

## TRAFFORD COUNCIL

**Report to:** Executive  
**Date:** 24<sup>th</sup> June 2019  
**Report for:** Decision  
**Report of:** Executive Member for Housing and Regeneration

### Report Title

Establishment of a Trafford Small Business Loan Fund to support new start and existing businesses in the borough.

### Summary

This report sets out the proposal to establish a new Trafford Small Business Loan Fund to provide affordable financial support aimed at new start and existing businesses in the borough. The Fund would further enhance the Council's 'open for business' approach and provide a direct mechanism to support local businesses in the borough. The report also identifies proposed amendments to the current Town Centres Business Growth Programme that supports businesses taking vacant retail units in the town centres, to ensure its continued effectiveness.

### Recommendation(s)

It is recommended that the Executive:

- i) Approves the establishment of the Trafford Small Business Loan Fund.
- ii) Delegates authority to the Corporate Director for Place to enter into a formal agreement with GC Business Finance to manage the Trafford Small Business Loan Fund.
- iii) Receives an update report on the Trafford Small Business Loan Fund within six months of its launch.
- iv) Approves the changes to the Trafford Town Centres Business Growth Programme and receives an update report at the same time as (iii) above.

### Contact person for access to background papers and further information:

Name: Stephen James (Head of Strategic Growth)  
Mike Reed (Strategic Growth Manager)

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Background Papers: None

Relationship to Policy Framework/Corporate Priorities	The establishment of the Trafford Small Business Fund and amendments to the Town Centres Business Growth Programme support the Council's Corporate Priority to deliver successful and thriving places. It also supports delivery of the Trafford Economic and Housing Growth Framework which sets the strategic priorities for delivering sustainable and inclusive growth in the borough, supporting existing businesses and inward investment, and highlights the importance of healthy and vibrant town centres.
Relationship to GM Policy or Strategy Framework	The Trafford Small Business Fund and amendments to the Town Centres Business Growth Programme will support delivery of GM's growth aspirations as set out in the Greater Manchester Strategy and Greater Manchester Spatial Framework. It will also support the emerging Local Industrial Strategy for GM and the challenges identified in the GM Independent Prosperity Review which provides a detailed assessment of the current state and future potential of GM's economy.
Financial	The Council's Capital Programme 2019/20 has approved £500,000 over three years for the Trafford Small Business Loan Fund (£250,000 in 2019/2020, £150,000 in 2020/2021 and £100,000 in 2021/2022) and £100,000 for the Town Centres Business Growth Programme in 2019/20. Loan repayments will be reinvested back into the funding pots for both schemes to ensure recyclable and sustainable funding streams to support businesses in the borough.
Legal Implications:	A suitable agreement will need to be entered into with GC Business Finance.
Equality/Diversity Implications	The Town Centres Business Growth Programme will provide opportunities to support delivery of the Council's emerging Disability Friendly Town Centre Initiative.
Sustainability Implications	The Trafford Small Business Fund will support the establishment and growth of low carbon businesses within Trafford, which are identified as a priority sector.
Resource Implications e.g. Staffing / ICT / Assets	Existing resource is identified for the continued delivery of the Town Centres Business Growth Programme. The Council will partner with GC Business Solutions to provide additional resource for delivery of the Trafford Small Business Fund.
Risk Management Implications	The recommendations for delivery of the Trafford Small Business Fund and amendments to the Town Centres Business Growth Programme set out how risk will be effectively managed and mitigated.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

## 1. Background

- 1.1 A major barrier to starting or growing a business is often the availability of affordable finance. The Trafford Economic and Housing Growth Framework (2018) identified that more could be done with partners at the Greater Manchester level to support the retention of existing businesses, including the identification and maximisation of any funding initiatives.
- 1.2 Information from the GM Growth Hub highlights that whilst Trafford benefits from a strong entrepreneurial culture there is a requirement for additional support to enable businesses to survive and grow. Long-term survival rates of new businesses in Trafford are lower than the national average; 62% of firms started in Trafford in 2004 were no longer active in 2013. This equates to a 5 year survival rate of 38%; across the UK the 5 year survival rate is 41%, while the rate GM is also higher (albeit only slightly) at 39%. These figures suggest that more could be done to support small and medium sized enterprises<sup>1</sup> (SMEs) in Trafford and to enable them to thrive and grow. One of the primary challenges facing businesses is access to affordable finance.
- 1.3 An Economic Impact Assessment (EIA) of Brexit (under a Deal and No Deal scenario) on the borough was completed in January 2019. The EIA identified that Trafford will face adverse economic impacts from Brexit and an important part of the Council's response to the Brexit challenge will involve proactive support for local businesses and a need to continue to attract new business and inward investment to the borough. Therefore it will be important to implement measures that improve the competitiveness of the borough through supporting its business base and attracting investment.
- 1.4 Since 2013, the Council has played a key role in reducing the vacancy rates in the town centres by supporting businesses with loan finance through the Town Centre Business Growth Programme. The establishment of a Trafford Small Business Loan Fund to support new start businesses and existing businesses to grow will further cement Trafford's 'open for business' reputation and set it apart in terms of its business support offer.

