


**Decision to be made under the Council's Urgency  
Procedure by the Leader of the Council on  
Monday 27<sup>th</sup> April 2020**

**Coronavirus Business Interruption Loan Scheme – Loan  
Agreement with Coventry and Warwickshire Reinvestment  
Trust**

<b>Lead Member</b>	<b>Cllr Izzi Seccombe</b>
<b>Date of decision</b>	<b>27 April 2020</b>
	<b>Signed</b>  

**Decision taken**

That the Leader of the Council:

- Approves the County Council entering into a loan agreement with Coventry and Warwickshire Reinvestment Trust (CWRT) in order to increase delivery of the Government's Coronavirus Business Interruption Loan Scheme in Warwickshire.
- Authorises the Strategic Director for Communities to negotiate, and enter into, the loan agreement with CWRT on terms and conditions acceptable to the Strategic Director for Resources.

**Reasons for decisions**

An urgent decision is required of the Leader in order to increase delivery of the Government's Business Loan Interruption Scheme in Warwickshire. In particular, approval is sought for the Council to enter into a loan agreement for up to £1 million with Coventry and Warwickshire Reinvestment Trust – a local not-for-profit, FCA accredited specialist finance provider set up to fill gaps in mainstream lending in Coventry and Warwickshire.

## 1.0 & 2.0 Background information

### 1.0 Key Issues

- 1.1 The Coronavirus Business Loan Interruption Scheme (CBILS) is part of the wide-ranging package of support measures announced by Government to support businesses. It supports small and medium sized businesses to access loans, overdrafts and invoice finance of up to £5 million for up to six years.
- 1.2 The scheme is delivered through commercial lenders, backed by the Government-owned British Business Bank. There are over 40 accredited lenders able to offer the scheme including all major banks and local, alternative finance providers such as Coventry and Warwickshire Reinvestment Trust (CWRT). The Government provides lenders with a guarantee of up to 80% on each loan (subject to a per-lender cap on claims). The Government also makes a Business Interruption Payment to cover the first 12 months of interest payments and any lender fees.
- 1.3 In response to feedback since the launch of the CBILS, the Government has made changes to the scheme including removing the requirement for Personal Guarantees on loans below £250,000. It is expected that the changes announced by the Government will improve access to CBILS. However, it is also expected that lending from banks and other mainstream providers will not meet the demand from small businesses. Local and sub-regional intelligence via the CWLEP Growth Hub, Chamber, Federation of Small Businesses, CWRT and other partners suggests that some banks are still reluctant to lend despite the Government guarantee and changes to the scheme.
- 1.4 Moreover, local alternative lender CWRT – a not-for-profit, FCA accredited specialist finance provider set up to fill the gaps in mainstream lending in Coventry and Warwickshire – currently have very limited access to funds for working capital loans. CWRT currently deliver two large programmes for capital expenditure. However, they currently have access to approximately only £0.2 million of unrestricted lending for working capital (including £0.1 million of legacy grant funding from the Council).
- 1.5 CWRT have, therefore, approached both the Council and Coventry City Council with proposals to extend delivery of the CBILS. CWRT are requesting a loan of £1 million from the Council in order to be able to support an additional 24 small businesses in Warwickshire with CBILS loans, safeguarding an estimated 288 jobs. The loan from the Council 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 lender. Priority will be given to businesses with 5-49 employees in order to maximise the impact.
- 1.6 The loan from the Council is expected to form part of a package of sub-regional funding. It is understood that City Council officers are looking in the first instance at whether any CWLEP funds can be re-directed to support CBILS. This funding would be available to support businesses across Coventry and Warwickshire (with

at least half of any funding targeted at Warwickshire businesses). However, any CWLEP funding is not expected to meet the demand from small businesses in Warwickshire. It is also unclear when this funding might be available as it could require approval from Government.

- 1.7 Warwickshire Legal Services (WLS) have prepared a loan agreement for CBILS based on the loan agreement and security documents in place for the Duplex Fund and the Council's latest £0.4 million loan to CWRT in support of their small business loan activities. Duplex involved a lengthy and detailed due diligence process; the Council was also advised by an external banking law specialist at the law firm Browne Jacobson. Any CBILS loan from the Council would be secured using the same security package: an all-encompassing debenture and a deed of assignment covering the loan book created by CWRT using the Council's loan.
- 1.8 However, it has to be recognised that lending for working capital loans in the current Coronavirus crisis represents a high risk for the Council. This is mitigated to some extent by the Government guarantee to accredited CBILS lenders. The Government is providing CBILS lenders with a guarantee of up to 80% on each loan subject to a per-lender cap on annual claims. CWRT, for their part, can claim up to 60% 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). The Council's loan agreement with CWRT will require that all payments from Government are used in the first instance to repay the Council's loan.
- 1.9 The risk is also mitigated by CWRT's Lending Policy (which has been reviewed by the British Business Bank on behalf of the Government as part of the approval process to become a CBILS lender) and their FCA accreditation. CWRT have so far had 61 CBILS enquiries worth £3.9 million from Warwickshire businesses. All 61 businesses have been declined by a bank or other mainstream CBILS lender. 12 of these are indeed very high/ high risk businesses that CWRT also will not fund. However, a number are otherwise viable businesses. 12 are considered low risk by CWRT according to their Lending Policy with 17 considered to be medium risk. (The remainder are still being assessed). CWRT normally only fund low risk businesses and some medium ones subject to the security available. Whilst the Government has changed some of the CBILS rules, banks are still able to follow their lending policies and criteria and they are under no obligation to support a business. Finally, CWRT are FCA regulated which requires them to minimise the default rates across their whole loan book.
- 1.10 It, therefore, could be argued the "worst case" scenario for the Council is that only £0.6 million [60%] of the loan is re-paid on the basis the Government guaranteed monies are paid to WCC. Clearly, in this scenario, fewer small businesses would be supported/ saved and significantly fewer jobs safeguarded. However, 60% of the estimated jobs safeguarded for example – 172 rather than 288 – would still represent an excellent return on the Council's investment. The cost [£0.44 million including interest after £0.6 million had been re-paid] would work out at £2,570 per job safeguarded in the Warwickshire economy. This compares with an expected average cost per job of £33,000 on the Regional Growth Fund (NAO, 2012) and the benchmark of £26,000 per job created for the 2014-2020 European Regional

