

Portfolio Holder Decisions/Leader Decisions

Date: Wednesday 10 February 2021
Time: 12.00 pm

Membership

Councillor Isobel Seccombe OBE

Items on the agenda: -

1. **Coronavirus Business Interruption Loan Scheme - Further WCC Loan**

3 - 8

Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

Disclaimers

Disclosures of Pecuniary and Non-Pecuniary Interests

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the Code of Conduct.

These should be declared at the commencement of the meeting

The public reports referred to are available on the Warwickshire Web

<https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1>

Public Speaking

Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Democratic Services in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

**Decision to be made by the Leader of the Council on or
after Wednesday 10th February 2021**

**Coronavirus Business Interruption Loan Scheme –
Additional WCC Support**

Lead Member	Cllr Seccombe
Date of decision	
	Signed

Decision taken

That the Leader of the Council:

- Approves the County Council entering into a loan agreement with Coventry and Warwickshire Reinvestment Trust Limited (CWRT) in order to support the extension of the Government's Coronavirus Business Loan Interruption Scheme (CBILS) in Warwickshire.
- Approves the County Council entering into a further loan agreement with CWRT to support the extension of the CBILS scheme in Warwickshire in the event additional funding becomes available.
- Authorises the Strategic Director for Communities to negotiate, and enter into, all relevant agreements on terms and conditions acceptable to the Strategic Director for Resources.

Reasons for decisions

The decisions are required in order to make a further £0.5 million available to help meet demand for CBILS loans from Warwickshire businesses. Approval is also sought to enter into a further agreement with CWRT in the event additional Council funding becomes available to support CBILS in Warwickshire between now and when the scheme closes to new applications.

1.0 & 2.0 Background information

1.0 Key Issues

- 1.1 The Coronavirus Business Interruption Loan Scheme (CBILS) is a key part of the package of support put in place by Government to support smaller businesses affected by Covid-19. It is delivered through over 100 commercial lenders, backed by the Government-owned British Business Bank. The Government provides accredited lenders with a guarantee of up to 80% of each loan (subject to an agreed annual lending cap). The Government also makes a Business Interruption Payment to cover the first 12 months of interest payments and any lender fees.
- 1.2 CBILS was due to finish at the end of December (after two previous extensions). However, the Government announced on 17th December 2020 that the scheme would be extended until 31st March 2021.
- 1.3 The major banks and other mainstream providers have provided the large majority of finance under the scheme. However, smaller specialist local lenders have also helped meet demand from businesses.
- 1.4 In April 2020, the Council agreed to make available a loan of up to £1 million to Coventry and Warwickshire Reinvestment Trust (CWRT) – a not-for-profit, FCA accredited specialist finance provider set up to fill gaps in mainstream lending in Coventry and Warwickshire – in order to increase the delivery of the CBILS in Warwickshire.
- 1.5 The May 2020 loan from the Council has formed part of a package of sub-regional funding. The Council was followed by Nuneaton and Bedworth Borough Council, Rugby Borough Council, Warwick District Council, Coventry City Council (CCC) and Coventry & Warwickshire Local Enterprise Partnership (CWLEP) in making funding available to CWRT. In November 2020, the Council entered into a second loan agreement with CWRT for £1 million of CWLEP funding.
- 1.6 CWRT have now allocated the Council, District & Borough and CWLEP funding in full as well as their own available funding. A total of £2.724 million has been lent to 25 businesses in Warwickshire, safeguarding 248 jobs with over a further 151 new jobs expected to be created. However, CWRT are continuing to see significant demand from Warwickshire businesses for CBILS loans. There is currently a pipeline of enquiries and applications worth nearly £2 million from businesses based in the county.
- 1.7 A further £0.5 million loan from the Council will allow CWRT to support a further seven businesses in Warwickshire, safeguarding a further 70 jobs. The loan will be used to support otherwise viable small businesses who have been unable to secure sufficient (or any) finance from their bank or other mainstream lenders. Priority will continue to be given to businesses with 5-49 employees in order to maximise impact.
- 1.8 The loan will be secured using the same security package as previous loans from the Council to CWRT: an all-encompassing debenture and a deed of assignment

covering the loan book created by CWRT using the loan. These documents were prepared following a lengthy due diligence process during the establishment of the Duplex Fund and they are being used effectively for other Council loans including the two CBILS loans to-date. The Council was also advised on Duplex by an external banking law specialist at the law firm Browne Jacobson.

1.9 Lending in the current Covid-19 crisis would normally represent a high risk for the Council. However, this is mitigated by the Government guarantee to accredited CBILS lenders. The Government is providing CBILS lenders with a guarantee of up to 80% of each loan subject to an agreed annual lending cap. CWRT, for their part, can claim up to 80% of the outstanding capital balance on any bad debts (after exhausting all opportunities to obtain the funds from the borrower (i.e. credit control, using the security secured against the loan)) against an agreed annual lending cap for 2020-2021 of £7 million. The amount that could be claimed was previously subject to an annual cap of 60% of all lending, however, this cap was recently removed by the British Business Bank as part of a number of changes to the CBILS scheme. The British Business Bank has also confirmed this change applies retrospectively to all loans offered since 23rd March 2020. The Council's loan agreement with CWRT will, again, require that all associated payments from Government are used in the first instance to repay the respective Council loans.

