

Economic Impact of Lending to Small Businesses 2013/14

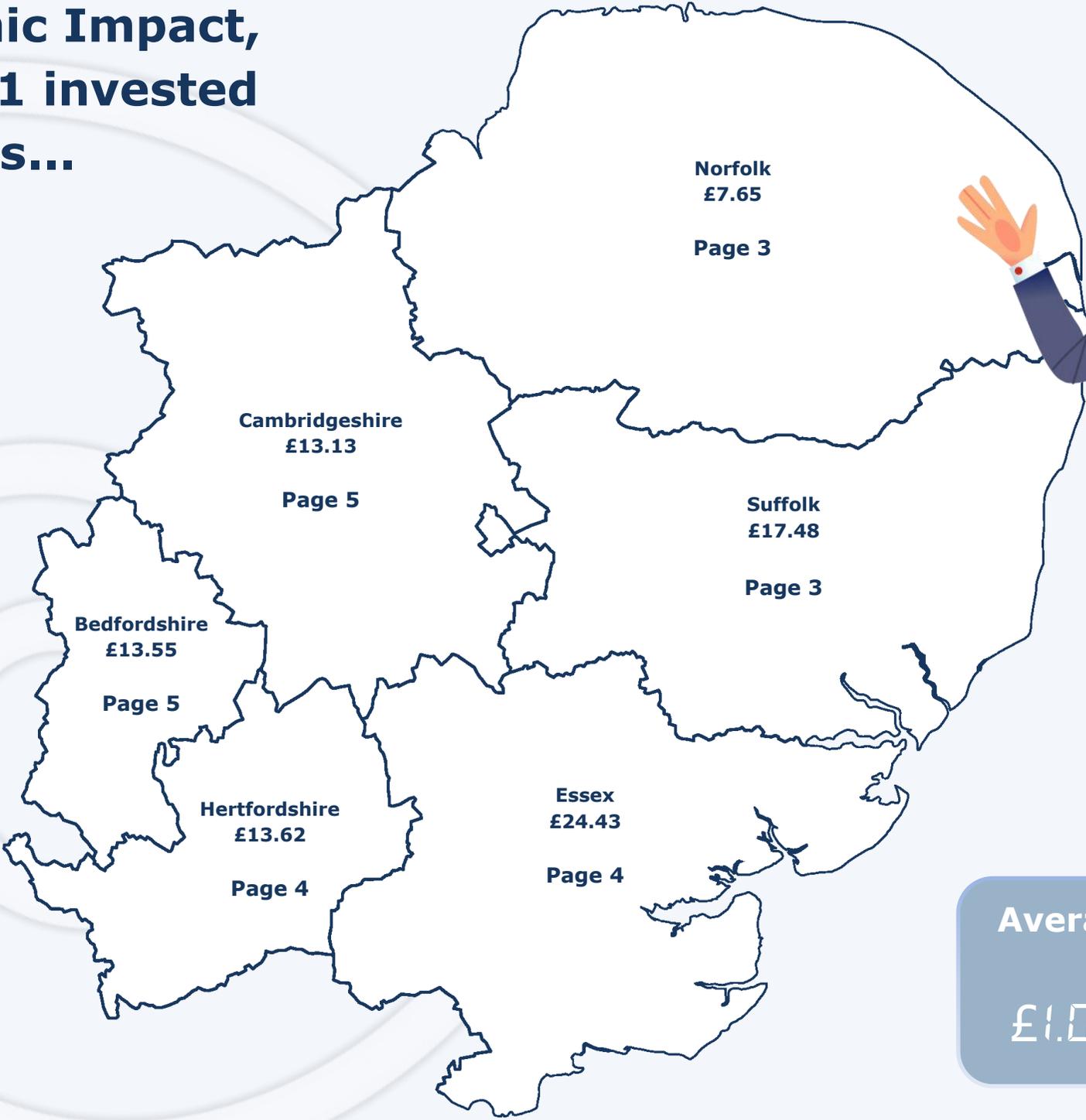


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Extraordinary support
for exceptional people

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Economic Impact, every £1 invested achieves...



Average Economic Impact
£1.00 = £15.68



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Economic and Social impact

Should small businesses be financed and helped to thrive? If you are in any doubt that the answer to this question is "Yes" then this Economic Impact report will convince you. In 2013/14, for every £1 invested by Foundation East in the underserved business community of eastern England £15.68 was achieved in Economic Impact.

