

Pay Back Grant Scheme

Summary

The Executive is asked to consider the implementation of a conditional emergency low-interest loan known as a 'Pay Back Grant' to sustain key community organisations who may otherwise be forced to close permanently due to financial implications of the Covid-19 pandemic.

Portfolio: Leader

Date Portfolio Holder signed off report: 3/12/20

Wards Affected: All

Recommendation

The Executive is advised to RESOLVE that

- (i) A Pay Back Grant scheme be set up to support eligible charities and community organisations facing permanent closure; and
- (ii) any decision making regarding the scheme to be delegated to the Executive Head of Finance in consultation with the Leader.

1. Key Issues

- 1.1 The ongoing financial impact of the Covid-19 pandemic is pushing some of the Borough's charitable and community organisations to consider whether they can viably continue to operate.
- 1.2 Many of these groups and their facilities act as the hubs of their community and are greatly valued by local residents.
- 1.3 This report proposes the introduction of a conditional low-interest loan known as a 'Pay Back Grant' to sustain such organisations who provide key services in the Surrey Heath area, where without intervention they may be forced to close permanently. Similar schemes are being investigated by neighbouring Surrey authorities.
- 1.4 Pay Back Grants would offer a highly competitive rate of finance at 1% APR fixed over the borrowing term. This is favourable compared to central government's 'Bounce Back Loan Scheme' (BBLs) offering an annual interest rate of 2.5% after the first year.
- 1.5 This scheme would only be available to charities or not-for-profit community organisations carrying out work in local areas that the Council considers essential.

- 1.6 The scheme would not be applicable to businesses or commercial entities who have other means of applying for support such as rate relief, the BBLs and other government initiatives.
- 1.7 Any Pay Back Grant would only be permitted to support with coverage of revenue costs rather than any capital expenditure.
- 1.8 There must be sufficient evidence that applicants are at genuine risk of closure without council support in order to access a Pay Back Grant.
- 1.9 The Pay Back Grant scheme would be a temporary process designed to give organisations the confidence they need to get through the current pandemic. The proposed end date for this scheme is 1st December 2021, although this may be reviewed with an earlier closure at such time as the crisis is deemed to be over.

2. Resource Implications

- 2.1 The maximum level organisations will be able to apply for under the Pay Back Grant scheme will be £50,000.
- 2.2 It is currently unclear how many organisations might be likely to apply, although the scheme would only be for emergency situations where there is a genuine risk of permanent closure within the coming months.
- 2.3 Repayments would not be compulsory for first 12 months in order to allow organisations time to recover and for income streams to return. Interest during this initial 12 month period would be deferred and added to the remaining term.
- 2.4 Applicants will be able to choose the length of the borrowing period up to a maximum of five years in addition to the initial 12 month period where repayments are not required (6 years total).
- 2.5 Organisations will only be permitted to draw down a maximum of 25% of their total Pay Back Grant at any one time to encourage them to borrow only what they need (this may be relaxed at the discretion of the Executive Head of Finance where exceptional circumstances can be demonstrated).
- 2.6 The date of the loan (and consequently the start of the 12 month repayment free period) will start from the date of the first drawn down payment.

3. Options

- 3.1 The Executive has the option to;
 - i) Approve implementation of the proposed scheme
 - ii) Recommend changes to the proposed scheme

- iii) Reject the proposed scheme

4. Supporting Information

- 4.1 Pay Back Grants would be subject to eligibility and a number of conditions, which are detailed in Annex A.

5. Corporate Objectives and Key Priorities

- 5.1 The Pay Back Grant scheme would enable at-risk charities and community associations to continue operating, which would in turn support the Place and People agendas within the Five Year Strategy.

6. Legal Issues

- 6.1 The Council is only legally allowed to lend money to organisations who are seen to be advancing the aims of the Council. It is considered that the organisations able to access a Pay Back Grant will by their nature meet this condition.