## 2. Existing Provision for SME's

- 2.1 There are several existing finance opportunities for small and medium sized enterprises (SME's) in Trafford which are offered through external providers, and promoted by the Council as part of the overall business support offer. The Council works closely with the GM Growth Company to deliver a comprehensive approach to economic development and inclusive growth.
- 2.2 Within the Growth Company both the GC Business Finance (formerly Business Finance Solutions) and Access to Finance teams have significant experience in managing loan finance and assessing business viability. They currently provide a range of finance options for new and existing businesses looking to grow which include:

GC Business Loans	<ul style="list-style-type: none"><li>GC Business Finance scheme but branded as a Trafford area scheme (not Council scheme) – similarly branded in other LA areas.</li></ul>
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<sup>1</sup> Defined by the Companies Act 2006 as businesses with a turnover of not more than £25.9 million, a balance sheet total of not more than £12.9 million and not more than 250 employees.

	<ul style="list-style-type: none"> <li>provides loan support from £500 to £150,000 to businesses, including start up loans, business loans, micro loans, equity investment and export finance - interest rates are typically between 10% and 15% depending on the type of loan applied for.</li> </ul>
Start-Up Loans scheme	<ul style="list-style-type: none"> <li>funded by the government and administered by GC business Finance providing loans of up to £25,000</li> <li>the scheme is due to be revised and whilst the product will continue to be marketed at £25,000, applicants will generally be encouraged to seek a level of finance of around £7,500 - those with greater credit scores and overall better propositions could achieve £25,000 but will be the exception - fixed interest rate of 6.2%.</li> </ul>
Access to Finance	<ul style="list-style-type: none"> <li>provide businesses with assistance in identifying their finance options, securing the right type of funding and ultimately helping businesses to grow. Commercial bank loans for small businesses tend to be available up to £25,000 (subject to status) with high interest rates of around 24% APR.</li> </ul>

### ***Town Centre Business Growth Programme***

2.3 The Council is committed to supporting and regenerating Trafford's town centres and has been providing loan finance to businesses occupying vacant retail units in Altrincham, Sale, Stretford and Urmston since 2013. The Programme is currently the Council's primary financial support mechanism for the borough's town centres and provides interest free loans with a one-off administration fee of 5%. The Business Growth Programme is a recyclable fund with the loan repayments re-invested 'in the pot' to provide a continual financial support mechanism.

2.4 The Programme currently comprises three separate loan schemes:

Town Centres Loan Scheme	<ul style="list-style-type: none"> <li>maximum loan of £20,000 with a minimum contribution towards eligible costs by the applicant of 30%.</li> <li>repayment terms of 24mths (loans up to £10,000) and 36mths (loans up to £20,000).</li> <li>eligible expenditure for the loan includes refurbishment works</li> </ul>
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	(exterior and interior) and a proportion of overhead costs. Applicants must be bringing a vacant ground-floor unit in one of Trafford's four town centres back into use.
Town Centres Marketing Scheme	<ul style="list-style-type: none"> <li>• maximum loan of £5,000 to support businesses in developing their marketing collateral.</li> <li>• repayment terms of 24mths.</li> <li>• eligible expenditure for this loan includes investment in IT and software, marketing and PR collateral, new signage etc.</li> </ul>
Town Centres Training Loan	<ul style="list-style-type: none"> <li>• maximum loan amount of £1,000 that can be used to improve upskilling and customer care.</li> <li>• repayment terms of 12mths.</li> </ul>

2.5 To date, the Town Centre Loans Scheme has helped thirty eight businesses to set up in Trafford's four town centres. A total of £456,000 has been loaned to businesses, leveraging over £1.5 million of private sector investment and creating c166 jobs equating to a recoverable investment from the public sector of £2,400 per job which is very low and provides good value for money. In addition two loans under the Marketing Scheme have been awarded totalling c£9,000.