It is vitally important to Foundation East that we can demonstrate the social and economic impact of our business lending and support activity, not only to prove that we are meeting the mission of the organisation but also to convince those stakeholders from whom funding is required that this valuable work must continue.

The mainstream banks are increasingly making their lending decisions by using credit scoring systems, rather than by developing a relationship with the customer and building an understanding of that customer's individual circumstances and needs. The result is that small businesses, who might lack trading history or have little, even no tangible assets with which to secure borrowing, are not being supported by

the mainstream and are relying instead on Community Development Finance Institutions (CDFI's) to support them with the finance that they require. To make their underwriting decisions CDFI's do not look to computerised systems or asset backed securitisation but instead to less tangible elements such as skills, enthusiasm and commitment of the work force.

In 2010/11 Foundation East undertook an evaluation on the lending and business support it gave to small businesses. We chose to use the Social Return on Investment (SROI) framework. The resulting SROI value concluded that for every £1 invested by Foundation East into businesses, £3.79 came back in social value. Whilst the economic impact of job creation was recognised in the report, the report focussed more on the softer impacts achieved. These included personal fulfilment that results from feelings of job security and satisfaction and the positive effects this has on family life and well-being of the business people in general. We needed to conduct further research into the economic impacts of our work and in 2013/14 we became involved in the working group of The Community Development Finance Association (CDFA), to develop an economic and social impact tool.

Dr Nick Henry from Coventry University was commissioned by the CDFA to

Economic impact!

undertake the research and develop the tool. Using HM Treasury's Green Book of official statistic as the basis for the proxies used, the tool, once created was shared with Government departments including HM Treasury, BIS, Cabinet Office and was acknowledged by all as a robust tool, the evidence from which is indisputable. The purpose of the tool is to measure the Economic and Social Impact of Community Finance as a whole. The tool measures such metrics as number of businesses created by unemployed people previously claiming benefits as well as those who were already in employment, jobs created and saved and individual skills enhanced through business support and financial literacy. It uses recognised proxies, including the average net Gross Value Added to the economy, the Average Net Additional Value to Government of increased taxes and reduced benefit payments, as well as the general well-being of an individual.

Using the tool Foundation East's finance and support to small businesses across the Eastern region of the UK in 2013/14 is calculated as £10.9 million, or put another way, for every £1 invested £15.68 of economic and social value was achieved.

Foundation East provides its lending and business support service across Bedfordshire, Cambridgeshire, Essex, Hertfordshire, Norfolk and Suffolk. In

this report we have separated out the economic impact achieved in each county. I hope that you enjoy reading the report, and the case studies of our customers who have achieved a great deal despite being deemed unfundable by the mainstream. I welcome feedback and look forward to being given the opportunity to discuss the outcome and findings from this report with you.



Katy Ford Chief Executive

Economic Impact
£1.00 = £15.68

In Norfolk...

Fairplay Childcare Ltd

The opportunity to provide a much needed childcare facility in the Eaton area of Norwich was the impetus Karen Newell needed to start up Fairplay Childcare Limited, a new nursery offering childcare for both pre-and after school children, including transport to and from schools. Following an intensive course in self employment Karen, along with her partner Laurence were already running an established child-minding business. It was described by OFSTED as good but Karen and Laurence were aware of the need for a more comprehensive service to include older children in the Higham, Fiddlewood and Catton Grove districts.

The couple began to draw up plans for the new nursery including finding premises with growth potential, adequate parking and gardens, as well as a good location near to schools and residential areas. The couple took business planning advice from enterprise agency NWES and local accountancy firm Lovewell Blake. Once the ideal premises had been identified they obtained quotes from builders for the required work needed to make the premises suitable for a child care facility. They had saved some funds and had the generous support of a family member but needed further funds to complete the project.

As this was a new business their bank declined to support them however their accountancy firm were happy to recommend Foundation East as an

alternative lender. Impressed by the level of planning Karen and Laurence had undertaken before committing to the project, Valerie Jarrett, Foundation East's business loans manager for Norfolk was happy to support them for a loan of £50k to provide working capital to alleviate anticipated cash flow constraints in the early months of trading.

Employing 17 staff including themselves, Fairplay Childcare is now a thriving nursery and after school club offering everything you would expect in a modern nursery to 75 families. They anticipate expanding the number of staff to 19 in January 2015.

"Valerie Jarrett from Foundation East received our application for a loan and took the time to speak with both of us about the business plan. Valerie also provided some great advice together with moral support in our infancy which we found reassuring and useful", Says Karen.



