COUNCIL CABINET
18 July 2018

ITEM 16

Derby City Council

Report of the Interim Strategic Director of Corporate Resources

Bad Debt Write Off

SUMMARY

1.1 Derby Enterprise Growth Fund (DEGF) was established in 2012 to provide grant and or loan funding to businesses in the Derby travel to work area. The fund was established using Regional Growth Fund monies awarded to the City Council through Round 2 of this national scheme. The aim of the fund is to support sustainable job creation.

1.2 EPM Technology Limited (EPM) was the recipient of DEGF loan funding (£5.25m in two tranches: £4.75m in 2013 and £0.5m in 2014) and subsequent Council loan funding (£0.5m in October 2016). This loan funding was secured against the assets of EPM.

1.3 EPM were the subject of close financial monitoring by the Council following drawdown of the loan funding. The financial position of EPM worsened considerably during 2016/17 and in an Urgent Leader of the Council Cabinet Member Meeting in July 2017 it was agreed that the Council would exercise its security over EPM's assets to take ownership of the freehold of the EPM factory. This action formed part of a wider transaction under which EPM was sold to a Private Equity Company, enabling it to continue trading which in turn safeguarded jobs.

1.4 As part of the wider transaction, EPM took a commercial lease of the factory premises from the Council, agreeing to pay an annual rent to the Council and in return the Council cancelled the loan facilities and agreed not to demand repayment of outstanding loan monies. This course of action was deemed the most appropriate in the circumstances to protect the Council's financial long term position.

1.5 The capital value of the factory premises is less than the EPM loan that was outstanding although rental due over the duration of the lease combined with this capital value may exceed the previous loan amount.

RECOMMENDATION

2.1 To approve the write off of the balance of the EPM loan totalling £2m, as detailed in section 4.

REASONS FOR RECOMMENDATION

3.1 To comply with the Council’s Financial Procedure rules.

3.2 To ensure that the long term debtors in the Council's Statement of Accounts are reflected correctly.

SUPPORTING INFORMATION

4.1 EPM was an advanced composites manufacturer and was the largest recipient of DEGF funding to date. The company received a total of £5.75m loan funding of which they repaid £0.26m principal and £0.22m interest before being taken over in September 2017.

4.2 The loans were secured through a fixed charge over the company's property and a floating debenture over the remaining assets excluding specific equipment covered by other asset finance and an invoice discounting facility via Royal Bank of Scotland.

4.3 In August 2017 Price Waterhouse Cooper were jointly appointed (by the Council and EPM) to complete an appraisal of EPM's cash-flow position and identify options. Browne Jacobson LLP (law firm) was appointed to undertake a full review of the Council's security position in respect of the loan. The review confirmed that the company were unable to continue trading legally, and that the Council’s loan was at risk. As the loans given to EPM by the Council were secured against the company’s assets, this gave the Council control over any administration of EPM.

4.4 In September 2017 A2E (A Private Equity Company), the Council and EPM agreed and implemented a transaction which, amongst other things, transferred the freehold of the EPM factory premises to the Council. In return the Council cancelled its facility agreement and agreed to not demand repayment of the outstanding loan monies due.

4.5 The red book valuation of the property at the time of acquisition was £3.5m compared with an outstanding loan balance of £5.49m principal plus accrued interest.

4.6 It is recommended to approve the write off of the balance of the EPM loan totalling £2m principal plus accrued interest.

4.7 This capital bad debt write off will be a “below the line” accounting entry and will not affect revenue outturn. It will however mean that less recycled funding will be available to support new DEGF loans and grants. This has already been reflected in the DEGF cashflow to ensure that the scheme is not over committed.

4.8 We anticipate the EPM factory will generate rental income of £0.25m per year. Initially this will be used to repay the cash injection into the DEGF fund of £1.5m agreed under an urgent leader decision on 16 May 2018. If further income is generated either through rental or the sale of the factory, this will be reinvested into the scheme.

4.9 The overall DEGF grants and loans scheme has been extremely successful in helping businesses to grow – Over 2,300 new jobs have already been created.

Officers work hard to minimise the risk associated with offering loans to businesses. This includes ensuring all applications meet the DEGF loans policy, a robust due diligence process, appropriate contracting and ongoing monitoring.

OTHER OPTIONS CONSIDERED

5.1 Do nothing. Although this is not really an option as it would result in a misstatement of the Council's Statement of Accounts.

This report has been approved by the following officers:

Legal officer **Financial officer** **Human Resources officer** **Estates/Property officer** **Service Director(s)** **Other(s)**	

For more information contact: **Background papers:** **List of appendices:**	Toni Nash – Head of Finance 01332 641491 toni.nash@derby.gov.uk None Appendix 1 – Implications

Appendix 1

IMPLICATIONS

Financial and Value for Money

1.1 As detailed in the main body of the report

Legal

2.1 None directly arising.

Personnel

3.1 None directly arising.

IT

4.1 None directly arising.

Equalities Impact

5.1 None directly arising.

Health and Safety

6.1 None directly arising.

Environmental Sustainability

7.1 None directly arising.

Property and Asset Management

8.1 None directly arising.

Risk Management and Safeguarding

9.1 None directly arising.

Corporate objectives and priorities for change

10.1 None directly arising.