



Shropshire Council

Cabinet

9th December 2015

## **Shropshire Small Business Loan Scheme**

**Responsible Officer** George Candler Director of Commissioning

### **1. Summary**

1.1. The Shropshire Small Business Loan Scheme has been successfully operating since 2012 to provide loans to small and medium sized enterprises (SMES) in Shropshire who are unable to obtain finance from the banks and similar lenders. This report outlines the assessment of economic benefits and impact of Shropshire Council's Shropshire Small Business Loan Fund, based on the Economic Impact Tool which has been developed by Coventry University.

1.2. A number of the West Midland Local Enterprise Partnerships are considering using part of their European Regional Development Fund (ERDF) to support financial instruments at the micro-finance level. Further work to analyse local need and delivery options will be undertaken by the Economic Growth Team to assess the proposed options regarding micro loan support or alternative options to support businesses, which will be presented to Cabinet for their approval.

1.3. It is proposed that all loan repayments and de-committed Shropshire match funds be ring-fenced with the option to be re-cycled for future use to support Shropshire businesses, ideally as a loan fund operated on a similar basis to the ERDF loan scheme to sustain support to small and medium sized businesses.

### **2. Recommendations**

It is recommended that Cabinet agrees:

- A. To agree in-principle to ring-fence all loan repayments and any de-committed Shropshire match funds relating to the loan scheme for future use as a fund operated on a similar basis to the ERDF loan scheme to sustain support to businesses.
- B. That delegated authority is given to the Head of Economic Growth and Prosperity in consultation with the Portfolio Holder for Business Growth, ip&e, Culture and Commissioning (North) to agree and complete all formalities to facilitate the procurement process.
- C. That Councillor Gwilym Butler joins the Impetus Board as a director representing Shropshire Council.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

3.1. An assessment will be undertaken to assess the feasibility and viability of the developments of a new fund, which could be operated on a similar basis to the ERDF loan scheme to sustain support to businesses.

3.2. There are no adverse impacts in terms of Human Rights expected from the assessment of options to support micro businesses.

3.3. The assessment of options for support initiatives for businesses will verify the most appropriate use of Council support to maximise support to businesses and the impact on the local economy.

3.4. No one with characteristics defined and protected under the Equality Act shall be adversely affected by the proposed assessment. As part of the assessment the social and economic benefits and outcomes will be considered.

3.5. As per the Social Value Act, the assessment and development of business support activities would need to consider social value and opportunities to generate self-sufficient and sustainable benefits to the local community, society and the economy, in particular the local economy, whilst also minimising damage to the environment.

3.6. No adverse impact on the environment is expected. As part of the assessment and development of any business support options, environmental impact will be considered.

### 4. Financial Implications

4.1. The loan repayments attributed to the Shropshire funding (with £66,991 repaid to date) have been repaid into the Capital Receipts pot.

The loan repayments which relate to the ERDF funding will be re-cycled for future use as a loan fund operated on a similar basis to the ERDF loan scheme to sustain support to businesses. The original intent behind the development of the Shropshire loan fund was for repayments, including those relating to the Shropshire Council funds, to be used within a legacy fund for Shropshire. Thus bringing back in double the funding and a 2:1 return.

Although there is a proposal under discussion to develop a regional 'Fund of Funds' for loans using the new European funding; this is still a long way off. Another issue is how much of this will be accessed in Shropshire which will be at the periphery of the regional fund. It will also only provide large loans again less relevant to Shropshire. So all evidence points to the need for a locally administered small business loan fund to be investigated further.

4.2. A future paper setting out the options to support business and economic growth using the ring-fenced funds to lever in additional support and augment the availability of other funding and opportunities to businesses, including those relating to the Marches Investment Fund and the European Regional Development Fund will be developed. The options and viability of

any future business support activities will be assessed as part of an Economic Growth feasibility study. Any long term financial implications will be discussed with Finance as part of the options assessment and in the development of any future recommendations to Cabinet.

4.3. The alternative options to ring-fencing the loan repayment and any de-committed Shropshire funds for both phases of the loan scheme have been considered and are detailed in section 5.4 of this report for information.

