

PRUDENTIAL BORROWING REQUEST - STOCKPORT SCHOOL

Report of the Corporate Director for People

1. INTRODUCTION AND PURPOSE OF REPORT

- 1.1 To seek approval of request from Stockport School for a £0.659m Prudential Borrowing loan to finance their contribution towards the cost of a joint Local Authority (LA)/School capital scheme.

2. SCHEME

- 2.1 The LA as part of its overall capital investment program has a scheme ear-marked for Stockport School estimated at £6.5m. The scheme will address urgent and key health and safety issues and other conditional aspects of the school building, including:

- Heating;
- Re-wiring;
- Roofing;
- Fire alarm; and
- Capacity issues (i.e. replacement of current temporary mobile classrooms now condemned and to be replaced with 4 classrooms)

- 2.2 The capital scheme planned is vital and is planned to ensure the future viability of the building and usage as a school, serving its local population for the next 30+ years and avoid partial of, or potentially worse, full closure of school due to failing/faulty and/or dangerous, condemned electrics, roofing, fire alarms and capacity problems.

- 2.3 The school is popular, over sub-scribed and very successful and the scheme is crucial to maintain the local provision and meet parent demand.

- 2.4 As with all education capital schemes the school is expected to make an agreeable contribution to the overall costs as per the criteria applied by the LA. In this case the first £10,000 plus 10% of the remaining cost. (i.e. £10,000 + £10% of £6.49m).

In this particular project the school is also keen to extend the project to replace a further four temporary mobile classrooms on site.

- 2.5 The extension of the scheme to replace a further four mobile classrooms is supported by the LA and is cost effective, practical and efficient use of available resources to link up with the original planned scheme. This increases the total scheme costs to £6.99m with a school contribution at £0.659m. The 4 additional classrooms will be fully funded from basic need. A report was recently presented to the Capital Board (13.2.2020) who duly approved the additional classrooms and basic need further financing at £0.449m.

3. PRUDENTIAL BORROWING

3.1 School governing bodies are only permitted to borrow money with the written consent of the Secretary of State; however all schools are permitted to seek to borrow money, to finance a capital scheme to acquire/enhance assets via a prudential borrowing scheme operated by the LA as outlined and governed by the Scheme for Financing Schools document (section 4.6).

A full copy of the LA prudential borrowing scheme is provided at **Appendix 1**.

3.2 All School applications are assessed on an individual basis by the schools finance team, who liaise with key internal colleagues (i.e. school organisation, estate management, etc.) to ensure all key controls, processes and management of project are in line with LA policy. Each school application must demonstrate that the school project is affordable, achievable and sustainable.

3.3 School position:

The school is an 8 form of entry (PAN 240 per year group), total school population as at October 2019 1,233 pupils and receives an annual delegated school budget share at c. £6.4m (after de-delegation).

£0.659m loan request equates to 0.1% of annual delegated budget share.

£0.659m loan over a 30 year period is charged at an annual repayment of c. £0.034m p.a.

The school currently has another PB loan in relation to an old scheme with annual repayments at £0.031m p.a. and due to end in 2023/24 financial year. The above new proposed scheme would not be completed until 2021/22 and under current PB loan arrangements, repayments begin in the following financial year and thus the school would only have two years where old and new repayments would overlap totalling c. £0.065m.

The school has provided a five year medium term financial plan based on a pupil population of 1,250 and utilising the current funding levels minimum guarantee at £5,000 per pupil as per the Schools Funding Announcement autumn 2019 / current 2020/21 financial year baseline.

A summary is provided at **Appendix 2**

Key budgetary controls/measures the school have outlined for implementation to ensure a sustainable budget position include:

- General 2% pay uplift for teachers;
- Energy efficiency savings from the project;
- Increased lettings income in years 4 & 5;
- Estimated staff retirements; and
- Adjusted staff contracts relating to maternity leave.

