

GREATER MANCHESTER COMBINED AUTHORITY

DATE: Friday, 29th May, 2020

TIME: 10.00 am

VENUE: This meeting will be held virtually via Microsoft Teams and it will be live-streamed for public viewing. The link to watch the meeting is on the GMCA website meetings page

SUPPLEMENTAL AGENDA

16.A Greater Manchester Bounce Back Loans (attached)

1 - 8

Report of Steve Wilson, GMCA Treasurer.

For copies of papers and further information on this meeting please refer to the website www.greatermanchester-ca.gov.uk. Alternatively, contact the following

Governance & Scrutiny Officer: Governance and Scrutiny

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This agenda was issued on Date Not Specified on behalf of Julie Connor, Secretary to the Greater Manchester Combined Authority, Churchgate House, 56 Oxford Street, Manchester M1 6EU

BOLTON	MANCHESTER	ROCHDALE	STOCKPORT	TRAFFORD
BURY	OLDHAM	SALFORD	TAMESIDE	WIGAN

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Date: 29 May 2020

Subject: Greater Manchester Bounce Back Loans

Report of: Steve Wilson, Treasurer, GMCA

PURPOSE OF REPORT

This report requests that Combined Authority approves in principle the establishing of a Greater Manchester Bounce Back Loan Scheme.

The scheme would be established under the Government scheme announced on 4th May 2020 and is 100% underwritten by Government through the British Business Bank.

RECOMMENDATIONS:

The GMCA is requested:

1. To approve in principle the establishing of a Greater Manchester Bounce Back Loan Scheme under the Government scheme
2. To approve an amendment to the GMCA capital programme to fund £10m of capital for the scheme subject to appropriate funding arrangements
3. To approve the delivery of the scheme via the Growth Company Business Finance Team
4. To grant approval to the Chief Executive and Treasurer to authorise a contract to be awarded directly to the Growth Company by way of exemption from GMCA constitution Contract Procurement Rules (Part 6 section B) on the basis of urgency (Rule 3.2ii)
5. To delegate the finalising of arrangements for the scheme to the GMCA Treasurer and Monitoring Officer

CONTACT OFFICERS:

Steve Wilson, Treasurer, GMCA steve.wilson@greatermanchester-ca.gov.uk

Risk Management

Legal Considerations

Financial Consequences – Revenue – see paragraph 7

Financial Consequences – Capital – see paragraph 6

Number of attachments included in the report: none

BACKGROUND PAPERS:

TRACKING/PROCESS	
Does this report relate to a major strategic decision, as set out in the GMCA Constitution	Yes
EXEMPTION FROM CALL IN	
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	Yes, there is an urgent requirement to put arrangements in place as soon as possible to support the recovery from Covid – 19.

1. INTRODUCTION

- 1.1 This report requests that Combined Authority approves in principle the establishing of a Greater Manchester Bounce Back Loan Scheme with an amendment to the GMCA capital programme to fund £10m of capital for the scheme.
- 1.2 Approval is subject to confirmation of an appropriate funding source for the scheme.
- 1.3 The scheme would be established under the Government scheme announced on 4th May 2020 and is 100% underwritten by Government through the British Business Bank.