Eaton Park (Fairplay Childcare Ltd)
www.eatonparknurseryschool.co.uk

In Suffolk...

Lady Florence River Cruise Restaurant

Craig Ambury and John Haresnape had been successfully operating a unique fine-dining, river cruise experience from two quite different locations, Orford Quay in Suffolk and Durban harbour, South Africa. They have owned the business in Suffolk for 22 years and Durban for 10 years, splitting their time between the 2 countries. However, the cost of running and maintaining two subsets of the business in two completely different places of the world was very high. This, coupled with the need for John to start thinking about semi-retirement, meant that the family made the difficult decision to relocate the South African part of the business to Suffolk, with the vessel "The Lady Florence" continuing to operate from Orford and the South African vessel "The Allen Gardiner" operating a new service from Ipswich Marina.

This relocation meant funds were needed to build a special cradle to ship the Allen Gardiner vessel as deck cargo to Ipswich Marina, a project that would take in the region of 3 months. Craig and John initially applied for funds to cover this cost from their bank but were declined due in part to the risky nature of the proposition and lack of suitable history of Craig and the Allen Gardiner in the UK. In order to obtain another form of affordable credit, Craig and John completed an internet search and found Foundation East's loan product for small businesses.

Business Loans Manager Valerie Jarrett was delighted to help Craig and John with the funding they needed as they have a good viable business that will create jobs in the town for the long term. Employed across both boats are 1 Full Time and 3 Part Time Skippers, 1 Full Time Galley Supervisor and 6 Part Time Galley Assistants, an apprentice Chef as well keeping Craig and his partner Kris fully engaged on the administration, accounts and general crew all with the support of John and Sue undertaking Sales and Marketing.

The dining experience on the Allen Gardiner will differ slightly to the Lady Florence in that it will be able to accommodate larger parties and take cruises on the River Orwell both day and night.



Lady Florence River Cruise Restaurant
www.lady-florence.co.uk

In Essex...

Quintessential Spices Ltd

A love of curry along with the desire to make a difference to people's lives through active employment was the driver needed to make John Sterenborg start his Essex based Quintessential Spices business.

John's business is a spice packaging and distributing enterprise made unique not only by the product he supplies but by his almost exclusive engagement of people who had been on the Job Centre's long term unemployment register. John believes that with the right management nearly everyone can contribute positively to business processes so long as they are given the right training, encouragement and guidance. He employs people by assessing their attitude and not on their skills. Amongst his current workforce is a 44 year old single parent who had been unemployed for 20 years, held back in her working life due to a severe speech impediment.

Originally from Holland, John and Elizabeth moved to the UK whilst John was working for a large multi-national packaging organisation. The couple established the business in 2014 and now employ 4 people. They hope to engage a further 4 people in 2015.

John's no nonsense approach to his business, along with his honest and open attitude, and willingness to provide all the information needed to make a thorough assessment of the proposition, encouraged Mike Dyson, Business Loans Manager for Essex to recommend Quintessential Spices for a loan.

"The application of mind by Foundation East, the one I was confronted with when I applied for a small loan, can only be described as remarkable, refreshing and purposeful. The organisation proved to be geared to looking at the person submitting the business proposal as much as the business itself and taking a judgement call, nearly irrespective of the usual criteria. It is the application to their Mission Statement, helping start up businesses to launch and beyond, which make Foundation East so remarkably, refreshingly and purposefully different", said John



Quintessential Spices

In Hertfordshire...

Mech-Elec Supplies Ltd

Mech-Elec Supplies was started in 2007 and grew quickly. By 2009 the 2 partners in the business had formed a limited company and moved to their current premises in Letchworth Garden City, Hertfordshire. They were preferred suppliers to major blue chip companies, and were described at the time by their bank manager as being "cash rich, one of his top clients and going places".

Mech-Elec supply off the shelf bespoke engineering consumables ranging from lubricants, rollers, bearings and gearboxes right up to installed automated systems.

However, matters took a turn for the worse. They were defrauded out of £60,000 by a rogue employee who stole money destined for suppliers. On top of this one of the partners suffered a major health issue which took him out of the business. Thankfully the partners had had the fore-sight to take out critical illness insurance and which was claimed and injected into the business along with further significant cash from savings. Their actions saved the business from going under.

Since recovering from this potential disaster, Mech-Elec had been moving in the right direction. Their bank manager had faith in the business and arranged a financial support package for them but could only provide half the cash injection required to complete the recovery. He did however refer them to Foundation

East to secure the other half needed to complete the funding package.