3.4 LA support/Recommendation

The LA is supportive of the school prudential borrowing application in relation to this project due to the following reasons:

- Necessity of the school scheme (i.e. health and safety);

- School engagement and enhancement of scheme;
- Popular school, over-subscribed and only High School in central location;
- Borrowing equates to 0.1% of delegated budget share;
- School budget plan (affordable, sustainable and manageable); and
- Scheme for Financing schools document and governance arrangements allow for direct charge to school budget or transfer of debt if any Academy status explored/implemented in future.

4. SUMMARY

- 4.1 The LA has Stockport School ear-marked for a substantial capital scheme covering a range of issues including; heating, re-wiring, roofing and capacity.
- 4.2 The total cost of the capital scheme (including school enhancements) is £6.5m with a school contribution agreed at up to £0.659m; of which the latter the school are seeking to finance via a prudential borrowing loan from the LA.
- 4.3 Schools are permitted to borrow money from a LA prudential borrowing scheme (Appendix 1) to finance the costs of acquiring/enhancing assets as prescribed and governed by the Scheme for Financing Schools document (section 4.6).
- 4.4 The Schools application, financial position and other related information has been checked and validated by Schools Finance in liaison with other internal colleagues and the prudential borrowing request is supported.

5. RECOMMENDATION

- 5.1 The Cabinet are asked to:
- a) Support the school application for a prudential borrowing loan at £0.659m

Appendices:

Appendix 1	Local Authority Prudential Borrowing Scheme document
Appendix 2	Stockport School medium term financial plan

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Peter Hughes on Tel: 0161 474 3947 or by email on peter.hughes@stockport.gov.uk

Prudential Borrowing Scheme – Guidance for Schools **(Effective 1st April 2016)**

1.0. Introduction

- 1.1 These procedures have been developed to provide clear guidelines to schools when seeking to borrow funds from the council to acquire capital assets.

2.0. What applications will be considered?

- 2.1. Applications will only be considered for expenditure on the acquisition, creation or enhancement of assets that can be capitalised (subject to a de minimis level) providing that it will yield benefit to the Council and services it provides for a period of more than one year for example improvements to land and buildings, computer hardware, furniture and equipment.
- 2.2 Applications can't be considered for assets with a capital cost/purchase price less than £10k¹ unless it is part of one large scheme where the total costs will exceed £10k.
- 2.3 In all cases, schools will be required to complete a business case and demonstrate that the proposal is affordable, achievable and sustainable.
- 2.4 Applications will only be considered for projects, which have received the formal approval of the schools' Governing Body. A copy of the resolution should be enclosed with the completed application form. Applications can be submitted and considered in advance of this with signatures of the Headteacher and Chair of the Governing Body.
- 2.5 All applications must in the first instance be submitted to the Schools Finance Team.

3.0. How are the annual repayments calculated and repayments made?

- 3.1 The annual repayment cost will be calculated on an annuity basis over the operational life of the asset. The interest rate will be the Public Works Loan Board annuity rate plus 0.25% on the date the application is approved. (See Annex 1 for an example).
- 3.2 No charge will be made in the year of acquisition.
- 3.3 Schools can opt to pay principal for a part year charge in the year of purchase to reduce the overall cost to the service.

¹ This figure is based on the Council's level for de minimis capital expenditure, which is subject to annual review.

- 3.4 The principal outstanding and interest accrued to date can be repaid in full at any time throughout the life of the loan up until the final year.
- 3.5 Schools will be charged for repayments via a journal transfer, early in the Autumn term in the year following the date the loan has been agreed, and each subsequent year until the loan is repaid in full. The charge will be included within an automatic file transfer (AFT).
- 3.6 As the Local Authority finances the capital expenditure in totality, Schools cannot use Devolved Formula Capital (DFC) for prudential borrowing repayments. Any schools that wish to use DFC should request a lower loan in the first instance with a view to financing part of the total cost of the project with DFC.

