

## Cabinet Meeting on Wednesday 17 March 2021

### Staffordshire Means Back to Business – Staffordshire and Stoke-on-Trent Business Loan Fund



**Cllr Philip White, Deputy Leader and Cabinet Member for Economy and Skills said,**

“The business loan fund supports small viable companies to access essential finance where they have struggled with commercial lenders.

This, like all the programmes we have launched since our Staffordshire Means Back to Business strategy began last summer, is targeted support where it is needed most. We have worked successfully with BCRS for a long time and will combine our efforts with colleagues at Stoke-on-Trent for this round of funding.

Originally set up in the aftermath of the 2008 financial crash, in 2021 we are focusing on overcoming the immense challenges to businesses resulting from Covid-19. The loan fund has previously enabled businesses to expand, diversify and take on new employees. It has supported companies across a range of sectors from manufacturing to professional services.

Over the next three years we will build on this success – supporting 200 businesses which will contribute to our economic growth and create jobs in our communities.”

#### **Report Summary:**

Following the report considered by Cabinet in December 2020, this is a further report to meet that commitment and demonstrates our ongoing and clear support for our economy.

The Staffordshire and Stoke-on-Trent Business Loan Fund has made a significant contribution to the local economy by supporting viable small businesses across Staffordshire and Stoke-on-Trent, with the provision of loans from £10,000 to £50,000. Over the project course of 10 years, the county council has been the accountable body of five contracts to the value of £5.7m (including sought match funding) and has helped to support almost 200 businesses, creating and safeguarding more than 1,300 jobs. Since November 2015 under the most recent and final three-year contract, this loan fund has enabled 44 small businesses to access finance, to help them to create new jobs whilst developing and progressing their growth and expansion plans. By December 2018, total loans of over £1.5m had safeguarded and created 244 jobs.

This phase of the Business Loan Fund ended in December 2018 and has been instrumental to the success and development of business growth in the County, which has generated an impressive socio-economic impact. This supports the county councils pledge to deliver value for money for residents and businesses and enable our residents to access employment and feel the benefits of economic growth.

The proposal is to establish a new phase of the revolving loan fund based on previous successful arrangements (Staffordshire Small Business Loan Fund) working with BCRS, to support SMEs capable of development and growth, who are unable to secure finances from commercial sources. The proposed fund will also provide a focus for rural businesses across Staffordshire as part of the priorities for rural businesses outlined by the All Party Working Group on the economy at the County Council and in the forthcoming rural economic strategy. This covers a range of small sized business sectors and forms part of Staffordshire County Councils response to COVID-19 economic recovery and the county's future economic prosperity. It is intended for the fund to be launched in April 2021 and act as a viable alternative lending option as a revolving loan fund.

## **Recommendations**

I recommend that Cabinet:

- a. Support the establishment of a new joint Staffordshire County Council / Black Country Reinvestment Society (BCRS) business loan fund as a long term debtor of £490,000 along with other contributions from BCRS (£555,224), City of Stoke-on-Trent Council (£108,710), ERDF (£736,886) and the North Staffordshire Risk Capital Fund (£109,180), to create a new revolving loan fund (RLF) of £2m;
- b. Support the allocation of £490,000 of Staffordshire County Council funding, focussed on supporting rural businesses in Staffordshire; and
- c. Support the proposed joint operation of the fund with BCRS that will include a 2% commission on any introduced successful rural loans to contribute towards County Council staffing costs;
- d. Give authority to the Director of Economy, Infrastructure and Skills to authorise entering into the contract with BCRS to manage the Business Loan Fund as detailed in this report.

<b>Local Members Interest</b>
N/A

## **Cabinet – Wednesday 17 March 2021**

### **Staffordshire Means Back to Business – Staffordshire and Stoke-on-Trent Business Loan Fund**

#### **Recommendations of the Deputy Leader and the Cabinet Member for Economy and Skills**

I recommend that Cabinet:

- a. Support the establishment of a new joint Staffordshire County Council / Black Country Reinvestment Society (BCRS) business loan fund as a long term debtor of £490,000 along with other contributions from BCRS (£555,224), City of Stoke-on-Trent Council (£108,710), ERDF (£736,886) and the North Staffordshire Risk Capital Fund (£109,180), to create a new revolving loan fund (RLF) of £2m;
- b. Support the allocation of £490,000 of Staffordshire County Council funding, focussed on supporting rural businesses in Staffordshire; and
- c. Support the proposed joint operation of the fund with BCRS that will include a 2% commission on any introduced successful rural loans to contribute towards County Council staffing costs;
- d. Give authority to the Director of Economy, Infrastructure and Skills to authorise entering into the contract with BCRS to manage the Business Loan Fund as detailed in this report.