### 3. The 'Gap' in Existing Provision

- 3.1 Discussions with GM Growth Company and Access to Finance has identified that despite a number of finance options being available for Trafford businesses as identified in section 2 above, there is a defined lack of affordable provision to help SME's across the borough to start-up and grow.
- 3.2 For example, under the Government's Start Up Loan scheme the maximum size of loans awarded has significantly reduced from £25,000 to c£7,500 (as of April 2019). While GC Business Finance has a number of products available to businesses seeking to borrow over £25,000, there are no other products available below that amount. Similarly, micro finance and equity investment products are available to start-up businesses for borrowing above £25,000, but not below that amount. Therefore there is an identified need for financial support available to SME start-up businesses to cover this gap from the £7,500 to £25,000 range.
- 3.3 Existing SME's that have been established for over 2 years are not eligible for start-up funding and may have difficulty securing funding from other lenders. Although GC Finance can support existing businesses seeking funding from £3,000 to £150,000, no loans have been awarded in Trafford to date via direct referrals to the fund despite extensive promotion. The primary reason for this has been identified as the relatively high interest rates of up to 15%.
- 3.4 There is therefore a gap in financial support available to start-ups due to the reduction in the maximum size of loans generally approved through the Start Up Loan scheme; and for existing SMEs due to the levels of interest charged on loan finance. It is

considered that a low cost financial product would be attractive to start-ups and SME's, meet the needs of businesses, support growth and help to attract investment.

### **Proposed Trafford Small Business Loan Fund**

- 3.5 To address the identified gap in existing provision, it is proposed that the Council establishes a new recyclable loan scheme, the Trafford Small Business Loan Fund, to support both new-start and existing SME's. Under the Fund, both start-up and existing SME businesses (ie. those trading over two years) would be able to borrow between £5,000 and £25,000, repayable over two or three years, at an interest rate of 6.2% APR. This would match the interest rate charged on the existing Start Up Loan scheme, and meet a loan funding gap for new-starts due to the reduction in the maximum amount of loan awarded through this scheme. GC Business Finance awarded thirty seven Start Up Loans in Trafford during 2018/2019 (ie. before the maximum loan amount was reduced ) and the interest rate charged has not proved to be a deterrent as it is still lower than high street lenders. The minimum loan amount proposed of £5,000 is commensurate with the minimum sought for loans through GC Finance and the Town Centres Business Growth Programme.
- 3.6 With regards existing businesses, it would not be possible to match the loan funding amounts offered by GC Business Finance (ie. up to £150,000) due to available resources, however the proposed Trafford Small Business Loan Fund would provide an affordable loan product currently not available on the market. Also, micro businesses (0 – 9 employees) constitute 89%<sup>2</sup> of the market in Trafford and it is anticipated that the Loan Fund would be attractive to businesses of this size.
- 3.7 It is proposed that the loan finance awarded through the Loan Fund would be used for a wide range of expenditure related to supporting the development and growth of a start-up or existing business including, equipment, stock, premises and marketing / promotional expenses. Ineligible expenditure would include debt repayments, expenditure already incurred, and investment opportunities that do not form part of an on-going sustainable business, ie. investing outside of the business itself. The proposed Loan Fund would not be funding of last resort therefore a business could apply to the Fund and other sources of available funding. For example, a new-start business could apply to the Fund to act as a 'top up' to the government's Start Up Loan scheme depending on the amount of loan required. Additionally, an existing SME could apply to the Fund and GC Business Finance. GC Business Finance would advise clients of the best funding route to meet their needs as part of their role detailed in 3.10 below.
- 3.8 Loans would not be awarded to applicants that have existing debts owed to the Council, including Council Tax and Business Rates arrears. The Council will have ultimate discretion in determining the types of business that are eligible for loan funding through the Loan Fund, however non-eligible business types will include and linked to arms sales/manufacture, pornography, payday loans, money transfer services, gambling and betting activities, charities, tobacco and property investment.
- 3.9 Trafford's Economic and Housing Growth Framework identified a number of key sectors of the local economy that include Business, Financial and Professional Services; Health and Innovation, Manufacturing with particularly significant concentrations within Food and Drink Manufacturing and Advanced Manufacturing; and a growing Creative and Digital sector. In addition, supporting Low Carbon businesses is also an important

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<sup>2</sup> Source: Nomis

priority for the Council. It is therefore proposed, where possible, to focus the Loan Fund on these key sectors to further stimulate economic growth and job creation

