



## **POLICY AND RESOURCES COMMITTEE**

**Wednesday, 16 December 2020**

<b>REPORT TITLE:</b>	<b>EDSENTIAL WORKING CAPITAL AGREEMENT RENEWAL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF RESOURCES</b>

### **REPORT SUMMARY**

The Council with Cheshire West and Chester Council provides a working capital facility to Edsential a company jointly owned by the two Councils. This report requests that Committee agrees to a renewal of the current working capital facility with Edsential. The renewal will be on similar terms to the existing arrangement and the arrangement earns a return to the Council as interest is charged on any sum advanced.

### **RECOMMENDATION/S**

The Policy and Resources Committee is recommended to approve the renewal of the interest bearing working capital cashflow agreement of up to £2 million with Edsential for a 5 year term to commence as soon as applicable.

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 Edsential is a company owned by the two Councils, Wirral and Cheshire West and Chester. The company requires a working capital facility to manage its cashflow arrangements. The provision of a facility from the councils allow the company to function effectively whilst the loan providers also earn a return on monies advanced.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 A decision could be made to reduce any amount or term length offered. Edsential have requested renewal on the existing terms and value. During the term of the existing agreement Edsential have not required to use the full amount of the facility. Alternative working capital cashflow facility funding could be sought from financial institutions although the current situation with the impact of the pandemic may make this difficult and / or more expensive. Should the company not have access to a facility it would be likely to be unable to function as the nature of the business requires credit for paying staff and suppliers ahead of receipt of income for services provided.

### **3.0 BACKGROUND INFORMATION**

- 3.1 Edsential was established as a Community Interest Company jointly owned by Wirral and Cheshire West and Chester Councils in December 2015. Its mission is, "Improving outcomes for children and young people." Ownership of the company is shared 50/50 between the two Council's.
- 3.2 Approximately £22m of income generating services, focused mainly on catering, cleaning, residential activity, music and school improvement were transferred from both Councils to the newly formed company along with the relevant staffing, contracts and associated expenditure.
- 3.3 As part of the arrangements for establishing the company, both Councils agreed to provide Edsential with a Working Capital Loan facility. The facility is required as the company is reliant upon income streams for services provided, to finance its expenditure. The way the Company operates means that costs of provision are incurred before income is received leading to a temporary cashflow timing issue. The company makes use of the facility as and when it needs to draw down cash to make payments and repaying as cash for services supplied is received. As the company is charged interest on the facility it will seek to minimise any drawdown amounts.
- 3.4 The facility must be compliant with State Aid requirements charging a commensurate rate of interest for the facility. The agreement provided a facility for a maximum of £4m (£2m per Council). Edsential is charged interest at a rate of circa 4%-5% per annum on monies draw down under the facility. The facility is due to expire at the beginning of December 2020. Under the terms of the existing agreement Edsential do, however, have an option to request a short term extension ahead of any member decision regarding agreement of any renewal. This option is being exercised.

- 3.5 Edsential have requested that the existing agreement be renewed on similar terms. Cheshire West and Chester Council is in agreement to this proposal and have, or are about to obtain agreement under their governance arrangements.
- 3.6 During the period of the current facility Edsential have not drawn down the maximum amount allowable. The facility is flexible allowing amounts to be drawn down and repaid as and when cashflows allow.
- 3.7 The Covid-19 pandemic has impacted upon Edsential business plans and planned income streams. Although various governmental support has been utilised by the company it is likely that the company will need to negotiate additional facilities beyond the cashflow agreement to cover exceptional costs or loss of income arising from Covid-19.
- 3.8 Discussion has taken place between the company and officers. Details of any ask are still being worked on and is somewhat impacted upon by the fact that the Covid-19 pandemic is a dynamic situation with governmental decisions impacting on businesses at short notice. A future report will be required should additional support be required and would need to include proposals for financing any associated repayment and interest costs as this would not simply be a cashflow timing matter.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 The working capital facility is treated as a treasury management activity financed from the Council's own cashflows. It does not form part of the revenue budget but earns interest on amounts advanced.
- 4.2 The Council, under International Financial Reporting Standards, need to assess any risk of loss and make necessary provision. Any losses would therefore impact on the council's revenue position.
- 4.3 A decision not to extend the working capital facility to the company could itself have financial implications depending upon the success of finding alternative funding. As a 50% shareholder any costs and liabilities associated with the company would fall upon the Council unless the Council was prepared to allow the company to become insolvent and be wound up in which case the losses would be shared with the company's other unpaid creditors.

#### **5.0 LEGAL IMPLICATIONS**

- 5.1 Any agreement needs to be State Aid compliant so as not to provide an unfair subsidy to the company and be compatible with the Council's fiduciary duty to local taxpayers not to make imprudent loans e.g. to persons or bodies that are unlikely to be able to repay the amount advanced.

#### **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

6.1 There are no direct staffing, ICT or asset implications arising from this report.

## **7.0 RELEVANT RISKS**

7.1 There is financial risk that monies advanced under a working capital facility agreement may not be repaid in full should the company fail or experience financial difficulties. This will be mitigated via involvement of Council officers and the Shareholder Board scrutinising company plans and activity

7.2 There is reputational risk should the company not perform to the expected standards and for the Council as a shareholder.

7.3 Covid-19 has increased risks associated with the company. Were the company to get into financial difficulties or fail there would be the risk to the Council of losing cash if the company draws down cash and then is unable to repay it. Some mitigation can be provided from involvement and oversight of any Covid recovery plans and involvement of Shareholder Board. Covid-19 is still a developing situation and therefore predicting future events involves some risk that will need to be managed if financial forecasts are impacted.

7.4 There would be financial risk if the Company were to cease trading as the Council is a 50% shareholder and would have obligations regarding shared liabilities, continuation of services and to staff.

## **8.0 ENGAGEMENT/CONSULTATION**

8.1 Discussion has taken place with Edsential and with officers and members of the two Councils regarding the company.

## **9.0 EQUALITY IMPLICATIONS**

9.1 There is no impact on equality from this report.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

10.1 There are no direct environmental and climate implications arising from this report.

**REPORT AUTHOR:** **Peter Molyneux**  
(Peter Molyneux, Senior Finance Manager)  
telephone: 0151 666 3389  
email: [petemolyneux@wirral.gov.uk](mailto:petemolyneux@wirral.gov.uk)

## **APPENDICES**

None

## **BACKGROUND PAPERS**

Edsential Business Plan documents and financial forecasts

**SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
None	