#### **Report of the Director of Economy, Infrastructure and Skills**

##### **Reasons for Recommendations:**

##### **Background**

1. The Staffordshire Business Loan Fund has contributed significantly towards creating the right conditions for economic growth across the whole of Staffordshire, resulting in better paid jobs for residents, which remains a top priority for Staffordshire County Council. With 99.6% of businesses in Staffordshire being SMEs, programmes such as the business loan fund have been key to supporting the development and growth of small businesses. SMEs are considered to be at greater risk to the effects of economic shocks, particularly under the current circumstances around COVID-19.
2. The county council has been the accountable body of five contracts over a ten year period, to the value of £5.7m (including sought match funding) and has helped to support almost 200 businesses, creating and safeguarding more than 1,300 jobs. Since November 2015 under the most recent and final three-year contract, this loan fund has enabled 44 small businesses to access finance, to help them to create

new jobs whilst developing and progressing their growth and expansion plans. By December 2018, total loans of over £1.5m had safeguarded and created 244 jobs.

3. The County Council has contributed £2.5m towards the total £5.7m pot, with £147k North Staffordshire Risk Capital Fund, £155k from Stoke-on-Trent Council, £855k European Regional Development Fund (ERDF) and the remainder £2m from recycled ERDF and other funds that are at BCRS's disposal. These funds are made available for reinvestment by BCRS in Staffordshire and Stoke businesses once each of the loan funds are repaid. Under the terms and conditions of the ERDF element of the loan fund, this resource must be retained and reinvested to support SMEs.

## Proposal

4. This proposal builds on the success and strengths of previous phases of the Staffordshire Business Loan Fund managed through BCRS and proposes to utilise existing eligibility criteria and processes. As BCRS are required to reinvest money from previous funds the County Council and City of Stoke-on-Trent Council are contributing an amount to increase the size of the fund rather than setting up their own loan funds. This approach will allow more businesses to be supported.

5. The funding loan package of £2m will be made up of contributions from:

a. Staffordshire County Council	-	£ 490,000*
b. City of Stoke on Trent	-	£ 108,710
c. ERDF to be recycled	-	£ 736,886
d. North Staffs Risk Capital Fund	-	£ 109,180
e. BCRS	-	£ 555,224

*\*The £490k Staffordshire County Council contribution is to be paid back by BCRS to the County Council as part of the Contract 4 agreement.*

6. The £490k of funding to be returned to the County Council will be used to repay the cost of Staffordshire County Council contributing to earlier rounds of the fund therefore Staffordshire County Council will essentially have to find 'new money' to contribute to this new round.
7. Due to the level of risk involved in making Loans to small businesses, BCRS will make a provision of 30% (thirty percent) of the Funding to cover Bad Debts. This will be set against the proposed Loans from the County Council which will therefore be repayable as a total of £343,000 (three hundred and forty-three thousand pounds).
8. Applicants must be existing businesses within the Stoke on Trent and Staffordshire area and have up to a maximum of 50 employees. They must be viable at the time of application and loans will be made to businesses proposing activities that will assist economic growth. A focus on productivity and safeguarding jobs will be a key outcome of the revolving loan fund.

9. The County Council's £490,000 contribution will provide a focus for supporting small rural businesses in Staffordshire; however, this does not exclude loans being available to small businesses in urban areas. The remainder of the fund to be used for lending to small businesses across Stoke on Trent and the rest of the county. This does not preclude a higher proportion of these monies being used for rural businesses if there is sufficient demand.
10. Loan amounts will be between £10,000 to £50,000 and repayable over a maximum 5-year period. BCRS will charge interest at a rate of between 8 – 16%, depending on the applicant's business case and risk.
11. The scheme is only available for small businesses declined from commercial funding sources.
12. Discussions between the County Council and BCRS have also agreed that the terms of engagement and operation of the fund with BCRS will now include a 2% commission on any introduced loans to contribute towards the County Council's staffing costs. The 2% commission will be based on the initial £490k County Council contribution.

