# Schools Entering into Credit Facilities

Under the *Education and Training Reform Act 2006* (ETRA), schools are prohibited to enter into credit facilities without Ministerial approval.

These FAQs provide general guidance only to assist in determining what can and cannot be done, and clearly outline differences between a credit arrangement and normal terms of trade.

For further advice or support regarding your school please contact Financial Services Division [schools.finance.support@education.vic.gov.au](mailto:schools.finance.support@education.vic.gov.au).

## Frequently Asked Questions

### What is a credit facility?

A credit facility is typically a type of loan made by a financial institution, such as a bank. A credit facility can also be an arrangement that allows customers to buy goods on credit. That is, the customer can obtain goods or services before payment, based on the trust that payment will occur in the future.

### Why can’t a school enter into a credit facility?

Under the ETRA, schools are prohibited to enter into credit facilities without Ministerial approval. It is therefore strongly recommended that schools do not sign credit applications.

There are two common issues with credit applications:

1. Guarantor requests. Applications frequently request that the individual signing the application fill in their personal details for the purpose of acting as a ‘guarantor’. Under no circumstances should you complete this section as it can make an individual personally liable under the contract
2. Security. Applications frequently state that the supplier can register a personal property security over the goods purchased. Again, under no circumstances should you agree to this as it is in breach of the ETRA for a school council to grant security over its property.

Rather, Legal Division advises schools to use the Department’s [Template Agreement for the Supply of Goods.](https://edugate.eduweb.vic.gov.au/Services/legal/Intranet%20templates/School%20Council%20Agreement%20for%20the%20Supply%20of%20Goods.docx) This Agreement is drafted with the school in mind and contains necessary protections around indemnities, termination rights and insurance etc.

Additionally, Section 2 of the Finance Manual for Victorian Government Schools, specifically reference 2.2.2.1, states that a school council does not have the power to obtain loan or credit facilities.

### My school has already entered into a credit facility – what do I do now?

Read the terms and conditions of the agreement and seek advice from Legal Division ([legal.services@education.vic.gov.au](mailto:legal.services@education.vic.gov.au)) about what to do next. They will be able to provide some assistance in how to terminate the arrangement or mitigate the risks.

### How can I purchase goods and avoid entering into a credit facility?

A school purchasing card can be used as an alternative to creating a credit facility. For example, rather than creating an account with Coles that you settle monthly for the purchase of food, you can organise for a staff member with a school purchasing card to make those purchases. Please note that all normal [schools’ procurement](https://www2.education.vic.gov.au/pal/procurement-in-schools/policy) and purchasing policies still apply.

### Can my school have a store account with a supplier?

You must be familiar with any terms and conditions related to having an account with a supplier. Schools should not have cards registered in an individual’s name. Schools should check the Terms & Conditions for words similar to “credit facility” or “credit limit”, and whether there is a default which gives the company rights over school property. It is recommended to provide the [DET Terms and Conditions](https://edugate.eduweb.vic.gov.au/Services/legal/Intranet%20templates/School%20Council%20Purchase%20Order%20Terms%20and%20Conditions%20-%20Goods%20and%20Services%20up%20to%20%242%2C500.DOCX) together with the application.

Generally, if the supplier asks for an individual (rather than the school) to be a guarantor or to register assets as security, then it is prohibited for the school to create an account with that supplier.

If the account does not have these obligations attached to it, then it may be acceptable for a school to enter this arrangement.

The Department understands that having an account with local suppliers for easy access to goods that may be needed in classroom is convenient, but schools need to be aware of any potential risks. As such, schools are advised to seek advice from Legal Division to ensure all risks are mitigated and appropriate protections are in place.