

21 July 2015

Capital Growth Fund Application: Business Loans and Grants

Recommendation from Cabinet

That Council approve the use of a maximum of £3.0 million of the Capital Growth Fund to fund the three projects making up the programme of Business Grants and Loans investment.

1. Introduction

- 1.1. As part of the 2014/15 budget Council approved the creation to a Capital Growth Fund (CGF) of £38.4 million, for allocation over the 2014-18 period, to support economic growth. Over the past year allocations totalling £18.2 million have been approved. As a result there is £20.2 million remaining in the Fund.
- 1.2. An application for a £3.0 million allocation from the CGF to support a programme of business loans and grants has been submitted. The business case has been through an evaluation process and Cabinet on 11 June 2015 agreed that the scheme should be supported, subject to Council's approval to the use of £3m of Capital Growth Fund. (This approval is required as the allocation is above the £1.5m limit delegated to Cabinet for approval of new capital spend).

2. Description of the scheme

- 2.1. The purpose of the scheme is to provide a loans and grants programme to businesses across Warwickshire that cannot raise the finance they need from banks, investors or other loan/ grant programmes. Specifically, the project will involve three key elements:

- **Small business loans**
£1.0 million, to attract a further £1.0 million from the new European Structural and Investment (ESIF) Growth Programme and other funders, to create a total loan fund for small and medium sized Warwickshire businesses of £2.0 million. Individual loans of up to £75,000 will be available for purchasing equipment, refurbishing existing buildings and obtaining new premises. Loan repayments will be recycled to provide capacity to make further loans.
 - **Small business grants**
£1.0 million to establish a small capital grants programme for small businesses. It will provide grants of up to £35,000 towards the costs of buildings, premises, plant and equipment, with the grant making a maximum contribution rate of 40% towards any project cost.
 - **Coventry and Warwickshire Investment Fund**
£1.0 million as the County Council's contribution to a new £3.0 million Coventry and Warwickshire Investment Fund. The Fund will provide grants towards the costs of buildings, premises, plant and equipment to help businesses that new to diversify or modernise. The Fund will be a 'gap' funder with maximum contribution rates of 10% to 30% towards any project cost depending on the size and location of the business. The Coventry and Warwickshire Local Enterprise Partnership (CWLEP) and Coventry City Council will also provide £1.0 million each.
- 2.2. The overall programme design is based on analysis of the current access to finance market, including a major study by Regeneris for DCLG and the West Midlands LEPs. The three strands have been designed to meet particular needs and gaps in provision namely small loans, small grants for micro and small businesses and larger investment grants. Individual businesses will fit into a particular "category" depending on their circumstances including their size and the level of funding required.
- 2.3. The programme will be managed by the Economic Development Team in the Economic Growth Business Unit (who currently manage or manage and deliver a number of 'access to finance' projects for businesses) and delivered in partnership with CWLEP, Coventry City Council and Coventry and Warwickshire Reinvestment Trust, in the first instance.
- 2.4. Regular update reports including information about the grants/loans made and the location of the businesses supported will be prepared and made available to Members. Also, the management and delivery of all three strands of the project will be continuously monitored and the delivery arrangements reviewed

should better opportunities for the delivery of the same objectives and economic impacts emerge.

3. Evaluation

3.1. Summary

The application to the CGF scored 79.5 out of a possible 100. The breakdown of the score is detailed in Table 1 below.

Category	Score (out of 5)	Weight	Weighted Score (out of 100)
Alignment with the organisations strategic objectives	5	10%	10.0
Project aspirations and value in delivering growth	4	10%	8.0
Financial viability	3.5	25%	17.5
Economic benefit	4	35%	28.0
Political, social and environmental benefit	4	20%	16.0
Total			79.5

With the exception of the investment in the M40 Junction 12 improvements, this is the highest score for the schemes evaluated to date.

Corporate Board, on considering the evaluation, believe the proposal meets the evaluation criteria sufficiently to recommend to Members that an allocation of £3.0 million from the CGF is used to support the Business Loans and Grants scheme. The remainder of this section expands further on the reasons for the evaluation score shown in Table 1 across each of the separate elements.

