

Taunton Deane Borough Council

Report to Executive – 13 April 2011

Support for the Frederick's Somerset Micro Enterprise Loan Fund

Report of the Economic Development Specialist

(This matter is the responsibility of Executive Councillor Norman Cavill)

1. Executive Summary

- 1.1 The Council has been approached by The Fredericks Foundation to support the Fredericks Somerset Micro Enterprise Loan Scheme for start up and micro businesses.
- 1.2 The Committee is requested to support the Council's investment in the scheme and to lend its support to the initiative to stimulate demand in Taunton Deane.

2. Background

- 2.1 Appendix 1 presents correspondence received from the Fredericks Foundation inviting the Council to take an active role in the Fredericks Somerset Micro Enterprise Loan Scheme. The correspondence summarises the history of the company, its aims, and its establishment in the South West, and Somerset in particular
- 2.2 The Foundation, which is a registered charity, was set up by an entrepreneur with the aim of helping start up companies and existing micro businesses, through a loan fund scheme. The service is particularly targeted at individuals who have experienced difficulties in accessing credit from the High Street Banks, who might be people that are unemployed, with a bad credit rating or with little personal finance. Loans are offered at a preferential rate, but the scheme offers ongoing support and mentoring to the clients both to assist them to grow their business, and to ensure that the loan is repaid.
- 2.3 Appendix 2 presents further background information on the Foundation, and gives examples of some of the businesses that have benefited from its support, including two from Somerset.
- 2.4 Fredericks Somerset was set up in 2009 with funding from the Fredericks Foundation (£50,000), West Somerset Council (£30,000), and Somerset County Council (£20,000), making a total fund of £100,000 available. Since its launch

the scheme has offered finance to three start ups, one of which is in Taunton Deane. It is administered by Frederick's locally and is managed by a Steering Group comprising funders and local businesses who themselves act as mentors and business advisors.

- 2.5 The Corporate Scrutiny Committee considered this item on 24th February and had a full discussion on whether supporting the Fredericks Foundation would be the best means for the Council to encourage and nurture new business growth. A full summary of the Committee's discussion is reported in Section 4.

3. Proposal

- 3.1 The Council is requested to take an active role in the scheme primarily through a contribution of funding to enhance the loan fund, but also through local promotion and networking to stimulate demand amongst clients and potential mentors.
- 3.2 Members will note from the attached letter that the Council is asked to contribute £30,000 to the capital loan fund and set aside an additional £20,000 to top up that fund at the appropriate time. Furthermore the Council is asked to contribute £7,000 per annum towards the revenue cost of the Client Manager.
- 3.3 Officers have, however, since receiving the attached letter discussed with the Foundation the level of financial contribution that might be forthcoming from the Council. The conversation included the significant budget constraints facing the Council and the difficulties of 'setting aside' funding and making a long term commitment. It is therefore proposed that the Council supports the scheme but in a reduced capacity and on the following terms:
- **A one-off contribution of £30,000 to the Fredericks Somerset capital loan fund,**
 - **A contribution of £3,000 per annum for a period of 2 years towards the revenue cost of the Client Manager**
- 3.4 Should Members decide to support the scheme along the above lines the one-off contribution of £30,000 would be taken from LABGI reserves, and the annual £3,000 contribution would be taken from the Economic Development Revenue budget.
- 3.5 It is suggested that Members receive a half yearly report on the progress of the scheme, and take a view at the appropriate time on whether to invest further loan funding and revenue support.

4 Corporate Scrutiny Committee Considerations

- 4.1 During discussion of this item on 24th February Members made the following comments:

- i. The Council should match the funding of Somerset County Council;
 - ii. More detail should be provided of the three start-ups that had been supported by the Foundation;
 - iii. Any support offered by the foundation, should be across Taunton Deane and not specific to Wards; and
 - iv. Any funding should be spent within Taunton Deane and not Somerset.
 - v. Some Members were minded to retain the sum of £30,000 in-house. Organisations that supplied a viable business case could then be considered for funding.
- 4.2 The Corporate Scrutiny Committee felt that more information about the Fredericks Foundation was needed, with specific examples of how the foundation had helped organisations. This was required before the Executive could consider funding the Fredericks foundation.
- 4.3 Correspondence has since been exchanged with the Director of Operations at Fredericks in relation to all of the above points. In summary he has responded as follows:
- i The Council's contribution could be staggered over a number of financial years up to the amount agreed and in accordance with demand
 - ii Examples of businesses supported recently are included in Appendix 2, including two from Somerset.
 - iii The Council's contribution would be available to businesses throughout the Borough.
 - iv The Council's contribution would be available only to businesses in the Borough
 - v To quote The Director of Operations: *Our opinion is that grants don't impose the same business discipline of earning the money to repay and therefore lead to less sustainable business and shorter relationships with those businesses. The other reason is that the money doesn't get recycled so doesn't fund as many businesses. If TD has the staff, the capacity to do the due diligence, the technology to administer the loans and the appropriate licences then you can do it yourself. In my experience there are distinct advantages for the local authority to be at arm's length from the lending decisions. Our decisions are purely commercial whereas a local authority is open to criticism whichever way a decision goes.*

4 Author's Comments

- 4.1 Should the Council agree to support the programme it is important that it is firmly tied in with new business support arrangements from Government agencies. The Government announced in January that Business Link services will change radically in November, moving from the current regional presence towards a nationally administered on-line support mechanism. The use of voluntary business mentors will be at the centre of that new service. Department for Work and Pensions has recently announced the New Enterprise Allowance (NEA) for long term unemployed, to encourage them to start their own business. The NEA includes a weekly allowance to support the new business; a loan scheme for capital costs, and the services of a business mentor.
- 4.2 Should the Council support the scheme it is proposed that a legal agreement is entered with The Foundation to ensure appropriate measures are in place to protect the Council's interest. Through that agreement Officers will ensure that management and monitoring procedures are put in place, with effective and regular communication, clear targets, and a means to withdraw the Council's finance should the scheme not be delivering the Council's objectives.
- 4.3 Members should note that in the event that a decision is taken to close the loan fund Fredericks would be required to repay to the Council all loan repayment received by that date as well as any balance of the capital sum. 3 years after the closure of the fund Fredericks will agree with the Council the value of write offs in relation to the Council's contribution.
- 4.4 Utilising the Council's LABGI reserves on the project would enable the Council to deliver its dual aims of supporting business growth and job creation on the one hand, alongside increasing the investment value of the reserve on the other. Whilst the Council will not reap a direct financial return from the investment the scheme should enable the reserves to be self sustaining and supporting many businesses over years to come.

5. Finance Comments

- 5.1 The use of LABGI reserve is appropriate (current uncommitted balance is £400,000). As the level of the loans given by the funds is so low, it is suggested that the £30,000 capital element be paid over two years and that a claw back option be part of the legal agreement.

6. Legal Comments

- 6.1 It is recommended that the Council enters a legal agreement with the Fredericks Foundation over the terms of the Council's contribution.

7. Links to Corporate Aims

- 7.1 This proposal links to the Regeneration Aim of the Corporate Strategy.

8. Environmental and Community Safety Implications

8.1 There are no direct environmental or community safety implications arising from this report.

9. Equalities Impact

9.1 The Scheme will enable people from a disadvantaged background and people who are from a background of deprivation and a low income, to start their own business and find a route out of their current situation. The scheme may have particular relevance to people within race, gender, disability and age equality target groups, as those groups typically face the most difficulties starting their own business.

10. Risk Management

Risk	Low/Medium/High	Mitigating Action
Financial mismanagement by the Fredericks Foundation	Low	Credit checks and references will be obtained by Officers prior to committing funding
Poor take up of loans by businesses	medium	The legal agreement will enable TDBC to withhold a proportion of its funding in line with the low demand. Furthermore, Officers will promote the funding amongst target communities.
Expenditure of TDBC element of the Fund on inappropriate projects	Medium	Officers will take a seat on the Fredericks Somerset Steering Group and have an input to all funding decisions.

11. Partnership Implications

11.1 Joining Fredericks Somerset would demonstrate strong partnership working with those local authorities that are already in the scheme.

12. Recommendation

12.1 That the Council takes an active role in Fredericks Somerset, and authorises officers to enter a legal agreement with the charity setting out the terms of a contribution along the lines set out in paragraphs 3.3 to 3.5 of this report.