1.10 The risk is also mitigated by CWRT's Lending Policy (which was reviewed by the British Business Bank on behalf of Government as part of the approval process to become a CBILS lender) and their FCA accreditation. CBILS lenders are under no obligation to support a business despite the Government guarantee. CWRT, for their part, normally only fund low risk businesses and some medium ones subject to the security available. CWRT are also FCA regulated which requires them to minimise default rates across their whole loan book.

2.0 Options and Proposal

2.1 Option 1: Do nothing – The Council could now do nothing further and hope that lending from other CBILS lenders will meet the demand from small businesses in Warwickshire. However, this is considered highly unlikely. CWRT have seen high demand for their lending (as have all CBILS lenders) and the businesses which make up the £2 million pipeline described in 1.6 have already approached their bank or other CBILS lenders.

2.2 Option 2: Council enters into the loan agreement with CWRT and uses £350,000 of Covid-19 grant funding from Government to further mitigate against the financial risk of default – This would quickly make available additional funding to CWRT in order to help meet the demand from Warwickshire businesses for CBILS loans. The loan will be secured, and the Government is providing CWRT with a guarantee of up to 80% of any bad loans subject to an agreed annual lending cap. This cap is sufficient to cover the three Council loans and all other loans being made by CWRT under CBILS.

Option 2 is recommended. It makes additional funding available quickly whilst protecting the medium-term financial sustainability of the County Council.

3.0 Financial implications

- 3.1 The £0.5 million loan to CWRT would be a non-treasury management investment i.e. a loan made for a service rather than a treasury management purpose. Under the Treasury Management/ Investment Strategy all such loans normally require approval by full Council following consideration of a business case on a case-by-case basis. Given the need for a prompt decision and under current circumstances, this approval is being sought as an Urgent Leader decision.
- 3.2 The Council has sufficient cash balances to make this loan without impacting on other activity. Interest will be charged at a rate sufficient to ensure that there is no financial cost to the Authority.
- 3.3 However, as with any loan, the decision brings with it an element of financial risk. The financial impact of any defaults on the loans made by CWRT will initially be met by the Government's CBILS guarantee and then by CWRT itself. However, if these are much higher than the 10% assumed in the modelling (after the CBILS guarantee), it could call into question the ability of CWRT to make the agreed repayments to the Council and/ or undermine the financial sustainability of CWRT itself.
- 3.4 It is intended that CWRT will be charged interest at the same rate as the Council's previous CBILS loans [1.5% above base]. The Council must lend in line with the new UK subsidy control regime which has replaced European State Aid rules.
- 3.5 The maximum financial risk to the Council, across the two Council funded loans is assumed to be £350,000 on the basis of the Government guaranteed monies being paid by CWRT to WCC, reflecting 20% maximum default (after the Government guarantee) and loss of interest. Any financial loss will only crystallise over the five-year period of the loan.
- 3.6 The agreement with Coventry City Council (CCC) for the CWLEP funded loan only requires the Council (in addition to the requirement to enter into a loan agreement with CWRT) to repay the income or sums actually received from CWRT by way of repayment of the loan and the proceeds of any associated Government guarantee as well as any related interest paid to the Council. Therefore, the only financial risk to the Council from this loan is an unlikely breach or negligent performance or non-performance of the agreement with CCC.
- 3.7 At the end of each financial year accounting standards require an assessment to be made as to whether any of the £1.5 million of Council funded loans to CWRT is at risk of not being repaid. If any shortfall is identified, it will need to be charged to revenue at that point. Monitoring arrangements will be put in place with CWRT to allow this assessment to be made and, if it does materialise, resources will need to be identified to meet the cost. It is, therefore, proposed that £350,000 of Covid-19 grant funding received from Government is set aside as a provision against the potential financial loss. The provision would cover the Council's financial risk exposure.

- 3.8 It is possible that additional Council funding could become available to support CBILS in Warwickshire between now and when the scheme closes to new applications. Approval is, therefore, sought to enter into a further agreement with CWRT on equivalent loan terms and conditions in the event that Corporate Board identifies any such funding.

4.0 Environmental implications

None

Report Author	Matthew Epps matthewepps@warwickshire.gov.uk
Assistant Director	Dave Ayton-Hill
Lead Director	Mark Ryder
Lead Member	Leader of the Council

Urgent matter?	No
Confidential or exempt?	No
Is the decision contrary to the budget and policy framework?	No

Lists of reports considered

N/A

List of background papers

None

Members and officers consulted and informed

Portfolio Holder – Councillor Izzi Seccombe

Corporate Board – Mark Ryder

Legal – Jane Pollard

Finance – Andrew Felton, Virginia Rennie

Equality – Keira Rounsley

Democratic Services – Helen Barnsley

This page is intentionally left blank