7. Governance

- 7.1 To apply, eligible organisations would be asked to complete an application form available through the Council's website.
- 7.2 Details required will include a statement on why the money is needed, a copy of the organisations constitution, copies of the last 2 years' of accounts, a basic recovery plan, and evidence of how the organisation helps meets the Council's objectives.
- 7.3 Due diligence will be undertaken to ensure applying organisations had a sufficient revenue stream in place prior to the pandemic and the structure to be able to manage the loan and payback requirements.
- 7.4 Application information will be collated and checked by the Commercial and Community Development Manager in consultation with the Community Partnerships Officer and relevant portfolio holder, before being progressed to the Executive Head of Finance and the Leader for a decision on whether to provide support through this scheme.
- 7.5 Repayment terms will be finalised and confirmed by the Executive Head of Finance in consultation with the Leader.
- 7.6 All successful recipients will be asked to provide an annual report to the Council detailing how their organisation is progressing with recovery since receiving their Pay Back Grant.
- 7.7 All successful recipients will be required to have 'open book' accounting with the Council, sharing accounts, bank statements and any other relevant financial information as requested.

8. Risk Management

- 8.1 There is a risk that if charitable or community organisations are successful in obtaining a Pay Back Grant but the ongoing situation further inhibits their ability to generate income, organisations may be unable to adhere to their repayment schedule.
- 8.2 Furthermore there is a risk that if an organisation borrows money but is still forced to close before the Pay Back Grant is fully repaid, that the Council may not receive the full figure back.
- 8.3 Conversely the risk of not supporting these organisations is that these greatly valued community services may be lost permanently and be very difficult to replace.
- 8.4 Facility closures would also lead to ongoing costs and considerations related to 'mothballing', insurance and ongoing security.

9. Equalities Impact

- 9.1 Residents across the borough may be adversely affected by the closure of community organisations or charities, particularly if they support underrepresented groups.

10. Environmental Impact

- 10.1 It is considered there will be minimal environmental impact as a result of introducing this scheme.

11. Consultation

- 11.1 While formal consultation has not taken place on this item, it is evident from discussions with community groups that for some their financial position is becoming increasingly more perilous, which is why this item is being brought forward.

12. PR And Marketing

- 12.1 If charities or community facilities are forced to close and the Council is perceived not to have taken the appropriate level of action to try and prevent this, it is highly likely that this will be perceived negatively by residents and user groups across the borough.

13. Officer Comments

- 13.1 Community organisations provide a number of key services that the Council does not have resources to deliver directly. Losing these groups and their facilities could negatively impact areas such as employment, levels of anti-social behaviour, and health and wellbeing.

- 13.2 As a consequence of the above it is likely more end users would end up relying on the Council for help. By offering emergency financial support now to stop community organisations collapsing, this may help to relieve demand on the Council in the future.
- 13.3 Where loans are made by the Council at less than the prevailing market rate of interest, the discounted interest rate has to be calculated and the difference between the market rate and the 1.0% interest charged on the loans must be charged to the Council's Income & Expenditure Account to represent the interest forgone on the transaction.

Annexes	Annex A – Conditions of Pay Back Grant Scheme
Background Papers	N/A
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Annex A – Conditions of Pay Back Grant Scheme

The Pay Back Grant scheme will only be open to charities and not-for-profit community organisations who provide key services to the Surrey Heath community.

- 1 All applicants must have as a minimum an effective constitution and group bank account with a minimum of two signatories. Individuals are not eligible to apply.
- 2 Funds awarded through the Pay Back Grant scheme can only be used for the express purpose of keeping the organisation going.
- 3 Funds cannot be used for any capital purchases.
- 4 Pay Back Grants can be drawn down up to, but no more than, 25% of the agreed total at any one time.
- 5 Pay Back Grants are agreed up front but each draw down will only be paid out upon agreement of the organisation meeting / continuing to meet the rules.
- 6 Funds can only be drawn down once the charities own funds are considered reasonably expended.
- 7 All draw down of funds will be scrutinised by the Head of Finance and the Leader prior to release, who must both agree to each release.
- 8 Organisations must review any ringfenced funds within their accounts with a view to releasing them and ringfencing them again at a later date when income allows.
- 9 Pay Back Grants will be fixed at an interest rate of 1%.
- 10 There will be no compulsory repayments in the first year.
- 11 Interest in the first 12 months will be deferred and added to the remaining term.
- 12 The start date of the 12 months is the day after the first draw down occurs.
- 13 The term of the repayments will be agreed with each applicant but will be no longer than a maximum of five years in addition to the initial 12 month repayment free period (6 years total).