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21 January 2011

Dear David

Fredericks Somerset – Micro-Enterprise Loan Fund

I would be delighted if Taunton Deane Council would consider taking an active role in the Fredericks Somerset loan fund, both by contributing loan capital and by providing some ongoing revenue funding. We would also welcome the involvement of your department in helping us to engage with the business community of Taunton, and in ensuring we focus on the Council's priority areas. It is essential to the fund that lending decisions are taken with the benefit of local knowledge; and that start-up businesses in particular have the support of a mentor to help them thrive.

A loan fund is an extremely cost-effective way to support local enterprise where individuals or companies are unable to secure business funding from a High Street bank because of the way that it recycles the capital as it is repaid. Fredericks Somerset works closely with the mainstream lenders but recognises that certain individuals or businesses because of credit history, lack of security or business sector, will fall outside their lending criteria. A loan rather than a grant enables the establishment of a continuing relationship with the borrower and also imposes some essential business discipline upon the entrepreneur to generate the income to pay for their requirements.

Fredericks Foundation was established in 2000 as a registered charity by IT entrepreneur Paul Barry-Walsh whose companies Safetynet and Netstore were pioneers in data security and management. In its early years the charity focused on the unemployed, many of whom have a disability, are lone parents or may have a criminal record. We recognise that finance is only one element in the equation and that on-going support and advice is key to sustaining new businesses. In 2008, as the financial crisis set in, we recognised that many more people would be likely to fall into the bracket: unable to obtain credit.

The charity felt that it was as valuable to save jobs in these circumstances as it was to create new. Fredericks therefore introduced a new loan product open to existing businesses facing a temporary cash flow problem or looking to expand.

Also in 2008 Fredericks Foundation was approached by Wessex Reinvestment Society and by Gloucestershire Development Loan Fund for assistance with running their enterprise loan funds. The model we have developed to achieve this is our 'hub' model, in which the back office, compliance and administrative side of the fund is managed at Fredericks head office in Surrey, whilst the loan fund is dedicated to identifiable geographical areas, each with an Advisory Board and locally recruited Lending Panels.

The aim for each hub is to be self-sustaining, which means recycling and replenishing the capital pot if necessary; and raising revenue to cover the cost of a Client Manager who assesses the business plans and works with clients pre and post loan to ensure their best chance of success. We have established 4 hubs during the past 18 months:

Gloucestershire; Somerset; Wiltshire; and Oxfordshire.

At its launch last year the Fredericks Somerset loan fund comprised £50,000 allocated by the Foundation, £30,000 allocated by West Somerset Council and £20,000 allocated by Somerset County Council. The fund currently offers loans up to £10,000. To date we have agreed 3 loans – 2 in West Somerset and 1 in Taunton Deane with a combined value of £10,500. Fredericks Foundation's full time Client Manager, Annie Popham, is based in Hemyock and currently spends two and a half days per week of her time on Somerset clients, attending business events (including Somerset Chamber and LEP), promoting Fredericks Somerset and networking with banks, BusinessLink advisors and other potential referrers.

The proposal is that Taunton Deane Council:

- Contributes £30,000 to Fredericks Somerset's capital loan fund
- Sets aside an additional £20,000 capital to top up the fund if the initial £30,000 is loaned within the first 2 years (repayment terms are on average 3 years)
- Provides a contribution of £7,000 per annum towards the revenue cost of the Client Manager

I will be pleased to discuss these proposals with you further and provide additional information as requested. Thank you very much for your consideration.

Yours sincerely

Bob Wallis

Director of Operations

Appendix 2

Background Information on The Fredericks Foundation and Examples of Businesses supported

Fredericks Foundation was set up in 2001 by Paul Barry-Walsh, a successful entrepreneur in his own right who wanted to help others who aspire to run their own business but are unable to obtain the necessary support to do so. Historically a large proportion of the start-up client base has been the long-term unemployed, lone parents, disabled or otherwise financially excluded.

As a result of the economic downturn, as well as helping the long-term unemployed, Fredericks Foundation has branched out to assist existing companies in need of finance who are unable to obtain it from their bank.