## **5. Background**

5.1. As part of the Capital Allocations 2012/13 to 2015/16, Shropshire Council approved £1m over four years towards a new revolving Shropshire Small Business Loan Scheme (Capital Strategy Paper 23/02/2012).

The Shropshire Small Business Loan Scheme was developed to provide loans from £5000 to £150,000 to small and medium sized enterprises (SMES) in Shropshire who were unable to obtain finance from the banks and similar lenders. Thorough research was undertaken to analyse the extent to which bank lending was a problem and was holding back growth in Shropshire. Research was also undertaken to look at how similar schemes were being run in other areas and how successful they were. Based on this in-depth research showing critical need for the Loan scheme a proposal to establish the scheme was approved by Cabinet on 23<sup>rd</sup> February 2012. A procurement process was undertaken and Impetus, a Community Development Finance Institution was appointed to deliver the Loan fund in July 2012. They have a 10 year track record of loan administration in the Marches and have similar funds operating in Worcestershire, Herefordshire and Telford. Councillor Gwilym Butler has been invited to join the Impetus Board as a director representing Shropshire Council.

In order to safeguard the Council, the Shropshire Small Business Loan Scheme's provision for any bad debts was limited to 15% of capital employed, beyond this it was Impetus's liability. Impetus covers all administration costs of the fund so there is no revenue cost of any sort to the Council.

The £1m Shropshire Council loan fund was split into two equal phases of work (Phases 1 & 2) to exploit the opportunities of leveraging in additional finance to add to the capital funding, and to augment the availability of funding and opportunities available to businesses, in particular from the Regional Growth Fund (RGF) and the European Regional Development Fund (ERDF).

5.2. To date loans amounting to a total of £1,120,750 have been disbursed to over fifty businesses in Shropshire by Impetus, of this £430,500 of loans are from the original Shropshire Council funds with the remaining being provided through the Regional Growth Fund and Start-Up loans managed by Impetus. The contract with Impetus to deliver the Shropshire Council loan fund (Phase 1) is in operation until June 2016. The ERDF loan scheme (Phase 2) has now been completed.

For the Shropshire Small Business Loan Scheme (Phase 1) a total of £757,000 of loans to date have been disbursed to thirty one businesses, of this £277,000 of loans to fifteen businesses are from the original Shropshire

Council funds with the remaining being provided through the Regional Growth Fund levered in funds. The loan repayments attributed to the Shropshire funding (with £66,991 repaid to date) are being repaid into the Capital Receipts pot.

The up-take of the loan funds began rapidly in 2012 with eight loans disbursed in the first 6 months, nine in the next 12 months and then things slowed down with only four in 2014 due to new ERDF loan funds coming on stream as part of Phase 2. In 2015 as Shropshire emerged from the recession cash flow has become more and more of a problem as companies obtained new contracts and expanded rapidly therefore demand for loans has increased again. With more loans having been disbursed to eleven additional businesses in 2015. There is now £223,000 of Shropshire Council funds remaining in the Phase 1 Loan Fund. Impetus has provided a forecast of disbursement levels to July 2016 of £150,000.

For the ERDF Loan Scheme (Phase 2), a total of £500,000 of Shropshire Council funding was allocated to be used as match for £500,000 of ERDF funding to support a scheme which ran from August 2013 – June 2015 covering Shropshire and Worcestershire. To date loans of £307,000 to 10 Shropshire businesses have been approved, of which £153,500 relates to Shropshire Council match. The slow take-up of ERDF loans in this scheme which has been managed by Worcestershire County Council is due to eligibility restrictions, due diligence processes and the delay in the start of the scheme, resulting in a total of £346,500 of Shropshire Council funds to be de-committed. However, the overall outputs achieved have been higher than expected.

5.3. An Economic Impact Tool has been developed to calculate the value of the economic and social impacts of loan activities. The model uses key outcomes such as number of jobs created through loans and unit values for each outcome developed by Coventry University to calculate the economic and social value of the loans delivered to businesses.

