
Cabinet Member for Strategic Finance and Resources

22 September 2021

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources, Councillor Richard Brown

Director Approving Submission of the report:

Director of Business Investment & Culture

Ward(s) affected:

None

Title:

UK Battery Industrialisation Centre Funding

Is this a key decision?

No - the proposal does not directly affect any electoral ward.

Executive Summary:

Coventry is home to the UK Battery Industrialisation Centre (UKBIC) which formally opened for business in July 2021. UKBIC is a state of the art £130m battery research facility which works to support the UK automotive industry to develop the next generation of electric vehicle batteries.

Since the Council, its partners and the major funders of the project Innovate UK began to plan the project in 2017, the pace of change in the automotive industry has increased even more quickly than was forecast, with legislation coming into force which will ban the sale of new internal combustion engine vehicles by 2030.

The full operational phase of the plant has been delayed by the pandemic due to the global reduction in manufacturing resulting in the slippage of planned commercial contractual income for the company. Now that the facility is up and running, UKBIC is focussing on winning orders from the automotive industry for the critical R&D work that it does. The demand for this work is now returning strongly such that it will be necessary for UK Battery Industrialisation Centre Ltd to secure short term funding for both the existing operational and ramp-up costs of additional staffing required and other expenses in order to support automotive manufacturers with these orders, many of which are linked to the ongoing aspirations to secure high-volume battery manufacturing in UK 'gigafactories'.

The UK Government's Faraday Challenge is proposing to provide the additional funding to UK Battery Industrialisation Centre Ltd for this purpose, some immediately, and further grant monies in 2022/23 and 2023/24. The timing of these expected monies is such that there will be an immediate need for cash flow support in October/November 2021. It is proposed that the Council

(in its role as UK Battery Industrialisation Centre Ltd's shareholder) provide UK Battery Industrialisation Centre with a cash flow facility of up to £500,000, which would be a secured interest bearing loan that contributes towards a total of approximately £2m required in the current financial year to continue operating, with the Faraday Challenge providing the remainder including subsequent years.

Recommendations:

The Cabinet Member is requested to:

- 1) Subject to the satisfactory conclusion of the due diligence in recommendation 2, approve the provision of a cash flow facility by way of a secured loan to UK Battery Industrialisation Centre Ltd of up to £500,000
- 2) Delegate authority to the s151 officer in conjunction with Cabinet Member for Strategic Finances and Resources and the Director of Law and Governance to complete the necessary due diligence, agree terms and conditions, and to enter into the necessary legal agreements

List of Appendices included:

None.

Background papers:

None.

Other useful documents

None.

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title: *UK Battery Industrialisation Centre Funding*

1. Context (or background)

- 1.1 In 2017, Coventry City Council formed a consortium with Warwick Manufacturing Group (WMG) to bid for the opportunity to establish a battery R&D facility in Coventry which would provide state-of-the-art battery manufacturing to allow the entire UK automotive industry to develop and industrialise the next generation of electric vehicle batteries . This bid was successful, and £113.5m in funding was secured from the UK Government's Faraday Challenge, and a further £18m secured loan was provided by the West Midlands Combined Authority (WMCA).
- 1.2 Coventry City Council acted as the accountable body for these grants, and was responsible for the delivery of the capital project which is now substantially complete. The facility formally opened for business in July 2021.
- 1.3 UKBIC is adjacent to Coventry Airport, which is the site proposed for the Coventry and Warwickshire Gigafactory. Should that be fully developed, the site could employ as many as 6,000 people and produce hundreds of thousands of electric vehicle batteries every year. The success of UKBIC is a key part of the City Council's offer to potential gigafactory investors.
- 1.4 The limited company, UK Battery Industrialisation Centre Ltd. was established to operate the facility. The Council is currently 100% shareholder and has two seats on the company's board, including the chair. UK Battery Industrialisation Centre Ltd's business plan is funded by grants from the Faraday Challenge, and by surpluses forecast to be generated by orders secured from customers.
- 1.5 The adoption of electric vehicles, and the development of new battery technologies has recently gathered pace, particularly since the UK Government's announcement in late 2020 which means that the sale of new internal combustion engine vehicles will be banned from 2030. With less than ten years remaining of the UK automotive industry to make the huge changes necessary, the demand for UKBIC's services in developing electric vehicle batteries using the newest technologies at industrial quality and scale has never been higher.
- 1.6 This increased demand, along with the Covid-19 pandemic delaying the placement of orders which could have reasonably been expected during the 2020 calendar year mean that UK Battery Industrialisation Centre Ltd needs to secure approximately £2m in additional funding in the remainder of 2021 to take on additional staff and incur material costs to prepare for these crucial orders.