The charity is funded in a number of different ways, including substantial donations from its founder on a regular basis. Over the years it has been in receipt of funds from the European Social Fund and the Phoenix Fund, and it has a number of affiliated businesses that annually donate 1% of their profits as well as giving up some of their time in support of the work of Fredericks. Administration costs are mostly met by the charity, although local sponsors are sought for the cost of the 'hub' arrangements, whilst local organisations are approached for the capital loan fund. In the case of Fredericks Somerset the charity is meeting most of the administration costs as well as a large part of the capital fund.

Fredericks Foundation now has operations across much of the South of England.

Fredericks Foundation will consider a loan and business support if the applicant can demonstrate that he/she has made a genuine application for funds to their bank or a mainstream lender – and that that application been turned down. The business can be at any stage: it may require money to start-up; capital to expand; or funds to bridge a gap. Be it a sole trader, a partnership or a limited company it may be eligible for a loan.

For start-up businesses Fredericks offers up to a maximum of £10,000, though the average loan is less than £5,000. For established businesses with a financial track record the maximum loan is £20,000.

Applicants are charged a 5% fee at the outset of the loan, which contributes to running costs, and an interest rate of 15%. That interest rate is intending to offset non repayment of loans. Lending decisions are made by an independent volunteer panel drawn from the local business community and sponsors with experience in banking, accounting and entrepreneurial sectors.

Alongside the loan businesses are provided with ongoing support, including a personal mentor who encourages, listens and advises clients who have taken out a loan. Few clients have skills in all the disciplines required to set up a business, eg marketing, bookkeeping, time management etc, and many need help with these areas from people with matching skills and experience. Mentoring effectively is a skill in itself, and Fredericks help with training and equipping.

Examples of loans made to date

Alison Flind www.lushmotors.co.uk

Loan agreed: £3,000 for refurbishment to the Purple Cortina

Ali Flind has been running her IT business 'Lush Designs' since 2005 and has owned her Purple 1974 Cortina since 2008. The Purple Cortina has been a hobby project which Ali has used to make extra money by hiring the car out for weddings and film work. Ali now wants to turn this hobby into another income stream and feels the business has the potential to grow alongside Lush Designs with the right investment in the car to prevent deterioration. Ali has a 7 year old son and she works from home. She has recently moved to a bigger home and has recently taken on more IT work to support the higher rent. Ali feels now is the time to work harder at growing both sides of the business.

Belinda McCarthy <http://someset-wedding-photographer.co.uk>

Loan agreed: £4,500 for new equipment and lights

Belinda started her photography business in April 2010 but she was unable to secure a bank loan to complete the work on her new studio or buy the lighting equipment and second camera needed to upgrade her wedding kit. This referral came to Fredericks Somerset from Alan Geal of Barclays Bank in Yeovil. Alan wanted to support Belinda but the business had been going for less than a year and she could not offer match-funding for a loan. Since applying to Barclays and then to FF she has been able to fund the completion of the studio out of income so the amount required has decreased accordingly.

Dominic www.dgprofessionalcleaning.co.uk

Loan agreed: £2,500 for cleaning equipment

Dominic worked for 8 years for a cleaning services company where he was initially very happy but latterly he became concerned on how the owner ran the business and in particular his attitude to customer service. According to Dominic this led to the business losing a considerable amount of business and Dominic was made redundant.

He decided to get back to work immediately through self employment and borrowed £5k from a family member. He set up as a window cleaner in December 2008. Through the use of good quality literature and going door to door Dominic developed his round.

The funds borrowed from a family member were set aside for a tax bill so repayment had to be made quiet quickly. In hindsight Dominic accepts that he burdened himself with a debt that could not be scheduled over a period that the business could afford to repay but he was very anxious to get back to work but for himself.

He did manage to set aside £1,000 and his wife sold her horse that she had raised since a foal. This still left a shortfall and Dominic approached Fredericks for a loan of £2,500 but with repayments scheduled over an affordable period for the business. £2,000 was utilised to repay the relative and the balance to further advertise the business.

Dominic's wife works as his bookkeeper and is very supportive. Over the past 12 months Dominic has continued to develop the business and has agreed contracts to do office cleaning on top of his original window cleaning side.