3.2. Alignment with the organisation’s strategic objectives

The proposal is strongly aligned to the Council’s core priorities. Both One Organisation Plan priority outcomes and the criteria for CGF specifically reference support for economic growth. The proposal also fits with the CWLEP priorities and the Strategic Economic Plan (SEP).

3.3. Project aspirations and the value of the project in delivering growth

The project aspirations are clear in the descriptions and objectives of the project. The delivery mechanisms are tried and test using existing in-house experience, CWLEP and Coventry and Warwickshire Reinvestment Trust (CWRT) – a not-for-profit Community Development Finance Institution - as delivery partners in the first instance.

Significant external funding is expected to be leveraged through the proposal from both the public and private sector. Matched funding from European Structural Funds (ESIF) is anticipated for the Business Loans element of the proposal and matching contributions of £1.0 million from Coventry and Warwickshire Local Enterprise Partnership (CWLEP) and Coventry City Council to create the Coventry and Warwickshire Investment Fund. In addition the businesses themselves are expected to part fund any investment.

The risk register, that forms part of the business case, considers the scheme risks and mitigating actions. Within this it is recognised that if the additional funding does not come through the scale of the small business loans element in particular would be reduced.

There are potential issues surrounding State Aid for a scheme of this nature but arrangements have been put in place to ensure all potential issues have been satisfactorily resolved before the programme is implemented. In addition an Equalities Impact Assessment will be undertaken, prior to implementation, to ensure the delivery arrangements provide equality of opportunity and access to all businesses and potential businesses across the county area.

3.4. Financial viability

The total cost of the project is £3.0 million, sub-divided into three elements of £1.0 million each. The investment in the programme will be phased over the three years 2015/16 to 2017/18. The estimated repayment period for the small business loans element is between five and seven years and is estimated to be approximately £0.750 million at today's prices.

The funding is requested to continue and expand existing programmes which provides confidence in the viability of the proposal. It will always be possible to turn off funding if circumstances change (including the securing of alternative external funding) making the programme sustainable, as it creates no long term commitment.

At this point in time the other public sector funding is uncertain, with decisions expected later in the financial year. Whilst it is acknowledged that there is a risk that the County Council's funding will be available (and could potentially be spent) before the match-funding is confirmed/refused, it is the view of Corporate Board that approval of the County Council's contribution should not be delayed.

There are a number of other schemes, funded by other public/private bodies, that are aiming to deliver similar aims and objectives to these proposals. In designing the implementation process care will be taken to differentiate

between the different elements and ensure they do not duplicate or overlap with each other or with other initiatives.

Also, the CGF is, as the name suggests, funding for capital expenditure only. This is a narrower remit than some of the existing schemes. For example, they can also be used to fund working capital or cash flow difficulties which are revenue costs. Arrangements will be put in place, through the allocation criteria, to ensure the County Council funded grants/loans only allow the funding to be spent on capital items.

3.5. Economic benefit

The business case demonstrates strong evidence of the economic benefits in terms of job creation and increased Gross Value Added (GVA). This is set out for each element in Table 2 below. In part the calculation of the economic benefit is based on national ratios. If the scheme is approved work will continue to develop of a body of local evidence on the benefits of investment programme that can be used to support similar funding bids in the future.

	Other funding £	Of which Private sector investment £	Number of jobs created	Cost per job (Total) £	Cost per job (WCC) £	Net GVA increase £	Return on Investment for WCC (per £1 invested) £
Business Loans	1,000,000	TBC	133	15,000	7,519	7,500,000	7.52
Small Grants	1,500,000	1,500,000	50	20,000	20,000	2,800,000	2.83
Investment Fund	5,000,000	4,500,000	120	12,500	8,333	6,900,000	6.78
Whole Project	7,500,000	6,000,000	303	14,851	9,901	17,100,000	5.71

Note: The GVA has been calculated using an "Additionality Outcome Ratio" of 0.55, an average GVA per job figure of £34,252 (Cambridge Econometrics data for Warwickshire in 2014 prices) and a persistence of benefits factor of three years.