2. Options considered and recommended proposal

2.1 Recommended Option: CCC provides funding on a commercial basis

The recommended option is for Coventry City Council to provide a cash flow facility to support the overall funding requirement in the form of a secured shareholder loan. This report seeks delegated authority to negotiate the detailed terms of the loan which would be made on a commercial basis; CCC will aim to recover all the funding it provides to UK Battery Industrialisation Centre Ltd plus interest charged at a rate that is compatible with Subsidy Control (state aid law) and will take appropriate security on the loan to cover any event of default. UK Battery Industrialisation Centre Ltd will only be able to draw down the

loan once the remaining funding has been committed by Government. This is the recommended option because it provides the necessary funding for UK Battery Industrialisation Centre Ltd to match against additional cash from Government whilst enabling the Council to recover its initial funding contribution. This option will provide the backing which UK Battery Industrialisation Centre Ltd needs in order to support the city's ambitions as a centre for the automotive industry as it turns electric post-2030 and support our ambitions to secure a gigafactory.

2.2 Alternative Option: CCC provides funding as a grant

An alternative option would be for the Council to provide the money to UK Battery Industrialisation Centre Ltd in the form of grant. Whilst this option would have some advantages for UKBIC if it did not have to repay this funding, the option has been discounted as awarding an additional grant to a project which has already received over £130m in funding is likely to have implications in terms of subsidy control, and there would be no opportunity for the Council to recover its contribution. For these reasons, this option will not be pursued.

2.3 Alternative Option: Do nothing, CCC declines to provide funding

The Council could choose not to make a grant or loan to UK Battery Industrialisation Centre Ltd, and instead ask the business to consider cost cutting measures or increasing its grant request to Government. This option is not recommended because cost cutting measures would hamper UK Battery Industrialisation Centre Ltd's ability to facilitate the work which will be so important to the development of the local (and UK) electric vehicle industry. Government has also made it clear that they expect the Council to contribute some of the additional funding required for the company. If the Council chooses not to provide this contribution, there is a risk that Government funding will not be forthcoming which would undermine the viability of UK Battery Industrialisation Centre Ltd and in turn damage the prospects of the automotive industry in the city.

2.4 Alternative Option: UK Battery Industrialisation Centre Ltd seeks commercial funding from a bank.

This option is not viable. UK Battery Industrialisation Centre Ltd is effectively a start up with no assets of its own, and therefore this type of funding will not be available from any of the banks other than at punitively high interest rates which effectively makes this approach unworkable.

3. Results of consultation undertaken

- 3.1 No consultation has been carried out on this matter. As the funding would be provided in the form of a loan which will be repaid, if approved, it can be accommodated without change to the Council's existing approved budgetary framework which have been consulted on separately.

4. Timetable for implementing this decision

- 4.1 If approved, terms and conditions will be agreed with UKIC and a loan agreement will be drawn up in order to allow the drawdown from the loan facility before the end of 2021. The loan will be managed and monitored by the Council's Economic Development Service, which is responsible for the overall UKBIC project, and by CCC Financial management.

5. Comments from Director of Finance and Director of Law and Governance

5.1 Financial implications

The Council acted as accountable body for the capital grant and loan funding from Government and WMCA respectively in order to finance the capital project at a cost of c£131m, and this is now complete. As a result, UKBIC is now in its operational phase, albeit later than had originally been planned due to construction delays caused directly by the Covid 19 pandemic.