2. BOUNCE BACK LOANS

- 2.1 As part of a £330bn package to support UK businesses affected by Coronavirus, on the 23rd March the Government launched the Coronavirus Business Interruption Scheme (CBILS) to provide businesses with loans of up to £5m. CBILS are available from accredited Banks and lenders, funded from their own capital, but with guarantees against default provided by the British Business Bank (BBB) to a maximum of 80% of an individual loan. While in excess of £6bn has been lent under the scheme, there has been dissatisfaction from the business community with the speed of delivery, specifically from smaller businesses.
- 2.2 In GM the Growth Company Business Finance team (GCBF) are accredited CBILS providers and from significant initial enquiry numbers found many businesses have not proceeded with an application due to issues providing the information required to enable a loan decision, within the assessment requirements of the scheme.
- 2.3 In response to the perceived issues with CBILS, the Government launched the Bounce Bank Loan Scheme on 4th May 2020. The Bounce Back Loan Scheme (BBLS) provides loans of up to £50k to individual businesses, the application supported by a series of applicant self-declarations, rather than a lenders assessment of affordability. To protect lenders an amendment was made to the Consumer Credit Act removing the requirement for the lender to complete the normal affordability assessment,
- 2.4 The product offers:
 - Loans up to £50,000 – To a maximum of 25% of 12 months turnover
 - 100% Guarantee to the lender from British Business Bank
 - Fixed Interest rate of 2.50%
 - Term 6 years with a capital repayment holiday for 12 months and interest paid by BBB for the first 12 months.
 - Business had to be established by 1 March 2020
- 2.5 Since launch BBLS almost 70,000 loans amounting to £2bn+ was agreed in the first 2 days and in the first 2 weeks lending exceeded £8bn. Despite this there is continued dissatisfaction from the business community

3. THE MARKET GAP

- 3.1 Banks are delivering high volume numbers of BBLS loans, but only to existing account holders, which (although 85% of UK businesses bank with the Big 4) presents a structural gap, with smaller more vulnerable businesses unable to access the scheme and seeking an alternative option.
- 3.2 For example work undertaken with Nationwide and the Co-op bank in 2019 confirmed that both have thousands of small businesses, either operating through personal accounts or having small business accounts. As neither of these institutions, both strong in the North West are currently eligible BBLS providers, this confirms a supply gap for large numbers of small businesses who are unable to access BBLS unless they have a secondary account with a Big4 Bank. Starling Bank a new FinTech came to market as a newly appointed BBLS provider on Monday 11th May with a streamlined account opening process tied to the BBLS application process, but such was the demand they received that they have had to shut down the Sole Trader application process after the first week until 1st June, again indicating the scale of unmet demand
- 3.3 Further, and importantly for GM's approach, none of the current BBLS providers appear to target their offering to support Charities or small social enterprises, who will similarly be experiencing problems through the lock down period. We have had a preliminary conversation with Greater Manchester Centre for Voluntary Organisation (GMVCO) about a dedicated webinar to their members to raise understanding.
- 3.4 BBLS provides a financial blanket for businesses but in these unprecedented times does not link to further business support, able to assist businesses through lock down but also importantly in the critical period as businesses reopen.

4. THE GM PROPOSAL

- 4.1 In the two days following the launch of the CBILS scheme on 23rd March GCBF received 866 enquiries for CBILS lending with a borrowing requirement of £48m. Of these enquiries 60% qualified for a BBLS loan. There is an opportunity therefore to support those GM businesses that are unable to apply through their current bank, with loans tied into the wider GM support network helping to maximise business survival rates through the C-19 Pandemic period and beyond.
- 4.2 GCBF is able to deliver a GM Bounce Back Loan scheme, targeting those businesses unable to access the scheme currently, resulting in:
 - Quicker access to funding for GM businesses, with no requirement to be tied to a bank.
 - Access into the GM support network.
 - Encourage take up of the Greater Manchester Good Employment Charter

- As a Responsible Finance provider GCBF can provide funding to GM Charities and Social Enterprises.
 - GM jobs protected
- 4.3 The proposed scheme would see a £10m fund provided from GMCA capital to the Growth Company for onward lending by the Growth Company Business Finance team to support GM businesses. The scheme would carry zero risk of capital loss, with funds repaid by either the borrower over the term of the loan (maximum 6 years) or when a business fails, through a claim from the BBLS guarantee, which would accelerate capital repayment.
- 4.4 The capital would be fully used to invest in businesses, with the interest received over the term of the loans (paid by BBB in first 12 months) being sufficient to cover the delivery and servicing costs of the fund loan portfolio.
- 4.5 The data informs there is a potentially significant market gap, which excludes a large number of small business from accessing this vital financial support in the current unprecedented period. GM has the opportunity to address this market not just with finance but to also add value through a wide range of support which will assist business through the current lock down period and in the recovery period. The proposed application journey also introduces the applicant to the GM Good Employment Charter to widen awareness and bring further support to these businesses.

