

REPORT TO RESOURCES PDG

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF235

DATE: 30 MAY 2013

TITLE:	South Kesteven District Council Small Business Loan Scheme and Hardship Awards	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	N/A	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Councillor Mike Taylor Well Run Council Portfolio Holder	
CONTACT OFFICER:	Richard Wyles – Head of Finance 01476 406210 Email: r.wyles@southkesteven.gov.uk	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS		

1. RECOMMENDATION

It is recommended that:

- Resources PDG give consideration to the establishment of a small business loan scheme and;
- Review and approve the guidance notes and application form attached to the report having taken into consideration the information provided in the report.
- Provide a recommendation with respect to the proposed criteria for any applications with respect to Hardship relief.

2. PURPOSE OF THE REPORT

To propose the introduction of a loan fund to provide financial support to small business in the South Kesteven district during the current economic climate and to give consideration to an application criteria with respect to Hardship relief.

3. DETAILS OF REPORT

Council, at its meeting on 1 March 2013, approved the introduction of a budget in order to assist and respond to the community during the current financial climate. An allocation of this budget is to assist businesses by providing financial support where appropriate.

South Kesteven has over 15% small and medium sized businesses with the majority employing less than 16 people (compared to a national average of just under 17 people). Unemployment in the district has risen by 0.3% over the past 12 months which is 6.4% of the working age population.

Due to the current financial climate many small businesses are suffering from a lack of access to finance as banks have been reluctant to lend money. Banks are looking for shared risk and if greater levels of deposits or match funding on loans are not provided this can lead to loan applications being rejected. Difficulties in renewing loan arrangements, higher overdraft interest rates or a summary withdrawal of overdraft are some of the issues being reported by businesses. The introduction of a small loans scheme for small businesses will help address some of the issues being faced accessing finance.

Hardship Relief

This initiative complements a suite of packages being delivered by the Council including the shop front scheme, serviced land and the greater promotion of the Hardship fund for business rate assistance. In respect of this The Council has a discretionary power under Section 49 of the Local Government Finance Act 1988, in exceptional circumstances, to reduce all or part of a business rates bill. The legislation stipulates that a local authority in considering hardship must be satisfied:

- The ratepayer will suffer hardship if relief is not granted
- There is a direct benefit to the ratepayer, or the community, and there are no adverse impact to other ratepayers or the community as a result of awarding relief

It is proposed to increase the awareness of the hardship relief and to introduce scoring criteria that can be used to assess whether the awarding of relief is appropriate based on the implications of the business continuing trading in the district. This will be based on:

- History and Future Planning
 - What was the reason for the hardship - is there a recognisable one-off reason for the hardship, or is it just a slowdown in trade, or even that the business is just not sustainable.

- Is there an improvement plan - does the organisation / individual have an improvement plan to relieve them of hardship and if so what are the chances of success.
- Will the granting of hardship be effective - will the organisation / individual still be unsustainable even with the granting of a reduction in the non-domestic rates liability. Will the money spent by the authority have any longer term benefit or will it just delay the inevitable.
- Loss of Amenity
 - What would be the effect on the local community - would the local community suffer if the organisation/individual were no longer in existence.
 - Are there other similar businesses - if the applicant no longer occupied the premises would the existence of other organisations/individuals mean that there would be no or insignificant loss of amenity
 - What area / group is served by the applicant - does the ratepayer serve a limited target audience or do large sectors of the South Kesteven community benefit from their existence.
 - Another vacant property? - are there other empty properties in the area and another empty property would degrade the area further and be detrimental to the local public.
- Employment Implications
 - Number of people employed - What number of people are employed by the organisation/individual and would their jobs be in danger if hardship was not granted.
 - Are the employees taken from an unemployment black-spot - Is the organisation/individual situated in an area where jobs are more difficult to obtain, or are they in an area when the employees would have a greater chance of finding other employment.
- External Factors
 - Consideration should be given when certain regional, national or global factors affecting hardship are beyond the organisation's control, particularly when central government provides extra funding and including consideration of rules of state aid.

Loans Scheme

The proposed loans scheme should be used to match similar levels of capital investment by firms and banks or other organisations and should not form more than one third of the total loan required. A typical scenario could be:

A small business requires £30,000 to expand, purchase equipment or meet an order. The financial package could be £10,000 owner, £10,000 bank and £10,000 SK loan scheme. The SK loan would be at a below market interest rate and be able to offer up

to 6 months repayment holiday with the period of the loan. The investment risk would be shared by the owner, bank and SKDC thus reducing the bank's overall exposure to risk (making them more likely to advance funding) but ensuring that the SKDC risk was no higher than the commercial risk being taken by the owner and the bank.

A loan agreement will be required from all successful applicants and will operate with the following criteria:

Eligible businesses must comply with the EU definition of a small business (ie less than 50 employees, turnover not exceeding 7m euros) and be independent - not a subsidiary of a larger company.

Eligible business must be able to demonstrate their potential for growth and adding to the GVA of the local economy

Loans can only be advanced to fund cash flow for the sole purpose of enabling a business to expand (employment of additional staff, capital investment)

The maximum loan from SKDC will be £10,000 per business and a personal guarantee will be required before any loan can be advanced

Proof of bank lending and personal funding will be required

Loan periods will be for a maximum of 3 years

Loans may be repaid in full at anytime during this period without interest penalty

A fixed rate of interest will be applied to the loan

The rate of interest applied will be at PWLB rate equivalent to loan term applicable at the date the loan was advanced

Repayments inclusive of interest will be due on the last day of each month

The application would include evidence of the last 2 year's performance (including financial information, number of employees etc)

Financial Considerations

The scheme would be operated in accordance with Article 87 European Community Treaty, Commission Regulation (EC) No 1998/2006, De minimis Aid – Block Exemption. This Regulation permits the Council to provide aid awards of less than Euros 200,000 (approximately £120,000) over a rolling three year period to an enterprise regardless of company size. This limit applied from 1 January 2007.

The main risk associated with this type of loan fund is the level of default in repayments. The application of strict selection criteria and the quality of continued business advice and monitoring once a loan has been approved and taken up will be critical in minimising the default rate.

4. OTHER OPTIONS CONSIDERED

None applicable

5. RESOURCE IMPLICATIONS

None applicable

6. RISK AND MITIGATION

None applicable

7. ISSUES ARISING FROM EQUALITY IMPACT ANALYSIS

None applicable

8. CRIME AND DISORDER IMPLICATIONS

None applicable

9. COMMENTS OF FINANCIAL SERVICES

Financial considerations are included in the report.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

The Local Government Act 2000 allows a local authority to do anything to promote the economic, social and environmental well being of its area. This includes financial support to individuals and organisations that can be on such terms as the Council sees fit. Restrictions on the range of activity an authority can undertake may exist where it is expressly prohibited by other legislation and/or does not promote the economic, social and environmental wellbeing of its area. The regulation set out above relating to EU law is designed to maintain an equal playing field in relation to 'state aid'.

11. COMMENTS OF OTHER RELEVANT SERVICES

None applicable

12. APPENDICES

None