

Notification of an Urgent Executive Decision - Short term funding facility required to SSDC Opium Power Ltd to accommodate VAT cashflow during VAT reclaim period

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Purpose of the Report

1. The purpose of this report is to notify Members of an urgent executive decision made by the Chief Executive in consultation with the Council Leader and Portfolio Holder for Property, Climate Change and Income Generation to use short term funding facility required to SSDC Opium Power Ltd to accommodate VAT cashflow during VAT reclaim period.

Background

2. SSDC Opium Power is the Special Purpose Vehicle established to deliver and manage the Council's energy storage investment.
3. This Urgent Decision has arisen due to a short term cashflow matter arising in relation to SSDC Opium Power Ltd VAT payments and VAT rebates. The cashflow matter does not affect the overall cost of the project which is still within the original budget agreed. SSDC Opium Power Ltd earlier this year, was advised that VAT would not be chargeable on the Battery Containers being shipped to the UK, as China was outside of the EU. They provided a credit for the first invoice that VAT had been paid on to confirm this advice.

Recommendation

4. That Council note the urgent executive decision made by the Chief Executive in consultation with the Council Leader and Portfolio Holder for Property, Climate Change and Income Generation to use short term funding facility required to SSDC Opium Power Ltd to accommodate VAT cashflow during VAT reclaim period.

Report

5. The containers are scheduled to arrive in the UK week commencing 3rd December. The SPV has now been advised by the shipping handlers and transporters that VAT is initially payable on the 18 battery storage containers but can be reclaimed i.e. there is no additional cost overall. However, to release the containers, the VAT is required to be paid.
6. Having previously budgeted for no VAT to be paid on this substantial cost element of the project, the SPV is now left at very short notice with a VAT bill that has not been

considered in cashflow terms, but this will be reclaimed and rebated in the next quarter, estimated to be March 2019.

7. The SPV has sought external provision of an overdraft facility from its own bank, but this would cause delays to the project in setting this facility up and the security terms are unacceptable to SSDC.
8. Therefore an Urgent Decision is required in order to pay the VAT invoice immediately in order to release the battery storage containers and ensure that the project continues to roll out on time and in budget without incurring any financial penalties or future project repayment or revenue delays to SSDC.
9. If the VAT invoice is not paid in full by 3rd December the Battery Storage Containers will simply not be released from the port on the due date thus causing project delays that would put the council at a financial disadvantage.

Financial Implications

10. The short term loan sum for the VAT invoice required is **£1,351,649.84** from 3rd December 2018. This is to allow the VAT claim to be made at the end of the VAT period (quarter end) and for the rebate to be received approximately one month later, with some flexibility to allow for any delays at HMRC. If the rebate is received earlier, then full repayment of the short term loan will be made earlier and immediately upon receipt of funds.
 11. SSDC is therefore agreeing to loan the required sum to SSDC Opium Power Ltd, on the above terms, at a commercial rate of 5.25% per annum, which is equal to the charges that its own bank would have made. Therefore, SSDC will benefit from the financial margin that it makes on this loan. The requirement to lend money to an arms length organisation (the SPV) at a commercial rate also ensures that there are no 'state aid' issues arising.
 12. At present the VAT quarterly return will be made at the end of January 2019 with the rebate likely to be made during March 2019. At this time the loan and interest provided for this VAT invoice will be repaid in full to SSDC.
 13. The SPV has its own independent private accountants, who have provided a statement to support the requirement of this loan for short term VAT cashflow requirements.
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