

Eden District Council

Executive

20 July 2021

Eden Business Support Fund – 6 year review

Portfolio:	Economies and Enterprise
Report from:	Assistant Director Development
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

- 1.1 To review the performance of the Eden Business Support Fund over the last three years and consider whether any changes should be made to the fund. A previous review was undertaken three years ago. In addition, the report recommends continuation of the Fund for a further three years.

2 Recommendation

It is recommended that:

1. The Eden Business Support Fund is continued and reviewed in three years' time.
2. The requested amendment to the fund set out in Appendix A under 'Potential amendments to the criteria' is agreed and a new formal agreement is drawn up between the Council and Enterprise Answers to reflect this change and the other amendments, set out in Appendix A over the last 6 years.

3 Background to Eden Business Support Fund

- 3.1 In December 2014, the Council agreed to setting up the Eden Business Support Fund (EBSF). The Fund is set at £500,000 and is designed to support local businesses that are looking to expand and develop but may have struggled to get the backing from mainstream lenders for a variety of reasons, so have had their growth and job creation plans stifled.
- 3.2 The EBSF is a joint project between Eden District Council and Enterprise Answers who are a not for profit Community Development Finance Institution (CDFI). Each partner has committed to putting £250,000 into the Fund.
- 3.3 Since Council agreed to the Fund being set up a Formal Agreement was drafted and signed by both parties and the Fund has become operational. As part of the Formal Agreement, there is a requirement contained within the document that requires quarterly monitoring reports and an Annual Statement to be produced by Enterprise Answers and issued to Eden District Council. These are taken to Informal meetings with the Economies and Enterprise Portfolio Holder where progress against the Fund's performance is monitored and any areas of concern are raised.

- 3.4 The Council report envisaged that the initiative should run initially for six years with a full review of the scheme undertaken after three years. A review was undertaken after three years of operation. This report presents a further review of the fund after six years, undertaken internally by the Economic Development Team.
- 3.5 This review explores evidence to help the Council consider whether the authority should continue with the scheme, and if so whether it should be in its current format or undertake any changes, for example increase or decrease the level of funding invested in this scheme.
- 3.6 Details of the performance of the scheme over the course of the six years is set out in Appendix A. The overall performance of the Fund in meeting the expectations of Eden District Council and Enterprise Answers gives confidence that the scheme should be pursued for a further three years.

4 Policy Framework

- 4.1 The Council has four corporate priorities which are:
- Sustainable;
 - Healthy, safe and secure;
 - Connected; and
 - Creative
- 4.2 This report meets the Sustainable corporate priority to make the Council more financially viable and the Connected and Creative corporate priorities to support businesses.

5 Consultation

- 5.1 The Economies and Enterprise Portfolio Holder receives a quarterly monitoring report and annual reports at the informal Portfolio Holder meetings.

6 Implications

6.1 Financial and Resources

- 6.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2019-2023 as agreed at Council on 7 November 2019.
- 6.1.2 The cost of the contribution to the Eden Business Support Fund of £250,000 was agreed by Council in December 2014. The Council also receives an income from the EBSF as a result of the interest rate charged on the loans, however there is also the potential from the loan to suffer from bad debts, however, this is mitigated where possible through due diligence checks

6.2 Legal

- 6.2.1 There are no legal implications arising from this report.

6.3 Human Resources

- 6.3.1 There are no additional human resource implications arising from this report.

6.4 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	There are no equality and diversity implications arising from the report.
Health, Social Environmental and Economic Impact	The Eden Business Support Fund has a positive economic benefit by creating and safeguarding jobs in Eden and providing an alternative finance option for businesses.
Crime and Disorder	There are no crime and disorder implications arising from this report.
Children and Safeguarding	There are no children and safeguarding implications arising from this report.

6.5 Risk Management

Risk	Consequence	Controls Required
The main risk associated with the Fund are those around bad debt being incurred.	Bad debt is incurred and there is the potential loss of public funds.	Due diligence checks that are undertaken prior to a loan being taken out are seen as a key way of mitigating that risk where possible. In addition, Enterprise Answers have significant commercial banking experience and have an enviable record of low levels of bad debt.

7 Other Options Considered

- 7.1 The option to discontinue the scheme was rejected because of the positive economic impact of the scheme for businesses and for the Council.

8 Reasons for the Decision/Recommendation

- 8.1 The scheme is delivering on its aims, the amount of funding out on loan shows a need for the scheme and the Council also benefits from the investment.