The original timescales on which the original business plan was based has slipped as a result of this, and also, due to the fact that the pandemic adversely affected the short-term demand for the plant's R&D facilities as manufacturing slowed down globally.

UK Battery Industrialisation Centre Limited have now indicated that this is now returning particularly toward the end of 21/22 and into 22/23, albeit not initially at the levels in the original business plan. Their current forecasts assume that the business will need grant support in the current and subsequent 2 financial years, and cash flow support in the very short term to tide the business over so it can 'resource up' in order to meet the operational demands required to operate commercially. UKBIC Limited has had advanced discussions with the Government's Faraday Challenge who have indicated funding in the current financial year can be awarded, and potentially in the subsequent two financial years.

UK Battery Industrialisation Centre Limited has therefore sought approval from it's board to request loan financing from the Council (as 100% shareholder) in the form of a cash flow facility of up to £500k, which together with the prospect of further government working capital grant in 22/23 and 23/24, and commercial income generated, should ensure it can operate solvently as a going concern.

The proposals in the report seek approval for officers to carry out the necessary due diligence on the UK Battery Industrialisation Centre Limited's financial planning forecasts, in order to demonstrate need, and ability to repay the money. Should officers be satisfied that the financial plans are robust, including confirmation that the government working capital grants are secure, then terms and conditions would be agreed with UK Battery Industrialisation Centre Limited, ensuring that Cabinet Member is sighted and in agreement with those terms.

Terms and conditions would be commercial in nature in order to be compliant with subsidy control legislation as described below in the legal implications. Clearly any commercial loan, particularly to new ventures such as UK Battery Industrialisation Centre Limited would have inherent risk of default which would be reflected in interest rate. The due diligence will look to ensure forecasts are as robust as possible, however officers would also seek to mitigate risks further through security against the assets of the company.

5.2 Legal implications

Using its investment powers at section 12 Local Government Act 2003, the Council is able to make the loan funding to UK Battery Industrialisation Centre Limited. This must however be made on commercial terms to ensure compliance with public subsidy rules.

Officers in the Law and Governance service will work alongside other colleagues during the due diligence process to ensure that the loan funding is made in a legally sound and compliant manner.

6. Other implications

There are no other specific implications.

6.1 How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

This is in line with the Council Plan aim to promote the growth of a sustainable economy. A successful UKBIC will attract a concentration of battery and electric vehicle specialism in Coventry and Warwickshire and form a very important part of our overall inward investment offer, with the biggest prize being a full-scale gigafactory which will employ thousands of people. It will help to create opportunities for local businesses already in automotive or advanced manufacturing to diversify or expand and take on new staff, the majority of which will be in highly skilled roles.

6.2 How is risk being managed?

The key risk with this proposal is that the Council will not be able to recover its funding if UK Battery Industrialisation Centre Ltd fails to meet its repayments. This will be managed by taking appropriate security over the loan, and by working closely with UK Battery Industrialisation Centre Ltd to understand its business plan. Staff from CCC's Finance teams will work with the Economic Development Service to manage the associated risk.

6.3 What is the impact on the organisation?

This proposal has no impact on staffing/human resources, information and communications technology, accommodation, assets, or the council's corporate parenting responsibilities.

6.4 Equality Impact Assessment (EIA)

This proposal has no Equalities Impact, either positive or negative on any protected group.

6.5 Implications for (or impact on) climate change and the environment

This proposal will support the UK's move to electric vehicles which will have a positive impact on the environment. It is expected that the move to phase out the sale of new internal combustion engine vehicles by 2030 will save approximately 300 Mt of CO₂ over the next 30 years, and the Council's support for UK Battery Industrialisation Centre Limited will help to realise this by creating the right conditions for the huge investment required in electric vehicles.

6.6 Implications for partner organisations?

This proposal has no direct impact on partner organisations, however it will support the development of the city's role in the automotive and continue to develop our specialism on electric vehicles which will have benefits for other anchor organisations such as the two universities.

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