A key issue in the evaluation was whether, given that banks are actively looking to increase lending to small businesses and Government backed loans schemes for both start-ups (Start Up Loans Company) and established businesses (via the Regional Growth Fund and some of the big banks are in place, a gap does exist that indicates a need for the programme. The business case includes evidence that current bank lending but this does not include micro and small loans or finance for start-up and early stage businesses. The most recent evidence supporting this view is the 2015 Regeneris study for DCLG and the six West Midlands LEPs. There are also still recognised gaps in the regional access to finance market due to either the criteria applied by these schemes (they are often as stringent as banks) or the inaccessibility of national schemes.

The purpose of the small business loans strand is specifically to provide loans to businesses unable to raise sufficient, if any, finance from their bank. Proof that alternative sources of funding are not available will be one of the application criteria. Moreover, the interest rates charges on these loans are higher than from other sources and businesses would, therefore, not approach such a funding stream first. The recent and ongoing demand for alternative loans from Warwickshire's businesses provides further evidence of the failure in the access to finance market and the gap in provision.

It has to be acknowledged that there will be an element of project failure given grants and loans are being made to those schemes which have failed to raise funds elsewhere which may be partially due to risk or question marks about deliverability. However, the programme recognises this and tests deliverability as part of the scheme-by-scheme appraisal process. This considers issues such as any need for planning permission, the availability of other funding, the experience of the project team, the timescales and project risks. Grants are also paid in arrears and if circumstances change funding can be withdrawn and allocated to other projects.

3.6. Political, social and environmental impact

The project is expected to have a positive impact on growth of the local economy; the investment supports Government and local priorities and invests in CWLEP and partnership working.

It is the intention that all areas of the county are equally covered by all elements of the programme and this will be built into the implementation process. Arrangements will also be put in place for the third scheme, the sub-regional investment fund to be delivered by the CWLEP, that the investment from the County Council will be focused on Warwickshire businesses. The intention is that the CGF resources and a share of the CWLEP funding (50% is assumed in the business case) will be ring-fenced for Warwickshire businesses only. Officers from the Economic Development Team will be involved in the technical appraisal of projects, it is expected that the Head of Economic Growth will represent the County Council on the Grants Panel and this will be reflected in the terms of reference developed and jointly agreed between the County Council, Coventry City Council and CWLEP.

There will be a clear separation of roles and responsibilities between those working to help businesses apply, those who appraise the loan or grant applications and the Panel decision-making about which projects are funded. A conflict of interest and appeals process will also be put in place.

4. Impact on the Capital Growth Fund

- 4.1. The CGF had £38.4 million available for allocation over the 2014-18 Plan period when it was set up. As a result of decisions already taken and assuming this £3.0 million for business grants/loans is approved the balance in the Fund would fall to £17.2 million, reflecting the commitment to delivering the Council's economic growth priorities.
- 4.2. Table 3 shows how the recommended allocation impacts on the total amount available and the amount available in each year, whilst retaining a minimum of £5.0 million for allocation in any future year.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Original Funding Available	9.801	5.000	11.402	12.152	38.355
Less allocations already approved:					
• Superfast Broadband allocations	-	-1.225	-2.615	-3.940	-7.780
• Municipal Bond Agency	-0.200	-	-	-	-0.200
• Highway Improvements M40 Jn 12	-0.500	-	-	-	-0.500
• Bermuda Connectivity Project	-0.202	-3.000	-	-	-3.202
• LED Street Lighting	-	-2.000	-2.000	-	-4.000
• School Safety Zones	-	-1.250	-1.250	-	-2.500
Less Business Loans and Grants		-1.050	-1.250	-0.700	-3.000
Reallocation of funding between years	-8.899	8.186	0.713		0.000
Remaining Fund Balance	0	4.661	5.000	7.512	17.173

5. Background Papers

- 5.1. Business case for the Business Loans and Grants Programme.

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