### ***Scheme Management***

- 3.10 It is proposed that the Trafford Small Business Loan Fund is managed by GC Business Finance which has the necessary skills, expertise, and processes in place to deliver the Fund effectively. GC Business Finance would charge a flat management fee of £300 per loan irrespective of the loan amount to manage the administration of the loan. This management fee would only be payable once a loan application had been agreed. There would be an additional charge of £5.00 per month if any specific debt collection management action was required for the repayment of any loan. These fees would be covered by the interest charged on the loan and therefore this support can be provided at no additional cost to the Council.
- 3.11 GC Business Finance will be responsible for raising the loan documents; administration of the drawdown of the loans; and collection of the loan repayments, with a collections management service. Once loan repayments are collected by GC Business Finance they will then be paid to the Council on a monthly basis, less the relevant management fees.
- 3.12 The Strategic Growth Team will act as the front face for the Loan Fund in terms of client relationships and promoting the scheme. The Team will be supported in this by the GM Growth Company Start-Up and Growth Advisors that operate in the borough. The Team will be responsible for validating applications before they are sent to GC Business Finance to ensure they contain all of the required information to enable them to assess each application. This information will include:
- Full details of the client;
  - Details of the loan, by value & term;
  - Business Plan and cash flow forecast.
  - Provision of Certified identification & address verification of client in accordance with Anti Money Laundering regulations i.e. certified copy of Passport/Photo Driving Licence/ Birth Certificate; and
  - Details of the bank account into which the Loan funds are to be paid (If a Company Bank Account, then confirmation that the Client is the majority shareholder will be required).
- 3.13 GC Business Finance will then assess the application based on the information above to determine that the proposal meets the requirements of the Loan Fund, the viability of the business, ability to repay the loan, and the alignment with Council priorities. A business must be able to describe its intentions for the loan within their business plan and cash flow forecast, and to explain how this will help to start and/or grow their business. This information will assist in determining whether to offer a loan to an applicant or not. Throughout the assessment of the application, GC Business Finance will maintain a regular dialogue with the Strategic Growth Team to enable any issues to be addressed and alternative options identified if required.
- 3.14 GC Business Finance has confirmed its willingness to manage the Loan Fund and a formal agreement will need to be entered between them and the Council to enable them manage the Fund. GC Business Finance will provide quarterly monitoring reports detailing a range of information in terms of loans awarded, investment leveraged, jobs created, business type, location etc, Also, new-start businesses awarded loan funding will be tracked to assess survival rates. A review of the Trafford Small Business Loan

Fund will be carried out six months from its launch to assess progress and performance and this will be reported to the Executive.

### ***Typical Loan Example***

3.15 A typical loan example under the Trafford Small Business Loan Fund is set out below:

An existing Trafford SME wishes to borrow £10,000 (6.2% APR) from the Loan Fund over three years to help with physical expansion of their existing business. 50% of the loan will need to be match funded via another source (minimum cost of works £20,000).

- Total loan of £10,000
  - Total cost of credit £956.96
  - Monthly repayments of £306.36 to the Council over a three year period
- Total loan repaid £10,956.96
  - Less £300 (GC Business Finance management charge)
  
- Total loan repaid to the Council of £10,656.96

## **4. Town Centres Business Growth Programme – Current Position and Proposed Changes**

4.1 Following a review, the Town Centres Business Growth Programme was launched in July 2017 which continued the Town Centres Loan Scheme with an increased maximum loan amount, and introduced the Marketing and Training Loan schemes. In light of the proposals to establish the Trafford Small Business Loan Fund, it is prudent to review these schemes to ensure their effectiveness and ability to continue to support businesses taking vacant ground floor space in the town centres. The current position with each of the three elements of the Growth Programme are detailed below, as well as a number of proposed amendments to ensure the scheme continues to operate effectively

### ***Town Centres Loan Scheme***

- 4.2 The Council has awarded thirty eight loans under the Town Centres Loan Scheme to date, with sixteen businesses having repaid in full. The current available balance is c£40,000 and a number of loan applications are currently in the pipeline. Two loans totalling £18,000 have been written off to date; one where the applicant unfortunately passed away; the other where the applicant moved abroad and was unable to be traced. Six further businesses are currently in default, two of which are now on payment plans.
- 4.3 The maximum loan amount was increased from £10,000 to £20,000 in July 2017 which did not result in an upsurge in take-up rates when set against previous years' trends. Increasing the loan amount has resulted in the funding pot being depleted more quickly and a higher exposure to risk with regards to potential write-offs and defaults. In addition, the scheme currently operates a three-month payment holiday, the original intention of which was to assist cashflow but has meant that replenishing the loan funding pot takes longer.
- 4.4 It is therefore proposed to set the maximum loan amount to £10,000 (with 0% interest and 5% management fee as per the current scheme) to enable more businesses to be supported in the town centres and to reduce the potential financial risk to the Council. The minimum financial contribution by the applicant will be set at 20%. However,



flexibility to increase this amount to £20,000 will available in exceptional circumstances on a case by case basis depending on the size of the vacant unit to be occupied, nature of the business, job creation/investment and overall benefits to the town centre. In addition, greater emphasis will be placed on businesses to demonstrate how they will add to the overall offer of the town centres and to support the Council's ambitions for Disability Friendly Town Centres. Works, equipment or initiatives to assist people with disabilities will be specifically listed as eligible expenditure.