4.0. Conditions of the scheme

- 4.1 Repayments must be made immediately on receipt of request for payment or further interest becomes chargeable and the full balance of the loan plus interest to the end of the agreed term may become immediately payable.
- 4.2 Funding must be used for the purpose for which the application was made otherwise the full balance plus interest accrued to date will become immediately payable.
- 4.3 The level of schools prudential borrowing is no longer subject to restriction and will be assessed based on the business case provided. As a guideline however, the Local Authority will look very closely at Schools that are proposing to earmark more than 5% of their revenue budget (Excluding Pupil Premium) to service borrowing charges.
- 4.4 The Local Authority will rigorously test each business case and schools will not be permitted to borrow beyond the useful life of the asset being acquired / enhanced as defined by the Council's accounting policies. In addition, where proposals affect the property estate they will be referred to the School Organisation team for endorsement as part of the evaluation.
- 4.5 The schools financial position including previous years closing balance, current years' budget plan and outstanding debts will be considered in the evaluation.
- 4.6 Schools must adhere to any Local Authority guidance to ensure the scheme complies with construction design and management regulations, health and safety requirements and has "landlords" approval to undertake works.
- 4.7 The Local Authority retains the right to refuse any application based on
- (i) The Council's Treasury Management Strategy and compliance with the Prudential Code, which aims to ensure that capital investment plans are affordable, prudent and sustainable.
 - (ii) The proposal not being in line with Education asset management objectives.
- 4.8 On all schemes over £0.250m, Schools are required to prepare a brief report to inform the Local Authority of completion of works and any matters arising.

- 4.9 Internal audit will review compliance with the conditions of the prudential borrowing scheme as part of their routine programme of school visits.
- 4.10 It should be noted the Council will demand repayment of the prudential borrowing in full before a maintained school converts to academy status, unless the Council agrees to renegotiate the terms of the loan.

5.0 Sources of information

- 5.1 In all circumstances schools are advised to contact the Council's Technical and Exchequer team for advice and indicative rates.
- 5.2 On behalf of the Borough Treasurer, the Technical and Exchequer Team will
- (i) Calculate the total cost and annual cost of the loan.
 - (ii) Undertake modelling to assist with decision making for example the cost of different options.
 - (iii) Provide assistance completing the application form.

6.0 How are schemes approved?

- 6.1 All applications will be reviewed in the first instance by the Schools Finance Team to assess against the scheme conditions. Schools Finance Team will liaise with School Organisation as appropriate. The scheme of delegation for the approval of schemes is

<=£0.100m	Corporate Directors, Services to People and Borough Treasurer
> £0.100m <= £0.250m	Executive Councillors Policy, Finance and Devolution and Education in conjunction with the Corporate Directors, Services to People and the Borough Treasurer
>= £0.250m	Council Executive

- 6.2. For schemes >= £0.250m Schools Finance Team will prepare a brief Executive Report with the recommendation.

- 6.3. The approximate timeline from the receipt of any applications through to approval is typically:

<=£0.100m	1-3 weeks
> £0.100m <= £0.250m	3-6 weeks
>= £0.250m	8 – 10 weeks

Illustration of Repayments

Purchase price	£30,000
Life of asset	5 years
Interest rate	1.67%
Date of purchase (2012/13)	1 st June 2012
Annual Charge	*£6,303.92
Total Cost	£31,519.59

Financial Year	Annual Repayment £
2013/14	6,303.92
2014/15	6,303.92
2015/16	6,303.92
2016/17	6,303.92
2017/18	6,303.91
Total	31,519.59