5. GROWTH COMPANY BUSINESS FINANCE

- 5.1 As an accredited CBILS provider, GCBF has applied for an allocation from the BBLS scheme, it is expected that the allocation will be confirmed week commencing 25th May 2020. The BBLS scheme was launched as a high-volume scheme and therefore has a requirement for a minimum of £10m of capital available to invest into BBLS loans.
- 5.2 GCBF is a Fund Manager for the Northern Powerhouse Fund and manages all the Government Start Up Loans scheme, c£400m across the whole of the UK, so has the capability to deliver BBLS.
- 5.3 An online application process is being finalised which will:
- Enable a customer journey and turnaround as good as the mainstream provider for the applicant.
 - Gathers the Applicants consent to an introductory call from the GM Good Employment Charter team.
 - Provides access to the Growth Company support network
- 5.4 BBLS loan applications rely on applicant self-certification meaning there is an increased focus on the potential for Fraud from applicants. GCBF existing Risk and Assurance framework, which has been independently assured through internal audit meets the standards and requirements of the scheme to ensure the requirements of the scheme are achieved.

- 5.5 The intelligence gathered from the wider market continues to indicate significant unfulfilled demand for BBLS. The majority of demand will be met by the banks, through their existing market share, but there remains a large cohort of smaller more vulnerable businesses who are unable to access the scheme. While the specific unsatisfied demand within GM cannot at this stage be exactly quantified, the number of BBLS eligible enquiries received through the CBILS scheme indicate that there is potentially a significant demand in GM which would benefit from a simpler access to funding, tied in with business support.
- 5.6 It is proposed the contract is awarded directly to the Growth Company by way of exemption from the Contract Procurement Rules detailed at part 6 section B of the GMCA constitution on the basis of urgency (Rule 3.2ii). The contract would be permitted under the Extreme Urgency exemption of the Public Contract Regulations 2015 - Regulation 32(2)c, with a requirement to publish a Contracts Finder Notice (if the value of the contract is over £50,000) and an also OJEU Contract Award Notice (if the value exceeds £189,330).

6. FINANCIAL CONSEQUENCES – CAPITAL

- 6.1 Funding of the proposed scheme would require a change to the GMCA Capital programme for 2020/21.
- 6.2 The GMCA Capital Programme for 2020/21, approved at the CA meeting of 14th February 2020, totaled £351.9m. This paper seeks approval to increase that by £10m to fund the Bounce Back Loan Scheme.
- 6.3 It is anticipated that the additional capital costs of the programme will be met through the repurposing of resources currently available to the Combined Authority. If this is not possible and further borrowing has to be sought and we will report back to the CA detailing how interest costs have been funded.

7. FINANCIAL CONSEQUENCES – REVENUE

- 7.1 There is no requirement to make a Minimum Revenue Provision for this scheme as it will be funded over six years by capital receipts either from the borrower or from the Government. There would be no exposure of the GMCA to risk of default as the scheme is 100% underwritten by the Government.
- 7.2 The cost of managing the scheme will be funded through the gross interest payments to the Growth Company.
- 7.3 If external borrowing is required as described above, the funding for the requisite interest would be detailed to the CA.

8. RECOMMENDATIONS:

- 8.1 The GMCA Chief Executive is requested:

- To approve in principle the establishing of a Greater Manchester Bounce Back Loan Scheme under the Government scheme
- To approve an amendment to the GMCA capital programme to fund £10m of capital for the scheme subject to appropriate funding arrangements
- To approve the delivery of the scheme via the Growth Company Business Finance Team
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