

REPORT TO: Executive Board

DATE: 23 February 2017

REPORTING OFFICER: Operational Director – Finance

PORTFOLIO: Resources

SUBJECT: Support to Small and Medium Enterprises

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To propose that the Council considers adopting a scheme of providing financial support to Small and Medium Enterprises (SMEs) by way of short-term capital loans, where it can be demonstrated that businesses have been unable to raise finance via traditional financial institutions or other sources and it will deliver new or sustained economic development and other benefits for the Borough.

2.0 RECOMMENDED: That

- (i) Council be asked to approve the introduction of a Scheme of Support for SMEs, in accordance with the circumstances and criteria outlined in this report;**
- (ii) Subject to recommendation (i), the award of business loans up to £1m for successful applicants, be delegated to the Operational Director, Finance, in liaison with the Executive Board Portfolio Holder for Resources and the Operational Director, Economy, Enterprise & Property;**
- (iii) Subject to recommendation (i), the award of business loans of between £1m and £5m for successful applicants, be delegated to the Chief Executive in liaison with the Leader of the Council, Executive Board Portfolio Holder for Resources, Operational Director, Finance and the Operational Director, Economy, Enterprise & Property; and**
- (iv) Subject to recommendation (i), the award of business loans of over £5m for successful applicants, be a matter for decision by Executive Board.**

3.0 SUPPORTING INFORMATION

Background

3.1 Since the global financial crisis in 2008, financial institutions have been highly risk averse, particularly in respect of Small and Medium Enterprises (SMEs). In the current economic climate it is still proving

difficult for SMEs to obtain finance from the usual financial institutions, which is hampering their ability to grow, expand and develop their businesses for the benefit of boroughs such as Halton.

- 3.2 This provides an opportunity for councils to support SMEs in order to assist with sustaining and growing economic development and job creation within their boroughs, whilst also generating much needed business rates and interest revenue to support delivery of council services. With the introduction of 100% business rates retention nationally from 2020 and Halton's inclusion in the Liverpool City Region pilot scheme from April 2017, business rates growth is now a key financial driver for councils in order to fund the delivery of public services.
- 3.3 A number of councils are now offering such financial support to SMEs, either directly from the council or via arms-length vehicles.

Proposed Approach to the Provision of Support

- 3.4 The Council has a proven track record and significant expertise in supporting SMEs to access grant and other funding opportunities from a variety of sources, to assist with the development of their businesses. This would therefore continue to be the first port of call in supporting the Borough's businesses, signposting them to funding programmes and opportunities such as the Chrysalis Fund, as well as providing technical advice and support in applying for such funding. One of the aims in assisting with access to such funding opportunities, is to promote investment in the Borough where the market has limited capacity or appetite to invest.
- 3.5 There will be circumstances where the form of funding required or the outcomes to be delivered do not meet the specific requirements of grant or other funding programmes, to which the business has been directed. In these instances, consideration may be given to whether it would be in the Council's interests to provide funding to the business. This would be in the form of a short-term capital loan, with appropriate security provided and linked to inward investment in the Borough.
- 3.6 In order to consider the provision of financial support in this context, a number of criteria will be used to evaluate proposals including the following;
 - (i) Businesses seeking financial support should preferably operate within the Borough and demonstrate that any financial support provided by the Council would be utilised to deliver outcomes and benefits within the Borough.
 - (ii) The purpose of the loan must be presented in detail, along with the fully costed, potential benefits for the business of such funding and the sustainability of those benefits.
 - (iii) The reasons why the business has not been able to obtain funding from traditional financial institutions or via other funding

opportunities and what efforts have been undertaken to seek such finance, will need to be provided by the applicant.

- (iv) The potential benefits for the Borough of granting loans to businesses will be considered. These may include; additional floor area to be developed, creation or sustainability of jobs, development of economic activity, business rates growth and contribution towards the Council's regeneration and economic development strategies. The applicant's future forecasts and business plans will be required to support the assessment of such benefits.
- (v) An assessment would be undertaken in each instance, to ensure that any financial support provided is fully compliant with State Aid rules. To this end, loans will also be advanced at a minimum of commercial interest rates.
- (vi) The applicant will be required to provide the Council with an appropriate form of security, against which the loan is to be provided. Such security will be evaluated in order to consider whether the form and amount of security is deemed acceptable in the particular circumstances.
- (vii) Each application for funding will also be considered in the wider context of any existing funding arrangements in place or any other arrangements, which the Council may have with the applicant business.
- (viii) Each application for financial support will be considered on its own merits.
- (ix) The extent to which these criteria apply may be reflected in the rate of interest to be charged by the Council in each instance.
- (x) The repayment period will be established in each case, based upon the particular circumstances of each successful loan application. However, in all cases repayment of the loan and associated interest will begin from the date upon which the loan commences.
- (xi) Even where proposals meet the evaluation criteria, the Council will reserve the right not to grant a loan, in particular where it is determined that insufficient funding is available to the Council at the time in order to provide a loan.

3.7 The mechanism for assessing and evaluating proposals will cover a number of aspects including the following;

- (i) All applications would be subject to rigorous financial and legal due diligence, utilising external specialist advice where considered necessary. Applicants will be required to provide previous years'

audited accounts, future forecasts, fully costed proposals, and business plans.

- (ii) All additional costs incurred by the Council in evaluating proposals, such as commissioning specialist advice, will be charged to the business submitting the application in advance of any decision regarding whether or not to grant the loan.
- (iii) It is recognised that the provision of loans to businesses carries significant financial risks for the Council. Therefore, the rate of interest to be charged for successful applications, will reflect this and will be established on a case-by-case basis, taking account of such factors as; current commercial interest rates, the period and amount of the proposed loan, the interest rate payable by the Council to secure such funding, the generally assessed risk of business failures, and the risk of failure to repay the loan.
- (iv) Where an application is successful, a formal legal agreement will be prepared and signed in advance of any funds being provided. This will ensure that the Council's rights and funding provided are protected as far as possible.

Conclusions

- 3.8 It is proposed that a scheme be introduced to potentially provide funding for SMEs in the particular circumstances outlined above. The evaluation of business loan applications will be undertaken by reference to the above criteria and mechanisms, with decisions regarding the award of loans being made as set out in the recommendations above.

4.0 POLICY IMPLICATIONS

- 4.1 The adoption of the proposed scheme would support the Council's policies around inward investment, economic development and regeneration.

5.0 FINANCIAL IMPLICATIONS

- 5.1 Funding for the proposed scheme would be provided via borrowing, with applicant businesses meeting the full cost of such borrowing over the loan period and with a minimum of commercial interest rates being applied. All additional costs of evaluating applications would also be met by the applicant businesses.
- 5.2 A key factor in evaluating applications will be the potential for increased business rates generation which the investment may deliver.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children & Young People in Halton

6.2 Employment, Learning & Skills in Halton

The adoption of the proposed scheme may promote and sustain investment in the Borough and thereby support the achievement of this priority.

6.3 A Healthy Halton

6.4 A Safer Halton

6.5 Halton's Urban Renewal

7.0 RISK ANALYSIS

7.1 The provision of financial support to SMEs carries potential financial risks as outlined in section 3 above. The financial and legal due diligence which will be undertaken, the level of security required in each instance, the interest rates to be applied, along with the legal agreements and other measures outlined above, will all mitigate against these risks.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1072

9.1 There are no background papers under the meaning of the Act.