Development Fund programme (Regeneris Consulting report for DCLG, 2013).

## **2.0 Options and Proposal**

- 2.1 Option 1: Do nothing – The Council could do nothing and hope that lending from the major banks and other CBILS lenders and the limited working capital available to CWRT will meet the demand from small businesses in Warwickshire. However, this is considered highly unlikely. A survey by the British Chambers of Commerce (BCC) found that only 1% of businesses had successfully accessed the CBILS and that 8% had been unsuccessful. 19% said they planned to use it [20% in total]. It is expected that the changes announced by the Government (after the BCC polling) will improve access to CBILS. However, there are 5,320 small businesses in Warwickshire with between 5 and 49 employees. The BCC survey suggests 1,064 of these businesses [20%] will need support from the CBILS. A reduction in those unable to access the CBILS from 8% to 4% would still leave 42 businesses in Warwickshire (in the 5-49 category alone) unable to access support from CBILS. This increases to 222 businesses if businesses in the 1-4 employees and 50-99 categories are included.
- 2.2 Option 2: CWLEP funding – The Council could wait and see if the CWLEP is able to re-direct funds to support the CBILS. However, it is unclear when this funding might be available. Finally, it is highly unlikely that CWLEP funding alone would meet the demand from small businesses in Warwickshire. Discussions with City Council and CWLEP officers suggest that £2.6 million of Growing Places funding might be available. This, if split equally across the CWLEP area, would still only support an additional 28 small businesses in Warwickshire (with an average loan of £50,000).
- 2.3 Option 3: Council loan and CWLEP funding if/ when available – This option would quickly increase the CBILS delivery in Warwickshire when it is most needed whilst allowing for it to be enhanced if, and when, any funding from the CWLEP becomes available. Clearly, this option represents the highest risk for the Council. However, this report has set out both the need for support from the Council and how the risks involved can be mitigated to a level considered acceptable in the current crisis. Any loan from the Council will be secured and the Government is providing CWRT with a guarantee of up to 60% of any bad debts (and the Council's loan agreement will require CWRT, in the first instance, to use payments from Government to repay the Council's loan). Any loan from the Council will be made available in stages and it will be possible (at least for an initial period) to review the lending to-date before any further commitments are made. The Council will also have the opportunity to reduce its commitment (or at least to re-phase it) if the CWLEP is able to re-direct funds to support the CBILS.
- 2.4 Option 3 is recommended. This is considered to be an appropriate response to the current crisis with an acceptable level of risk and the best option for increasing the delivery of CBILS in Warwickshire.

### 3.0 Financial implications

- 3.1 The £1 million loan to CWRT would be a non-treasury management investment i.e. a loan made for a service rather than 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. This is currently estimated to be 1.5% above base.
- 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 As outlined in the section above, the maximum financial risk to the Council is assumed to be £442,000 on the basis of the Government guaranteed monies being paid by CWRT to WCC, reflecting 40% maximum default (after the Government guarantee) and loss of interest. Any financial loss will only crystallise over the five-year period of the loan.
- 3.5 At the end of each financial year accounting standards require an assessment to be made as to whether any of the £1 million loan 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. This is expected to be picked up by the Interest Rate and Capital Financing Volatility Reserve.
- 3.6 It is important that, in light of this financial risk, the legal securities for this loan reflect the entirety of the Council's involvement in CWRT and are sufficient to provide further cover for the Council's investment if the risk of default is materially greater than estimated.

### 4.0 Environmental implications

None

## 5.0 Timescales Associated with the Decision and Next Steps

- 5.1 It is appropriate that this report should be dealt with under the urgent decision procedure in the Constitution. The loan to CWRT (and CBILS loans to individual small businesses) need to be made available as soon as possible. The loan agreement with CWRT has been drafted and it is expected that the loan will be entered into within a few days.

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<b>Lead Director</b>	Mark Ryder
<b>Lead Member</b>	Leader of the Council

<b>Urgent matter?</b>	Yes
<b>Confidential or exempt?</b>	No
<b>Is the decision contrary to the budget and policy framework?</b>	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 – Monica Fogarty, Nigel Mimms, Rob Powell, Mark Ryder

Legal – Jane Pollard

Finance – Andrew Felton, Virginia Rennie

Equality – N/A

Democratic Services – Paul Williams

Councillors – Councillor Adrian Warwick (for consent to urgency) and Opposition Leaders