

Notice of:	LEADER OF THE COUNCIL
Decision Number:	PH46/2020
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member:	Councillor Lynn Williams, Leader of the Council
Date of Decision:	2 November 2020

PROPOSAL FOR COVID RECOVERY CASHFLOW LOANS TO COUNCIL WHOLLY-OWNED COMPANIES

1.0 Purpose of the report:

1.1 To request authority for a Covid Recovery Fund of up to £20m plus a 20% contingency of £4m to be established, such funds to be ringfenced for Council Wholly-Owned companies (WOCs) only, from within the existing Business Loans Fund. The authority to approve loans to individual companies and agree terms on a case-by-case basis within the principles set out below to be delegated to the Director of Resources, except that in the case of Lancashire Management Operations Limited, to avoid a conflict of interest, this authority to be delegated to the Chief Accountant.

2.0 Recommendation(s):

- 2.1 To note the progress Council Wholly Owned Companies are making in respect of producing Covid recovery plans.
- 2.2 To approve the creation of a Covid Recovery Fund of up to £20m plus a 20% contingency of £4m, such funds to be ringfenced for Council Wholly Owned Companies from within the previously established Business Loans Fund
- 2.3 To require that Wholly Owned Companies requesting cashflow support are able to demonstrate a cumulative breakeven income and expenditure position by the end of year 5 (current year plus 4) of their recovery plan or as close as possible to this term.
- 2.4 That the loans are tailored to the individual circumstances of the company and its recovery plan, that loans may be offered on either:
 - a) an interest-only basis with balloon principal repayment; or
 - b) monthly repayments of interest and principal.

- 2.5 That loans are offered at a fixed rate over 5 years, thereby providing the Wholly Owned Companies with certainty over future repayments requirements, but consequentially the Council carrying the risk of adverse interest rate movements.
- 2.6 That temporary cashflow loans on existing agreed terms be offered to Wholly Owned Companies until approvals for a Covid recovery cashflow loan on the above terms are in place, such temporary cashflow loans to be repaid from the Covid recovery cashflow loan when issued
- 2.7 That all Wholly Owned Companies loan agreements be reported to the Business Loans Fund Panel with the authority to approve loans to individual companies and agreement of terms on a case-by-case basis within the principles set out above to be delegated to the Director of Resources, except that in the case of Lancashire Management Operations Limited, to avoid a conflict of interest, this authority to be delegated to the Chief Accountant.

3.0 Reasons for recommendation(s):

3.1 To secure the financial sustainability of the Council's Wholly Owned Companies during the period of recovery from the Coronavirus pandemic.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council's approved budget? Yes

4.0 Other alternative options to be considered:

4.1 Without Council cashflow support Wholly Owned Companies could either seek support from banks or alternatively could face company financial failure.

5.0 Council priority:

5.1 The relevant Council priority is: "The economy: Maximising growth and opportunity across Blackpool".

6.0 Background information

- 6.1 The Coronavirus pandemic has led to a number of Council Wholly Owned Companies facing significant income losses as a result of lockdown and subsequent social distancing restrictions. This is impacting both company profitability and cashflow.
- 6.2 Without Council support it is likely that some would not be able to recover within a reasonable timeframe.
- 6.3 In some situations this could leave the Council without an operator for assets of significant financial value and importance to the town and its tourist economy.
- 6.4 Accordingly the Council proposes to offer its Wholly Owned Companies Covid recovery cashflow loans.
- 6.5 The Council has taken legal advice in order to ensure any loan offered would be State Aid compliant.
- 6.6 In line with the Market Economy Investor Principle (MEIP) the Council will need to demonstrate that any rational investor facing the same set of circumstances could reasonably make the same decision to lend. In short MEIP allows the Council to offer continued support to the company as a better strategy from a business perspective than letting the subsidiary fail or having to bail it out in the future.
- 6.7 What is reasonable takes into account the situation that the Council is now facing rather than if it was considering a loan to a new borrower. The legal test is for the Council to demonstrate that the terms of the loan are reasonable and that a reasonable lender in the Council's position, taking into account the Council's exposure, would have chosen to act as the Council has acted.
- 6.8 In order to demonstrate compliance with the MEIP the Council proposes to consider each cashflow loan requested on an individual basis in terms of its current and ongoing financial exposure and considering the potential implications for the Council of that company's failure both in financial and reputational terms and in terms of the company's importance in delivering the Council's wider economic and regeneration aspirations.
- 6.9 It is proposed that a report demonstrating the rationale as to why the loan demonstrates it being State Aid compliant under MEIP is provided to the Business Loans Fund Panel in respect of each company requesting cashflow support.

- 6.10 It is expected that the majority of requests for cashflow support will be made before the end of the calendar year. The Wholly Owned Companies are at various stages of producing their initial financial Covid Recovery Plans as shown in the table below. These recovery plans will also be considered by the Shareholder Advisory Board.

