

To: City Executive Board

Date: 22 July 2010

Item No: 6

Report of: Head of Finance

**Title of Report: WOCR – WEST OXFORD COMMUNITY
RENEWABLES BRIDGING LOAN**

Summary and Recommendations

Purpose of report: Request for a Bridging loan

Key decision: No

Executive lead member: Bob Price

Report approved by:

Finance: Jackie Yates

Legal: Jeremy Thomas

Policy Framework:

Recommendation(s): City Executive Board is asked to approve:

- a) a drawdown loan of up to £40k to WOCR for the period of 6 months subject to WOCR entering into a legal agreement to be approved by the Head of Law and Governance**
- b) to agree interest terms as set out in paragraph 12**
- c) to agree a provision in the accounts equivalent to the loan, the provision to be drawn from unallocated grant budgets**
- d) to agree that no further loan will be made in respect of this project.**

Background

1. West Oxford Community Renewables (WOCR) are an Industrial & Provident Society. Their purpose is to run various low carbon initiatives around West Oxford. The projects include installations at Aldi, Matthew Arnold School, the Kings Centre and City Council owned properties in South Street. Each project is slightly different but all generate an income stream that will be ploughed into future projects and Low Carbon initiatives
2. WOCR applied for and received a DECC Low Carbon Communities Challenge Award grant of £803k. The grant excluded VAT on suppliers invoices. WOCR have applied to be VAT registered in order to recover the VAT but timing delays has resulting in a cashflow problem. WOCR are therefore seeking a bridging loan from the City Council.

WOCR cashflow problems

3. WOCR are asking for the bridging loan because there are two major uncertainties around timing on their cashflow. Firstly WOCR are in the process of registering and recovering £132k in VAT. The new processes for registering mean that it is unlikely that WOCR will be registered and able to receive the VAT back until October and it could be delayed further.
4. Secondly, the income stream from the Feed-in Tariff is dependent on both finishing off the installations and getting through the system for registering for the payments. Because the Feed-in Tariff is new, processes for applying for and receiving payment are unclear. Payments will be backdated but the first receipts may not happen until October.
5. The Head of Finance has met with representatives of WOCR and confirmed that there is definitely a cash shortfall in July and August. This could be covered by a drawdown loan of £30-£40k. This would give WOCR some breathing space and the Chair of WOCR has indicated that they would approach their bank (Co-op) for a loan to cover further expenditure in September.
6. In September, there are a number of installations due resulting in expenditure of circa £80k. WOCR do not expect to receive the VAT reimbursement until October and are therefore forecasting a further cash shortfall of circa £50k. If the VAT claim is paid in October, then the forecast cashflow becomes positive and there is scope to repay the loan.
7. At this stage, WOCR are reluctant to defer installations, as they need to start generating income and they want to keep DECC on board by spending the money promptly.

Risks in entering a loan agreement

8. The main risk is clearly whether the Council would be repaid. This depends on income due to WOOCR. WOOCR is in the process of registering for VAT and will make an application to recover VAT paid to date. This has been confirmed by their accountant but that confirmation stops short of confirming that WOOCR will definitely recover the VAT and in what timescale. WOOCR other income comes from Feed in Tariffs and that depends on how quickly the installations begin generating.

9. Mitigating these risks are the assets of WOOCR. These consist of solar panels and wind turbines. These are installed or in the process of being installed on properties and as such don't offer much collateral. However one of the installations will be on City Council property and is worth approximately £40k and will generate circa £3.5k pa from FiT.

10. As an industrial and provident society, WOOCR have confirmed that the directors are not personally liable for any debts.

11. There remains a real risk that in granting a bridging loan, the City Council may not be repaid. The Council therefore needs to make provision in the accounts for non repayment of the loan. This could be covered up to £40k by earmarking the "Unallocated Grants budgets" for this purpose.

Loan Conditions

12. Where the Council has lent money in the past to organisations, a Legal agreement has been drawn up detailing repayment terms and interest due. The interest that the Council charges on loans is governed by statute. This is defined as the average rate at which the Council borrows, currently circa 9%. In view of this punitive rate, the Council could opt to make the loan interest free for 6 months and then if the loan is not repaid, the full rate of interest becomes payable.

Recommendation

13. City Executive Board is asked to approve:
- a) a drawdown loan of up to £40k to WOOCR for the period of 6 months subject to WOOCR entering into a legal agreement to be approved by the Head of Law and Governance
 - b) to agree interest terms as set out in paragraph 12
 - c) to agree a provision in the accounts equivalent to the loan, the provision to be drawn from unallocated grant budgets

d) to agree that no further loan will be made in respect of this project.

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List of background papers:

Version number: 1