Fiona and Jeremy: The First Aid Team
Loan Agreed: £5,000 for training equipment
May 2010

Both Fiona and Jeremy have run their own businesses in the past. For Jeremy it was an IT consultancy and for Fiona it was a mobile inflatable games company. A period without an IT contract in 2002 inspired Fiona to set up Stormit, but the cost of setting up this business whilst paying for a large mortgage and four children led them into debt.

Fiona has held a First Aid Certificate for more than 30 years. Jeremy has also obtained his PTLLS qualification which will give him an edge in securing contracts with schools or local authorities. It is a City & Guilds qualification expected as a minimum requirement for any teacher. Fiona has marketing and business development skills, Jeremy has IT skills and is confident with people as a trainer.

They have identified that the UK population is very poorly educated in First Aid and Immediate Response skills and that whilst the St John's Ambulance and British Red Cross cover more than 50% of the market, that there is a lack of versatile training providers. They believe there are opportunities both for training and for sale of bespoke First Aid kits for a variety of corporate and individual users. From 2011 First Aid will become a compulsory element of the National Curriculum. They will target organisations, small business, schools and colleges, sports clubs and mums and toddler groups. They have their own website at www.thefirstaidteam.co.uk.

Peter Fitchett: Absolute Rubbish
Loan for purchase of waste disposal and collection equipment
June 2010

Having left school and temporarily worked at a pizza parlour Peter joined the British Army in 2000. When he left in 2003 he did various jobs including working as a sales manager at motor cycle dealership. Between June 2006 & April 2007 Peter was in prison but due to his good behaviour he was granted an early release. Since his release he has been a ground worker and sales manager at fitness first. During the evening he took classes obtaining level 2 Gym instructors and level 2 sign language interpreters.

In April 2009 he made redundant from his role as a sales manager. Since then he has been working on his business plans to be a licensed waste carrier for both commercial and domestic waste. As part of this process he has attended Businesslink workshops and worked with The Princes Trust with a view at the end to them providing him with start up capital. However due to a change in their funding criteria he had to look elsewhere. Hence his approach to Fredericks Foundation.

Matt Carey: Yurt Manufacture and Sale (Moorcroft Engineering)
Loan agreed £5,900 for product development
June 2010

Matt is a versatile craftsman who cuts, steams and shapes all the wooden components of the Yurts and cuts and sews the canvas covering and lining. He has also restored some of his tools and machinery to save on set-up expenditure.

He started learning about Yurts over 5 years ago and in 2006 set up a company with a partner to manufacture and sell them. This partnership, however, broke up and Matt now wants to set up on his own both to sell and hire the yurts he will make, having learned some tough lessons from his previous business.

Matt currently shares the rent on a workshop in a farm building in Brede, near Rye in East Sussex. As Matt's business grows it may be that he will take over the workshop fully. He has a good relationship with the farm owner who allows him to use other areas of land for his steamer (used to shape the poles) and for trial erection of the Yurts.

He needs finance to build some larger Yurts that he can hire to weddings and corporate events; and he needs to invest some money in developing stock of a small scale children's Yurt. He plans to visit shows and find sites where he can erect a Yurt to show it off to customers who are likely to have sufficient disposable income. He will also look at partnership arrangements with hotels and stately homes who may be interested in making referrals. Matt is confident in his knowledge and in the quality of the Yurts he builds. He is going to set up an advisory website to help customers take decisions about the Yurt they want to buy.

Nick Kingstone: Kingstone Building and Decorating Loan Agreed: £2,500 to buy and sign write a van

Nick is a very personable, conscientious 26 year old who has been working in the construction industry since he was 15 years old. He is married with three children. Nick is very determined to get himself off benefits and look after his family.

In 2007 Nick started up a business, with a partner, and in their first year they made a very good profit. The business continued to prosper until 2009 when Nick broke his knee and was unable to work for several months. His business partner was unable to sustain the business on his own and due to this and other pressures the business failed.

Since then Nick has been working with In Biz to try to get the business up and running again this time as a sole trader. Nick started Test Trading with In Biz on 30th November 2010 and was able to secure three contracts immediately, two in December and one in January. These have come via contacts he has in the area and as they are very local jobs, he was able to take them on with the help of a friend who was willing to transport him and his tools until Nick was able to secure funding for his own vehicle.

Nick's loan from Fredericks Foundation has enabled him to buy and sign write a van and he has already secured more contracts. Nick also has the support of a mentor.