Background Papers:

Council Report 4 December 2014, Eden Business Loan Fund

Executive Report 3 July 2018, Eden Business Support Fund – 3 Year Review

Executive Report 3 September 2019, Eden Business Support Fund – Amendment to Criteria

Appendices: Performance data from Eden Business Support Fund

Contact Officer: Emily Bond, Economic Development Manager

Appendix A – Performance review of the EBSF from 2015 - 2021

Summary data

The performance data below sets out the information for first six years of the fund so far, focussing specifically in more detail on the last three years, with data taken from the annual statements.

Table A: Summary Information					
Measure	Total 2015-2018	2018/19	2019/20	2020/21	Total 2018-2021
Total enquiries	19	2	28	21	51
Loans approved	9	2	3	2	7
Applications withdrawn	5	0	2	0	2
Applications declined	5	0	2	0	2
Total value of loans approved	£397,000	£110,000	£186,500	£310,000	£606,500
Total number of loans performing satisfactorily	8	6	6	5	5
Total number of loans in default/arrears	1	1	0	1	1
Total number of loans repaid	1	2	4	2	8
Total number of new jobs created	13	4	11	0	15
Total number of jobs safeguarded	23.5*	4	27	28	59
Total number of employees upskilled	18*	4	8	0	12

** These figures include 9 employees who have been upskilled and jobs safeguarded in a business that has since gone into administration.*

Enquiries

The number of enquiries over the last three years of the scheme has shown an increase in comparison to the first 3 years. This likely represents wider knowledge of availability of the scheme and reduction in the availability of other funding streams.

The availability of the scheme is marketed by Enterprise Answers and by the Council through traditional and online marketing.

Loan repayments

The table below outlines the loans repaid and outstanding after 6 years of the scheme.

Table B: Loans outstanding at 31 March 2021					
Loan	Start date	Value	Interest rate	Term (months)	Remaining value
1	24/12/15	£100,000	12.0%	64	£0.00
2	11/02/16	£40,000	10.0%	12	£0.00
3	27/01/16	£20,000	12.0%	60	£0.00
4	15/06/15	£20,000	12.0%	60	£0.00
5	16/03/17	£90,000	11.0%	60	£22,140.48
6	29/09/17	£57,000	10.5%	60	£0.00
7	08/03/18	£10,000	12.0%	6	£0.00
8	18/04/18	£35,000	9.95%	60	£0.00
9	27/07/18	£50,000	12.0%	3	£0.00
10	03/09/18	£60,000	12.0%	36	£15,248.65
11	06/02/20	£60,000	10.5%	60	£56,109.35
12	17/02/20	£100,000	12.0%	48	£0.00
13	03/03/20	£26,500	12.0%	60	£22,140.48
14	23/04/20	£160,000	12.00%	48	£136,409.60
15	20/05/20	£150,000	12.00%	12	£150,000.00

In the first three years of the scheme, one debtor went into liquidation and the loan was fully recovered. The Coronavirus pandemic has dominated the last year, loans drawn down prior to the pandemic maintained their repayment schedule or benefitted from interest only payments where there was a strain on their cash flow. Only one loan has experienced difficulty and is currently two months in arrears but Enterprise Answers are confident this will be corrected in the short term.

When investing the Council's money in this fund, it was outlined that the main risk associated with the Fund was bad debt being incurred. Due diligence checks that are undertaken prior to a loan being taken out are seen as a key way of mitigating that risk where possible. Nevertheless, despite any mitigation actions, the risk still exists and must be accepted as a potential consequence. The experience with the previous debtor proved that Enterprise Answers dealt with the debt swiftly following notification of liquidation and had already undertaken the necessary work prior to agreeing the loan to ensure that full recovery was possible. Enterprise Answers continue to have an enviable record of low levels of bad debt.

4.4 Return on Investment (ROI)

Table C: Interest Payments and ROI					
Period	Loan interest	EDC 50% share	Credit interest on EDC funds	EDC Total	Return on Investment
2015/16	£4,345.89	£2,172.95	£433.18	£2,606.13	1.04%
2016/17	£11,363.58	£5,681.80	£147.61	£5,829.40	2.33%
2017/18	£19,669.18	£9,834.59	£0.00*	£9,834.59	3.93%
2018/19	£24,906.00	£12,453.00	£0.00*	£12,453.00	4.98%
2019/20	£20,111.32	£10,055.66	£0.00*	£10,055.66	4.02%
2020/21	£42,523.92	£21,261.96	£0.00*	£21,261.96	8.50%
Total	£122,919.89		£580.79	£62,040.74	Average 4.14% / year

* Enterprise Answers no longer receives interest in this account.

