

# Nottingham City Council Delegated Decision



<b>Reference Number:</b>	<b>2530</b>
<b>Author:</b>	<b>Lewis Stringer</b>
<b>Department:</b>	<b>Development</b>
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<b>Subject:</b>	<b>Creative Quarter Loan Fund - Additional Funds</b>
<b>Total Value:</b>	<b>£250,000 (Type: Capital)</b>
<b>Decision Being Taken:</b>	<b>To approve additional funds of £250,000, against Council reserves, for SME business loans awarded under the Creative Quarter Loan Fund.</b>

**Reasons for the Decision(s)**

The re-allocation of (up to) £750,000, ring-fenced in Council reserves, for SME business loans to be awarded by the Creative Quarter Loan Fund (CQLF) was approved under DDM0654 in March 2013. This represented a match-funding commitment by the Council within the City Deal. The final amount re-allocated was £742,112 and included loan capital of £517,112, to be matched by £257,888 from First Enterprise Business Agency (FEBA), and £45,000 to cover management costs in each of the five years of the Fund (to the end of March 2018). The CQLF is run in partnership with and managed by FEBA.

The CQLF was established in April 2013 to provide loans of typically between £500 - £25,000 (up to £50,000) to viable SME businesses looking to set-up and grow in or relocate to the Creative Quarter. An interest rate of 6% is charged on loans repayable over 1-5 years together with an arrangement fee of 2% of the amount of the loan. All capital and interest repayments and fees are paid back into the Fund for on-lending.

FEBA's management of the Fund includes supporting potential applicants to develop robust business plans, undertaking due diligence on each application, presenting applicants to the Nottingham Loan Panel (the Council and Creative Quarter Company are represented on the Panel), collecting repayments and dealing with delinquent accounts, and regularly reporting to the Council and Creative Quarter Company.

The Fund is subject to a Collaboration Agreement between the Council and FEBA which, amongst other matters, includes the arrangements for the pro-rata distribution of returns achieved at the end of the 5-year 'life' of the CQLF.

To date, 37 SME business loans have been awarded totaling £828,500 (the original loan capital of £775,000 has been more than invested). In addition, FEBA have awarded additional loans totaling £269,500 to CQLF applicants from other sources of capital. The SME businesses themselves have leveraged £521,975 of private sector investment, as well as creating 47 new jobs and safeguarding a further 62 jobs. This represents a total investment of £1,619,975 in the Creative Quarter over the last three years.

FEBA's Enterprise Finance Guarantee (EFG) scheme accreditation has offered greater security to the Fund resulting in a bad debt rate of only 2.6%, which is extremely low for the market place. Based on this current performance, if the Fund stopped lending at the end of March 2018 and no additional funds were made available, the Council's loan capital of £517,112 would be fully returned. In fact, £663,295 would be returned by December 2022, a return on investment of 28.27%.

The success of the Fund has resulted in the loan capital becoming depleted. The current cash balances held by the CQLF have only been maintained by FEBA using other sources of available capital (no longer available) and by delaying a number of applications coming forward. No loans have yet been awarded in 2016. The Fund collects almost £15,000 in capital and interest repayments each month and this level of repayments should increase incrementally over the next two years. However, once the current pipeline of applications has been processed the rate of lending would have to be slowed impacting on economic activity in the Creative Quarter.

Additional funds of £250,000 (for loan capital only), matched by £125,000 from FEBA, would enable lending to continue at the current rate of £300,000 in each of the final two years of the Fund and allow the CQLF to effectively target a number of initiatives coming forward in the area, notably Dakeyne Street and Sneinton Market.

**Other Options Considered:** Do not provide additional funds. Rejected. Based on this current performance, if no additional funds were made available, the Council's loan capital of £517,112 would be fully returned. In fact, £663,295 would be returned by December 2022. However, the success of the Fund has resulted in the loan capital becoming depleted. Although the CQLF collects almost £15,000 in repayments each month, once the current pipeline of applications has been processed the rate of lending would have to be slowed impacting on economic activity in the Creative Quarter and the ability of the Fund to effectively target a number of strategically important initiatives.

**Background Papers:** None

**Published Works:** Delegated Decision 654 'Creative Quarter Loan Fund' 7 March 2013

**Affected Wards:** Bridge, St Ann's

**Colleague / Councillor Interests:** None

**Consultations:**  
Date: 08/04/2016  
Other City Council Bodies: Councillor Nick McDonald, Portfolio Holder for Jobs, Growth and Transport and Board member of the Creative Quarter Company.  
Recommendation agreed.

Those not consulted are not directly affected by the decision.

**Crime and Disorder Implications:** There are no crime and disorder implications arising from this decision.

**Equality:** EIA not required. Reasons: This decision does not impact on any policy or activity of Nottingham City Council.

**Decision Type:** Portfolio Holder

**Subject to Call In:** Yes

**Call In Expiry date:** 27/07/2016

**Advice Sought:** Legal, Finance

**Legal Advice:**

**This report does not raise any significant legal issues. It is understood from discussions with the report author that loan interest rate and arrangement fee have been set at the level necessary to ensure there is no state aid to the SME borrowers. Advice provided by Andrew James (Team Leader Contracts and Commercial) on 07/06/2016.**

**Finance Advice:**

**This decision seeks approval to award £0.250m to First Enterprise Business Agency (FEBA). The expenditure will be resourced from the Investment Reserve. FEBA will add a further £0.125m to give a total loan fund of £0.375m. The loans will be to companies in the Creative Quarter as continued investment in the City Deal area.**

**In 2013, delegated decision number 0654 included approval of funding to FEBA for a loan fund of £0.517m. Current projections from this investment indicate a return on investment of 28% by December 2022. Whilst past performance is not always an indicator of future returns, the expectation is that this £0.250m award can be repaid along with a return after 5 years.**

**Advice provided by Maria Balchin (Finance Analyst) on 02/06/2016.**

**Signatures**

**Graham Chapman (PH for Resources and Neighbourhood Regeneration)**

**SIGNED and Dated: 18/07/2016**

**Geoff Walker (Strategic Director Finance/CFO)**

**SIGNED and Dated: 18/07/2016**