### **Proposed Timescales**

- a. Launch of loan fund April 2021
- b. First loan applications to be considered May 2021
- c. Quarterly updates to SLT on performance
- d. Annual performance review
- e. Loan period ends April 2024
- f. BCRS to re-pay agreed loans amount to SCC April 2029

### **Finances**

Staffordshire County Council	£ 490,000
City of Stoke on Trent	£ 108,710
ERDF to be recycled	£ 736,886
North Staffs Risk Capital Fund legacy	£ 109,180
BCRS contribution	£ 555,224
<b>Total Fund</b>	<b>£2,000,000</b>

### **Outputs**

- a. Businesses supported: 50
- b. Jobs safeguarded or created: 120

### **Risks Identified**

13. The proposed new phase of the Staffordshire Business Loan Fund is based upon a successful ten-year operation and relationship with BCRS therefore the perceived risks are thought to be minimal. However, the following risks need to be considered:

- a. Demand may exceed the Business Loan Fund £2m allocation. The scale of the loan fund is considered appropriate to take its place alongside other government and locally delivered lending options for businesses currently available and will target businesses that have been refused loan finance from other lenders. Loans will be awarded on a first come first served basis.
- b. Demand may not reach the £2m Business Loan Fund allocation if potential applicants do not come forward for the loans. By continuing the previous collaboration between the County Council and BCRS, the loan fund will be efficiently managed by and delivered through an experienced and established lender who understands business propositions and lending requirements. The loan fund will form part of the BCRS portfolio of lending options.
- c. Terms of the Business Loan Fund, particularly with a significantly higher interest rate, may prove unpopular with businesses and therefore affect take up. The Business Loan Fund is an option for businesses who have been declined lending on more favourable terms due to a range of issues including risk. Therefore, the higher interest rate is charged to accommodate higher risk businesses and allow for a higher potential for loan repayment default and any necessary recovery costs
- d. High level of default on loan repayments. It is accepted that there may be some business failures, but steps will be taken to ensure that the business proposition is viable and robust by a combination of Growth Hub advice and the established processes and checks deployed by BCRS. Also, the repayment default rate of the previous BCRS managed Staffordshire Small Business Loan Scheme experienced a default rate of 30%. The County Council's economic role in referring business applicants to the scheme in collaboration with the Growth Hub will try to ensure that only the most robust business applicants benefit from the loans.

### **Subsidy Control (Previously called State Aid)**

14. BCRS (as the Fund Manager), will ensure during the duration of the contract and following termination of this Contract, the provisions governing subsidy control (replaced the EU state aid scheme when the UK left the EU) have been and will be fully complied with and the Fund Manager acknowledges that it shall not be the responsibility of the County Council to carry out investigations or monitoring of any kind in respect of any subsidy issues that arise out of or in consequence of the operation of this Contract.

### **Conclusion**

15. To conclude, the Business Loan Fund was initially established as a response to the recession and the need to address the lack of finance available to support viable businesses. As the loan fund has developed, it has focussed more heavily on enabling the diversification, growth and development of our small business community. A variety of businesses have benefitted from the financial support including design, marketing and IT consultants, manufacturing companies, training providers, logistics and other professional service providers. By supporting nearly

200 businesses it has and will continue to make a significant contribution towards the economic growth and prosperity of the County. The proposed new phase seeks to continue this positive legacy in supporting businesses who find it difficult to access finance for their growth from commercial sources. This requirement is even more evident as the county's economy endeavours to progress beyond the current COVID-19 pandemic.

### **Legal Implications**

16. The contractual arrangement with BCRS will be based upon the previous contract prepared by Legal Services for the period December 2015 to December 2018. The County Council will be detailing how the Business Loan Fund will be managed and will be entering into the contract on behalf of City of Stoke on Trent Council. Legal Services will assist with reviewing and updating the contract as necessary to take account of any statutory changes including data protection and subsidy control provisions.
17. BCRS were previously commissioned through an open tender process, however as the majority of the funding is held by BCRS to be reinvested the County Council along with City of Stoke-on-Trent Council have decided to invest the amounts detailed in this report to increase the pot available to BCRS. Although BCRS may retain 30% for bad debt, the risk rests with BCRS if more than 30% of the fund is not repaid by businesses.

### **Resource and Value for Money Implications**

18. Resources are being made available as detailed above. The County Council's requested contribution of £490,000 is the same amount as is being returned as per Contract 4 (running from December 2015 to December 2018) of the Business Loan Fund.

### **List of Background Documents/Appendices:**

Black Country Reinvestment Society SLA

Community Impact Assessment – Summary Document

### **Contact Details**

<b>Report Author:</b>	Ian Jackson
<b>Job Title:</b>	Rural Development Manager/Staffordshire 'LEADER' Programme Manager
<b>Telephone No.:</b>	01785 854306 / 07815 827147
<b>E-Mail Address:</b>	<a href="mailto:ian.jackson@staffordshire.gov.uk">ian.jackson@staffordshire.gov.uk</a>