- 4.5 It is also proposed that the repayment period for the Town Centres Loan Scheme is reduced to one month ie. businesses start paying the loan one month after opening, so that the loan fund can be replenished sooner to enable more businesses to be assisted. The Scheme will be reviewed after six months to assess performance and implications of the proposed amendments and reported to the Executive.

### ***Town Centres Marketing Loans***

- 4.6 To date, two marketing loans have been awarded totalling £8,900 with a further application for £5,000 currently being processed. Although take up has been low, there has been steady recent interest in the scheme and effective marketing and promotion is essential for business survival and growth. It is therefore proposed to continue the Marketing Loan scheme in its current form (0% interest with 5% management fee) with a maximum loan of £5,000, and to review the scheme after six months.

### ***Town Centres Training Loans***

- 4.7 No applications or enquiries have been received for the Training Loans scheme since its launch in July 2017 and it is therefore proposed to discontinue the loan. The costs of training will be added as an item of eligible expenditure under the Town centres Loan Scheme.
- 4.8 The overall vacancy rate in the borough's town centres has significantly reduced from its high point of 30% in 2010 to 8.2% (March 2019). The Council's commitment to improving and sustaining the town centres, such as through investing in the loan scheme, has made a real difference on the ground. However, the national retail picture continues to be dominated by high profile closures and profit warnings which continue to have an adverse effect on the viability of town centres and on business and shoppers confidence.
- 4.9 The proposed changes identified above will enable the funding pot to go further to support more businesses while retaining flexibility, and support businesses in the vital area of marketing. They will also retain the 0% interest rate which is necessary to counterbalance the severe trading environment town centres are facing due to changes in shopping habits, reduced spend and general instability. The Town Centres Business Growth Programme will also be complimented by the proposed Trafford Business Loan Fund, therefore start-up and existing businesses taking vacant ground floor retail premises would be eligible to apply for both loan funds depending on the nature/scale of the project and the amount of loan required.

## **5. Allocated Funding**

- 5.1 The Council's Capital Programme 2019/20 has approved £500,000 over three years for the Trafford Small Business Loan Fund (£250,000 in 2019/2020, £150,000 in 20/2021 and £100,000 in 2021/2022) and £100,000 for the Town Centres Business Growth Programme in 2019/20. Loan repayments will be reinvested back into the funding pots

for both schemes to ensure recyclable and sustainable funding streams to support businesses in the borough.

## 6. Marketing and Promotion

- 6.1 Social media, press releases, the business database and hardcopy material will be extensively used, along with the Invest in Trafford website, the Council's Business Bulletin and at events to promote the Trafford Small Business Loan Fund and the revised Town Centres Business Growth Programme. Partner organisations and other key stakeholders will also play a major role in promoting the schemes, in particular the GM Business Growth Hub and its business support Advisors operating on the ground, and Altrincham Unlimited and the Town Centre Partnerships

## 7. Wider Corporate Linkages

- 7.1 The Council is committed to delivering sustainable growth within Trafford. The new Corporate Plan, approved in March 2019, sets out the vision to make Trafford a better borough through the delivery of its seven Corporate Priorities. The Trafford Small Business Loan Fund and amendments to the Town Centres Business Growth Programme will specifically contribute to the delivery of the priority for 'Successful and Thriving Places' by supporting employment, business opportunities and growth across the whole borough.

## 8. Other Options

- 8.1 The Council could choose not to establish a loan fund for businesses across Trafford. However this would not meet the identified gap in existing provision or provide a specific Trafford offer to encourage businesses to start-up and grow across the borough.

## 9. Reasons for Recommendation

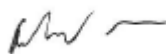
- 9.1 It is recommended that Executive approves the establishment of the Trafford Small Business Loan Fund and the amendments to the existing Trafford Town Centre Growth Programme, to provide a comprehensive and affordable financial support package to new-start and existing businesses across the borough. Through providing recyclable loan finance to directly assist businesses, the Council is further illustrating its commitment to business growth and the growth of the economy overall.

### **Key Decision** Yes

**Finance Officer Clearance** (type in initials)...PC.....

**Legal Officer Clearance** (type in initials)...TR.....

**[CORPORATE] DIRECTOR'S SIGNATURE** (electronic)



To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.