

ECONOMIC DEVELOPMENT COMMITTEE

12 SEPTEMBER 2018

THINK BIG LOAN FUND

1.0 Purpose of Report

- 1.1 To provide an update for the Policy Monitoring Group regarding the Growth Investment Fund (Think BIG).
- 1.2 To recommend the closure of the Loan Fund.

2.0 Background Information

- 2.1 The loan fund was introduced during 2012/13 in order to provide small businesses in the district that could not, because of the reluctance of traditional lenders to lend to small businesses which was partly the outcomes of the economic crisis. The loan fund has, since inception, approved a number of qualifying loans which have been drawn down by businesses to enable growth and the majority of these businesses have repaid the initial loan and are now financially independent. This independence, together with the improvement in availability of funding from traditional sources has meant that there has been a significant decline in applications for loans from the fund in the past 12 months. In the first 4 months of this year, to 31 July 2018, there have been no loans awarded.
- 2.2 17 loans have been drawn since the fund was established in December 2012 and at present has achieved a net increase in fte jobs created of 111. The jobs created figure does vary as businesses re-structure and find new markets/products. Since the commencement of the loan fund 2 businesses have received additional loans from the fund in order to support further growth although these have not been included in the calculation of loans drawn down as they were for the same business. 3 loans have been repaid and losses are expected in respect of 2 loans.
- 2.3 Since inception, £1,457,967 has been loaned to local businesses. The total gross costs of operating the scheme have been £421,138 and income earned of £209,065. The net cost to the fund to 30 June 2018 is therefore £212,073, or 14.55% of loans awarded. This is a disproportionately high cost and will further increase following the potential write offs of further loans (2.4 below)

A12506	Growth Investment Fund	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total
	Think Big Fund Balance B/f	1,294,842.80	1,877,074.01	1,574,175.33	1,416,740.51	1,217,270.63	1,151,782.11	1,202,641.76	
	Contribution to the fund								
	From other balances	705,157.20	12,766.88						
	Costs								
	Professional Services	70,691.46	37,978.09	62,758.54	54,171.21	61,684.59	66,817.39	10,492.35	364,593.63
	Internal Charges	6,502.84	2,456.46	2,705.28	3,192.11	6,129.38	602.56	0.00	21,588.63
	Bank Charges from Streets		74.00	31.80	29.40	28.00	24.20	5.40	192.80
	Loan Write Offs						34,763.74		34,763.74
	Total running costs of the scheme	77,194.30	40,508.55	65,495.62	57,392.72	67,841.97	102,207.89	10,497.75	421,138.80
	Income								
	Fees charged	-125.00	-6,575.00	-9,250.00	-10,464.00	-14,850.00	-11,650.00	-3,250.00	-56,164.00
	Interest	-799.88	-17,751.22	-33,207.38	-36,890.21	-35,040.81	-21,179.34	-8,032.31	-152,901.15
	Total Income	-924.88	-24,326.22	-42,457.38	-47,354.21	-49,890.81	-32,829.34	-11,282.31	-209,065.15
	NET Costs of the scheme	76,269.42	16,182.33	23,038.24	10,038.51	17,951.16	69,378.55	-784.56	212,073.65
	Loans								
	Amounts loaned out	50,500.00	370,000.00	297,500.00	368,762.53	210,000.00	161,205.45	0.00	1,457,967.98
	Principal Repaid	-3,843.43	-70,516.77	-163,103.42	-179,331.16	-162,462.64	-247,260.70	-35,756.20	-862,274.32
	Principal write off						-34,763.74	0.00	-34,763.74
	Write off debtor discrepancy from 2012/13						580.79	0.00	580.79
	NET Loan Balance	46,656.57	299,483.23	134,396.58	189,431.37	47,537.36	-120,238.20	-35,756.20	561,510.71
	Balance c/f	1,877,074.01	1,574,175.33	1,416,740.51	1,217,270.63	1,151,782.11	1,202,641.76	1,239,182.52	

2.4 Summary of Risk Status

Monitoring Status	Original Loan	%	Amount outstanding		Number of Loans
			£	%	
RED	290,000	32.7	275,093	49.0	2
AMBER	101,205	11.4	86,467	15.4	1
GREEN	496,262	55.9	212,037	37.8	7
Total	887,467	100.0	561,510	102.2	10

RED Risk:

Case 1) Original Loan £40,000 in 2014: the business has faced difficult times and has closed. We have a charge over the property which will either be sold or converted into a residential house and a new mortgage obtained to repay our loan. The building was declared an Asset of Community Value and there is a community bid being developed to buy the building. Once the building is sold, NSDC have second charge behind Barclays for the mortgage and so there is sufficient equity that this will clear the outstanding amount.

Case 2) Original Loan £250,000 in 2015: this business has gone into administration. Discussions have been ongoing with the personal guarantors, although no significant progress has been made. The offer currently available is to repay £34,000 as a lump sum in final settlement for a £150,000 personal guarantee. There is very little equity in the circumstances of the individual and it is important that they can continue to earn, rather than declaring bankruptcy. A compromise solution may be to accept this payment and add in legal conditions surrounding further repayments in future years with an annual review taking place.

Case 3) A loan of £50,000 was made in 2015 to help an experienced restaurant owner re-open a former restaurant in a popular location in Newark. A further loan of £50,000 was made in 2017 to help establish a Fish & Chip shop restaurant in the town. The decline in restaurant trade in recent months has led to the first restaurant being closed. The loan is currently being restructured at £88,000 and repayments have been suspended until trade picks up, hopefully in the autumn. Whilst NSDC would have debenture and personal guarantee security there is a risk of loss and the business is being monitored closely.