For each outcome delivered through the Shropshire Small Business Loan Fund, a value for the economic impacts has been calculated using the agreed unit value of benefits to provide a total value of benefits for the initiative. The calculations for the economic value and impact of the Shropshire Small Business Loan have been undertaken using this model and are included as Appendix 1. Using this impact assessment tool the total value of economic benefits relating to this loan scheme has been calculated which demonstrates that the benefits to Shropshire amount to over £6m of generated benefits for the £430,500 of Shropshire Council funds committed to date.

The model and calculator is underpinned by a robust evidence base (principally government published studies) tested through a peer review process – details can be found in 'An Economic Impact Tool for the Community Finance Industry' on [www.cdfa.org.uk](http://www.cdfa.org.uk)

This tool is supported by the evaluation work undertaken by the Department of Business, Innovation and Skills (The National Evaluation of Community Development Finance Institutions (CDFI), 2010), which highlighted that the economic impact of new and expanded businesses and their associated jobs

supported through loans can be assessed in terms of the contribution they make to the local and regional economy (measured through Gross Value Added). The evaluation stated that for every £1 invested by the public sector in to CDFIs, at the local level there would be a GVA return of £3.57 worth of new GVA or safeguard £5 worth of existing GVA in the local economy.

Details of the level of benefits as outlined within the Economic Impact Tool is included as Appendix 1 to this report, which will be used for promotional activities including business case studies.

5.4. Alternative options to ring-fencing the Shropshire funds have been considered that relate to both phases of the loan scheme, and a summary is detailed below.

<b>Option relating to Phase 1</b>	
Reduce capital contribution to Phase 1	<p>The contract with Impetus ends in July 2016. Any reduction to the capital contribution from Shropshire Council would affect the amount of match and number of Shropshire businesses supported through this scheme. Evidence supports that bank lending to SMEs is still minimal so there is still a need to continue this or a similar scheme.</p> <p>Any reduction in the capital contribution would be returned to the Council's reserves.</p>
<b>Option relating to Phase 2</b>	
Only use ERDF loan repayments for any legacy funds.	<p>The original intent behind the development of the Shropshire loan fund was to develop a revolving loan fund using the repayments to Shropshire Council from both phases to be used within a legacy fund for Shropshire. This intention stems from the restricted usage of the ERDF loan repayments to an ERDF legacy loan fund.</p> <p>ERDF match funding is required to be used as a legacy fund. A total of £153,000 of ERDF funds has been used for loans in Shropshire which could be used within a legacy fund. If only the ERDF loan repayments are used then the legacy fund would be limited and in-effective.</p>
<b>Option relating to Phase 1 &amp; 2</b>	
Ring-fence Shropshire loan repayments and any de-committed funds for Phases 1 & 2	<p>Evidence supports that bank lending to SMEs is still minimal so there is still a need to continue this scheme. There is a regional proposal to develop a 'Fund of Funds' for loans using the new ERDF funding to provide large loans, however smaller sized loans will still be required for SMEs and micro enterprises, especially in Shropshire. The loan repayments and ERDF legacy fund could be used to support a locally administered small business loan fund to complement this larger fund. Further</p>

	<p>discussions with other local authorities are in progress to investigate this option in more detail.</p> <p>As demonstrated through the Economic Impact Tool, the benefits of a small loans scheme drawing in other match as leverage can produce significant results. The Shropshire Council funds dispersed as loans to date amounts to over £6 million of generated benefits to Shropshire and its businesses.</p> <p>If the Shropshire Council capital contributions were to be withdrawn or reduced this would have a significant impact on the potential economic benefits for Shropshire and its businesses.</p>
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Further development work is required to assess opportunities, develop and appraise the proposed options and test out need, likely demand and viability.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>Capital Strategy Paper to Council 23/02/2012</p>
<p><b>Cabinet Member (Portfolio Holder)</b> Councillor Steve Charmley - Portfolio Holder for Business Growth, ip&amp;e, Culture and Commissioning (North)</p>
<p><b>Local Member</b></p> <p>All</p>
<p><b>Appendices</b></p> <p>Appendix 1 Shropshire Small Business Loan Scheme Economic Impact Assessment</p>