As expected, the scheme did take some time to establish and the return on investment has generally increased year on year as more loans have been taken out, averaging out at 4.14% ROI per year on the original £250,000 investment over the 6 years to date.

Social return and benefit to the economy of Eden

The criteria for the loans requires that the businesses create new employment or safeguard existing employment if at risk, and have a clear remit and policy to upskill, train and develop employees.

Over the last three years, the fund has helped to create 15 new jobs. Safeguarding employment at risk is just as important an outcome for the fund. The scheme has helped to safeguard 59 jobs during this time period.

Training and upskilling employees is important for both the development of the company and those individuals for career progression. Over the last three years, twelve employees have been trained and upskilled as a requirement of the funding.

As a requirement of all of these businesses is that they are experiencing difficulty in obtaining finance from conventional sources, the Eden Business Support Fund has delivered jobs, growth and skills which may not have happened without the fund.

EBSF loan criteria

Loan Criteria set out in formal agreement

Within the Formal Agreement, the criteria for a loan has been set out along with what has been agreed as being a qualifying business for the support:

- to provide loans of between £10,000 and £100,000 for no more than eight years to Qualifying Businesses; and

Qualifying Businesses are classed as below:

- The business is based or operating from within the District of Eden,
- The business is experiencing difficulty in obtaining finance from conventional sources,
- The business can demonstrate future growth potential over a three year period,
- The business can create new employment or safeguard existing employment if at risk,
- The business must have a clear remit and policy to upskill, train and develop employees with a view to enhancing the business which reflects in improved employee remuneration, and
- The business must operate in key sectors such as tourism, agriculture, manufacturing, engineering, digital technology or renewable energy.

In considering which businesses and activities the EBSF may support, it is also useful to clarify what the EBSF will not support:

The fund must not be used:

- to provide loans that will be used to clear existing debt and/or existing loans;
- to award loans to any party that is managed, controlled, influenced or is owned by or has any other material links to Enterprise Answers or to any employee of Enterprise Answers;
- to award loans to businesses that are in difficulty as defined within the EC guidelines on rescue and restructuring;
- to support management buy outs or other similar arrangements.

Existing amendments to the formal agreement

Short term bridging loan

As part of the 3 year review in July 2018, the addition of a short term bridging loan was agreed by the Executive to be included as part of the EBSF offer to add flexibility to the scheme. The short term bridging loan is available to any Eden business which has been successful in securing grant funding or is in the process of securing term lending from an alternative or mainstream provider. This loan is designed to assist applicants with meeting the upfront expenditure which must be incurred before the grant is paid out to reimburse the cost, as agreed within the grant offer letter or to provide the business with the necessary working capital until the alternative/mainstream finance becomes available.

The bridging loan allowed a business to borrow more than the maximum of £100,000 for a loan term of up to 6 months.

Extension of loan size and duration

In September 2019 the Executive agreed to amend the criteria to extend the loan period up to 15 years and extend the loan amount up to £200,000. As a result of this change the fund is now more flexible to larger business enquiries and two loans over £100,000 have been drawn down.

Review of EBSF

Continuation of the scheme

In the current business climate where banks are increasingly risk adverse, the scheme offers a financial option to businesses in Eden, which may be the only option available to them to create and safeguard jobs in Eden. The job numbers show a positive effect on Eden's economy and the ROI for the Council is averaging 4.14% with an 8.5% return over the last year which is very good in the current climate. One loan is currently behind on payments but given that COVID-19 has caused very challenging business conditions over the last year the situation could have been much worse.

It is therefore recommended that the scheme is continued and reviewed in a further three years' time.

Increase or decrease of funding in the scheme

The Council could choose to increase or decrease the level of funding in the scheme. At no point during the scheme have loans had to be turned down due to lack of availability of funds in the pot. At the current time over 80% of the fund is out on loan so there is a risk that this could become the case if a large loan enquiry was to come in.

It is recommended that should this situation occur, Enterprise Answers notify the Council at the earliest opportunity so that a decision can be taken as to whether to contribute further funding to the scheme.

Given the amount of the fund currently out on loan and the performance of the scheme, it would not be logical to decrease the amount of funding.

Potential amendments to the criteria

Enterprise Answers have requested to change the minimum loan amount from £10,000 to £25,001 in respect of Sole Traders and Partnerships.

Across their portfolio of products, Enterprise Answers now only provide unregulated lending solutions of £10,000+ for Limited Companies and £25,001+ for Sole Traders and Partnerships.

This change should have no real impact on the EBSF as all of the loans that have previously been administered would still have proceeded with the above change in place. It is therefore recommended that this change be agreed and implemented.