One loan has now been written off by the Section 151 Officer. The original loan was for £50,000 in 2013: net Loss of £23,337. The business has gone into liquidation with minimal assets. Personal guarantees were pursued but have not resulted in any further repayments. The individuals concerned have declared insolvency and the loss has now been written off by NSDC Finance Team.

2.5 Monitoring Processes

The advisers to the Think Big Loan Fund have been carrying out the following monitoring procedures:

Each business granted a loan participates in a quarterly monitoring review meeting with the Business Analyst. This allows the Panel to identify any issues at an early stage. The Payment Services provider, Street UK advises the Economic Growth Team if any repayments are missed and contact is made with the business to determine the reason. Investment Panel members are advised and the Business Analyst will visit and report as necessary. On several occasions the Panel has assessed the working capital position of the business and agreed to defer repayments to help the business through cash flow issues.

The involvement of our Business Analyst has increased the confidence of banks who then agree to increased overdraft and loan facilities. 15 businesses have successfully secured traditional lending facilities following support from the Business Analyst acting for the Loan Fund.

In cases where a business is unable to survive we have a Recovery Process to work with the Administrator or liquidator. The process includes the internal legal team and the Investment Panel in discussion as to the appropriate legal recovery action. Processes are reviewed for the whole monitoring process on a regular basis in the light of experience gained.

2.6 Further Developments in the Regional Funding Market

The **Midlands Engine Investment Fund of £250m** has now been set up to fund businesses across the East and West Midlands. It will be important to make businesses in the district aware of the opportunity and how the Growth Investment Fund could be used to fill gaps and give support. The Economic Growth Team of the Council will provide support to businesses in applying for this source of investment and loan funding.

3.0 Proposals

- 3.1 In Autumn 2017, a review of the Loan Fund concluded that the Fund should continue to operate with ongoing review. The self-sufficiency of businesses, however, and the availability of other sources of funding now available to businesses in the district, means that the loan fund is no longer required as an additional option of support to businesses. The costs for the administration of the fund can therefore be considerably reduced and existing loans monitored through the Economic Growth Team rather than the Business Analyst and then Loan Fund Panel can also be disbanded. The Economic Growth Team will also provide advice and support to local businesses in bidding for the Midlands Engine Investment Fund.

4.0 Equalities Implications

- 4.1 There are no negative equality implications with applications to other funding sources being monitored and supported through the Economic Growth Team.

5.0 Impact on Budget/Policy Framework

- 5.1 As at 30 June 2018 the Council has £561,510.71 in loans outstanding. The Council originally set aside £2.013m during 2012/13 and 2013/14 into a reserve to fund the scheme. This amount included any costs for the running costs and bad debts, should they occur.

- 5.2 To date, net costs totalling £212,073.65 have been incurred in running the scheme, which includes £34,763.74 for a debt written off during 2017/18.
- 5.3 There is further likelihood (as set out in 2.4 above) of non-collection of cash to the value of £275,093. The balance remaining on the reserve, should these debts be written off, would be £1.526m.
- 5.4 Included in the professional costs £66,817.39 in 2017/18 (table in 2.3 above), are fees of £4,398.63 paid to an external agency for the administration of payments and receipts from the fund. Interest and fees on the loans during 2017/18 totalled £32,829.34. This cost of administration will continue until the last loan is repaid which is currently expected to be August 2021 (unless a payment holiday is agreed). The interest and fees will be reduced annually as the loans are repaid. This will be built into the budget process for 2019/20.
- 5.5 Closing the fund will release the **£1.526m** in reserves to fund other strategic priorities.

6.0 Comments of Director – Resources/Deputy Chief Executive

- 6.1 The Growth Investment Fund (Think Big) was set up in 2012/13 to provide a “last resort” funding option for small businesses and was partly a response to the lack of confidence of the traditional banks to provide loan facilities to small businesses with low (or no) credit rating.
- 6.2 The fund has run successfully over this period and has, to some extent, met its primary objective of supporting small local businesses to establish and grow over time. The landscape today, however, is very different from what it was in 2013/14; supported businesses have become financially independent, banks have become more confident in lending to small business that can present a good business case and the Midlands Engine Investment Fund of £250m has now been set up to fund businesses across the East and West Midlands.
- 6.3 The Loan Fund has not been fully prescribed and for the first quarter of this financial year, no loans have been granted. The Fund however continues to incur professional, advisory, fees on a monthly basis. In addition, there is a high probability that there will be a further need to write off about £270K later in this financial year.
- 6.4 The Council continues to face the challenges of maintaining sustainable general fund services and providing funding for its key projects. The Council’s Medium Term Financial Plan, Commercial strategy and Investment Plan require all services to be regularly reviewed to ensure value for money. The Think Big Loan Fund has met its purpose and for the reasons set out in this report no longer provides value and the £1.526m which is held in the reserve can be better applied to the other strategic priorities of the Council

7.0 RECOMMENDATIONS

It is proposed that the Policy Monitoring Group support the following recommendations:

- a) that the Think BIG Loan is closed to new applications and existing loans are monitored through the Economic Growth Team; and**

- b) that the Economic Growth Team signpost small local businesses to the Midlands Engine Fund and other sources of financial and business support and wherever possible support businesses to submit applications for funding.**

Reason for Recommendations

Other financial support is now available to businesses in the District

Background Papers

None

For further information please contact Julie Reader-Sullivan on ext 5258

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Director – Resources/Deputy Chief Executive