Heath Infant	1	0	20,000	0	0	0
Easthampstead Park	1	0	0	0	0	0
Easthampstead Park	2	200,000	250,000	410,000	0	0
Sandhurst	1	17,400	-17,400	0	0	0
Sandhurst	2	240,000	-50,000	50,000	0	0
Total		527,400	200,600	485,000	0	0
		728,000				

Annex E

School Balances as at 31 March 2017

School	2016-17 Budget (excluding balance due on loan advances)	Balance at 31 March 2017	Percentage of total Budget
Ascot Heath Infant	£747,633	£16,631	2.22%
Ascot Heath CE Junior	£868,351	-£21,881	-2.52%
Binfield CE Primary	£1,368,474	-£3,226	-0.24%
Birch Hill Primary	£1,477,649	£21,603	1.46%
College Town Infant & Nursery	£918,003	-£47,706	-5.20%
College Town Junior	£906,125	-£1,857	-0.20%
Cranbourne Primary	£753,793	£10,633	1.41%
Crowthorne CE Primary	£797,681	-£12,114	-1.52%
Fox Hill Primary	£877,785	-£52,958	-6.03%
Harmanswater Primary	£2,244,102	-£340,467	-15.17%
Holly Spring Infant	£1,140,539	-£104,745	-9.18%
Holly Spring Junior	£1,182,736	-£114,403	-9.67%
Meadow Vale Primary	£2,208,574	-£210,197	-9.52%
New Scotland Hill Primary	£815,988	-£27,854	-3.41%
Owlsmoor Primary	£1,838,725	-£11,631	-0.63%
The Pines School	£1,076,763	-£137,755	-12.79%
Sandy Lane Primary	£2,130,335	-£292,020	-13.71%
St Joseph's Catholic Primary	£793,629	-£54,009	-6.81%
Winkfield St Mary's CE Primary	£772,388	£11,035	1.43%
St Michaels Easthampstead	£883,718	-£39,650	-4.49%
St Michaels CE Primary, Sandhurst	£706,242	£3,762	0.53%
Uplands Primary	£867,246	-£51,356	-5.92%
Warfield CE Primary	£1,161,443	£19,701	1.70%
Whitegrove Primary	£1,493,851	-£142,747	-9.56%
Wildridings Primary	£1,493,484	-£66,983	-4.49%
Woodenhill Primary & Nursery	£1,357,021	-£111,350	-8.21%
College Hall PRU	£761,000	-£51,385	-6.75%
Easthampstead Park	£4,628,094	£40,638	0.88%
The Garth Hill	£8,445,714	-£198,852	-2.35%
Sandhurst	£4,729,797	£308,761	6.53%
Kennel Lane	£3,662,427	-£46,096	-1.26%
Total	£53,109,310	-£1,708,478	-3.22%

Assumes 20% reduction in balances to 31 March 2018	£341,696
Add estimated unallocated balance on Schools Budget Reserve	-£1,112,000
Available for supporting loans	-£2,478,782
Available amount to support deficits with 40% cap	-£991,513