* Final year £6,303.91

Appendix 2

STOCKPORT SCHOOL - CFR Report						
Income						
CFR	Detail	2019 - 20	2020 - 21	2021 - 22	2022 - 23	2023 - 24
I01	Funds Delegated by the LA	6,179,525	6,595,461	6,714,180	6,833,514	6,854,975
I02	Funding for Sixth Form Students	0	0	0	0	0
I03	SEN Funding	97,134	93,000	93,000	93,000	93,000
I04	Funding for Minority Ethnic Pupils	0	0	0	0	0
I05	Pupil Premium	326,485	326,485	321,485	316,485	316,485
I06	Other Government Grants	20,500	20,500	20,500	20,500	20,500
I07	Other Grants and Payments	2,000	2,000	2,000	2,000	2,000
I08a	Income from Lettings	30,000	30,000	30,000	40,000	40,000
I08b	Other income from facilities and services	79,698	79,698	79,698	79,698	79,698
I09	Income from Catering	261,100	261,100	261,100	261,100	261,100
I10	Supply Teacher Insurance Claims	0	0	0	0	0
I11	Other Insurance Claims	0	0	0	0	0
I12	Contributions to Educational Visits	0	0	0	0	0
I13	Donations and/or Voluntary Funds	20,000	20,000	20,000	20,000	20,000
I14	Blank Code	0	0	0	0	0
I15	Pupil Ext Sch Funding and/or Grants	0	0	0	0	0
I16	Community Focused Funding and/or Grants	0	0	0	0	0
I17	Community Focused Facilities Income	0	0	0	0	0
I18	Additional Grant for Schools	13,200	13,200	13,200	13,200	13,200
Income Revenue Total		7,029,642	7,441,444	7,555,163	7,679,497	7,700,958
Expenditure						
CFR	Detail	2019 - 20	2020 - 21	2021 - 22	2022 - 23	2023 - 24
E01	Teaching Staff	4,174,331	4,477,068	4,636,857	4,805,990	4,966,011
E02	Supply Teaching Staff	0	0	0	0	0
E03	Education Support Staff	717,408	712,424	695,487	687,417	691,472
E04	Premises Staff	222,712	217,666	218,255	218,855	219,467
E05	Administrative Staff	441,424	478,514	459,744	461,220	462,730
E06	Catering Staff	113,181	119,171	119,171	119,171	119,171
E07	Other Staff	44,517	44,517	44,517	44,517	44,517
E08	Indirect Employee Expenses	35,920	38,829	37,274	39,868	38,475
E09	Development and Training	20,450	18,500	18,500	18,500	18,500
E10	Supply Teacher Insurance	12,000	12,000	12,000	12,000	12,000
E11	Other Staff Related Insurance	0	0	0	0	0
E12	Building Maintenance and Improvement	85,384	53,200	49,700	47,700	47,700
E13	Grounds Maintenance and Improvement	11,750	8,335	8,335	8,335	8,335
E14	Cleaning and Caretaking	5,300	4,400	5,300	4,400	5,300
E15	Water and Sewerage	128,000	75,000	75,000	75,000	75,000
E16	Energy	110,000	100,000	95,500	91,000	91,000
E17	Rates	119,129	119,129	119,129	119,129	119,129
E18	Other Occupation Costs	24,965	24,233	24,233	21,903	21,903
E19	Learning Resources (not ICT)	234,124	231,253	231,253	231,253	231,253
E20	ICT Learning Resources	31,923	31,742	31,742	31,742	31,742
E21	Exam Fees	91,000	91,000	91,000	91,000	91,000
E22	Administrative Supplies	47,150	48,050	48,050	48,050	48,050
E23	Other Insurance Costs	30,427	30,427	30,427	30,427	30,427
E24	Special Facilities	0	0	0	0	0
E25	Catering Supplies	171,400	170,000	170,000	170,000	170,000
E26	Agency Supply Teaching Staff	78,000	50,000	50,000	50,000	50,000
E27	Bought in Prof Services - Curric	104,757	98,257	98,907	98,907	98,907
E28a	Bought in professional services – other (except PFI)	84,091	64,091	64,091	64,091	64,091
E28b	Bought in professional services – other (PFI)	0	0	0	0	0
E29	Loan Interest	0	0	0	0	0
E30	Revenue Contributions to Capital	30,685	30,685	30,685	65,145	65,145
E31	Community Focused School Staff	0	0	0	0	0
E32	Community Focused School Costs	0	0	0	0	0
Expenditure Revenue Total		7,170,029	7,348,493	7,465,157	7,655,621	7,821,326
In Year Surplus / (Deficit)		-140,387	92,951	90,006	23,876	-120,368
Surplus / (Deficit) Brought Fwd		330,741	190,354	283,305	373,311	397,188
Cumulative Surplus / (Deficit) C/Fwd		190,354	283,305	373,311	397,188	276,820