Company	Stage	Proposed Board approval
Blackpool Transport Services	In progress	19 November 2020
Blackpool Entertainment Company Ltd.	In progress	6 November 2020
Blackpool Operating Company Ltd	In progress	3 December 2020
Blackpool Airport Operations Ltd	In progress	18 November 2020
Lancashire Mgt Operations Ltd	In progress	TBC December 2020

- 6.11 Blackpool Housing Company Limited, Blackpool Coastal Housing Limited and Blackpool Waste Services Limited have advised that their business plans have not been so significantly impacted by the Coronavirus pandemic as to need cashflow support at the present time.

- 6.12 Does the information submitted include any exempt information? No

7.0 List of Appendices:

- 7.1 None.

8.0 Financial considerations:

- 8.1 Total cash requirements currently being estimated by the Wholly Owned Companies range from a £13.8m best case to a £20.0m worst case. The scale of variation is due to a combination of factors - uncertainty over the length of Covid restrictions, the amount of further Government grant support that may be available and the timeframe for subsequent business recovery.

8.2 Lancashire Management Operations Limited cash requirements will be assessed when a revised 2020/21 Academic Year forecast is prepared by the newly-appointed accommodation operator, Homes for Students, as the take-up of accommodation in September becomes clearer at the University of Central Lancashire.

9.0 Legal considerations:

9.1 Any loans made to Council Wholly Owned Companies must be State Aid compliant. It is proposed that compliance with the Market Economy Investor Principle is demonstrated in respect of each cashflow loan made under these arrangements. External specialist legal advice has been sought from DWF Global Legal Services and that advice is summarised in sections 6.5 and 6.9 outlined the key considerations required to ensure that the proposed loans would be in compliance with the Market Economy Investor Principle

10.0 Risk management considerations:

10.1 Before the approval of any loan the Council and the Board of each company will undertake appropriate due diligence on the projected cash-flow and the assumptions each loan is predicated upon. This may include the use of specialist outside experts as necessary.

10.2 Each loan will be subject to a review confirming it is in the Councils overall best interest as a lender and shareholder to continue to support the companies bearing in mind the financial exposure we face as parent company.

10.3 The purpose of each loan is to enable each company to put in place a COVID recovery plan. The implementation of the plan will be monitored by the Council as lender. A key requirement of the recovery plan will be to address the changes in operation necessary to address Coronavirus whilst allowing the continued operation of companies fundamental to the economic well-being of the town.

10.4 There are clearly risks to the Council in providing these loans but they must be balanced against the risk to Council as both shareholder and the town in general if the companies cease operation due to a lack of finance to address the changes in operation Coronavirus requires.

11.0 Equalities considerations:

11.1 None.

12.0 Sustainability, climate change and environmental considerations:

12.1 None directly from the report.

13.0 Internal/external consultation undertaken:

13.1 The Chairman of the Shareholder's Advisory Board has already been briefed on the paper as the strategy is key to a successful financial recovery for the wholly-owned companies whose performance against their respective medium-term financial plans the Board will be monitoring.

14.0 Background papers:

14.1 None.

15.0 Key decision information:

15.1 Is this a key decision? Yes

15.2 If so, Forward Plan reference number: 20/2020

15.3 If a key decision, is the decision required in less than five days? No

15.4 If **yes**, please describe the reason for urgency:

16.0 Call-in information:

16.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? No

16.2 If **yes**, please give reason:

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

17.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 23 October 2020 Date approved:

18.0 Declarations of interest (if applicable):

18.1 None.

19.0 Executive decision:

19.1 The Leader of the Council agreed the recommendations as outlined above namely:

1. To note the progress Council Wholly Owned Companies are making in respect of producing Covid recovery plans.
2. To approve the creation of a Covid Recovery Fund of up to £20m plus a 20% contingency of £4m, such funds to be ringfenced for Council Wholly Owned Companies from within the previously established Business Loans Fund
3. To require that Wholly Owned Companies requesting cashflow support are able to demonstrate a cumulative breakeven income and expenditure position by the end of year 5 (current year plus 4) of their recovery plan or as close as possible to this term.
4. That the loans are tailored to the individual circumstances of the company and its recovery plan, that loans may be offered on either:
 - a) an interest-only basis with balloon principal repayment; or
 - b) monthly repayments of interest and principal.
5. That loans are offered at a fixed rate over 5 years, thereby providing the Wholly Owned Companies with certainty over future repayments requirements, but consequentially the Council carrying the risk of adverse interest rate movements.
6. That temporary cashflow loans on existing agreed terms be offered to Wholly Owned Companies until approvals for a Covid recovery cashflow loan on the above terms are in place, such temporary cashflow loans to be repaid from the Covid recovery cashflow loan when issued.
7. That all Wholly Owned Companies loan agreements be reported to the Business Loans Fund Panel with the authority to approve loans to individual companies and agreement of terms on a case-by-case basis within the principles set out above to be delegated to the Director of Resources, except that in the case of Lancashire Management Operations Limited, to avoid a conflict of interest, this authority to be delegated to the Chief Accountant.

20.0 Date of Decision:

20.1 2 November 2020

21.0 Reason(s) for decision:

21.1 To secure the financial sustainability of the Council's Wholly Owned Companies during the period of recovery from the Coronavirus pandemic.

22.0 Date Decision published:

22.1 3 November 2020

23.0 Executive Members in attendance:

23.1

24.0 Call-in:

24.1

25.0 Notes:

25.1