Mech-Elec needed to increase their stock range and quantity along with reducing creditor pressure to improve their buying power. Their competitive position would be much improved by an ability to immediately supply parts and products.

Bob Shimmon, Foundation East's Business Loans Manager for Hertfordshire was impressed by the director's tenacity and desire to keep their once successful business going during a very difficult trading period, and was pleased to be able to support their application, thus securing the 4 jobs in the company.

2 additional sales staff have recently been engaged and to incorporate them the company extended the office space. This means that the company now employs 5 full-time staff – 4 skilled in sales and 1 delivery driver and expect to increase their staff numbers over the coming 12 months.



Mech-Elec

www.mech-elec-supplies.co.uk

In Bedfordshire...

Claire Tyler

When the clothes manufacturing industry started to shift back to the UK following over 15 years of market dominance in Asia, entrepreneurial couple Claire and Tony Tyler decided to re-locate from recession-hit Greece to start up a business supplying dresses and other fashion clothes to the high street shops. Based in Luton, Bedfordshire, which had once been a vibrant garment making town, Claire and Tony have established a strong client base of well recognised brand shops whose demand for quality but affordable clothes is met.

The original business model relied purely on employing numerous part time workers on a piece work basis which enabled many people, mainly women, to supplement their income whilst remaining at home. In order to ensure the feasibility of the business Claire and Tony undertook some test trading which proved to be a big success, with customers asking them to take on more work. To expand the business and employ more workers to fulfil the growing order book, the couple needed funds and initially turned to their bank for help but were declined due to their lack of credit history in this country. Their bank manager however was aware of the products Foundation East offer and suggested the couple contact us instead.

Helped by their Business Loans Manager Bob Shimmon the business has not looked back. The medium term plan was

to bring production in house which they achieved in 2014. The business has been able to relocate to larger, more suitable premises in Luton with scope for further growth. They currently employ 6 skilled machinists, and a part-time trainee cutter. The company aims to bring in 2 or 3 apprentices from the local Barnfield College which has a fashion course, in the next 12 months.

"Our experience with Foundation East can be summed up in two words "Life Changing" - The business loans that we received were crucial to the success of our start up business, giving us back our dignity and opened the road to an exciting future." said Claire



Claire and Tony Tyler

In Cambridgeshire...

Sunflowers Care Ltd

Sunflowers Care provides nurse led care to children aged from babies to 18 year olds in a home environment. The young people who benefit from the care home service have a variety of complex health needs, including long term ventilation, respite care and rehabilitation following illness or injury. Sunflowers Care also offers facilities for the parents to stay with their child while they're at the care home.

Sunflowers Care is a social enterprise led by Lucy Andrews and Karen Higgins who between them have 48 years of nursing experience. Recognising the need for such a bespoke facility in the area they originally approached Resonance, a leading intermediary in the social funding sector. Resonance helped Sunflowers to put together a business plan that would attract investment from the mainstream. Unfortunately their bank, whilst sympathetic to the mission of the organisation, was not able to provide them with the finance they needed to make their vision become a reality.

Having already located a suitable property, and attracting partial funding from their own savings and a local investor, they approached Foundation East for support in equipping the facility, and to provide much needed working capital to get the business off the ground.

Bob Shimmon, the Business Loans Manager, saw that Lucy & Karen had the requisite experience and knowledge within the sector and were supported by sound business advisors via Resonance. They had clearly identified the need within their market and had carried out appropriate research to support their financial forecasts.

Sunflowers Care opened in 2013, after a lengthy conversion and adaption programme, and is now fulfilling its mission. The business employs 2 Full time Managers; 3 Full time nurses and 5 part time nurses; 9 full time carers and 3 part time carers along with a bank of 3 further carers. All staff are qualified and skilled.



Sunflowers Care
www.sunflowers-care.co.uk

Summary

This Economic Impact report clearly shows that the results of lending to financially-excluded sections of society are encouraging and significant. Some of these excluded individuals have genuine entrepreneurial potential and would be missing out without Foundation East's support. The success of these enterprises has meant considerable safeguarding of jobs and new job creation, which has benefitted not only the individuals and families concerned, but also the wider community, in less people claiming financial support and more individuals becoming economically productive. Increases in confidence and improved business skills are just two of the positive social impacts the lending and support has had.

Whilst an economic return of £15.68 for every £1 spent is a very positive result, further work, particularly in developing more up to date metrics (which in turn will need to be recognised in HM Treasury's Green Book) is needed and therefore it is very likely that this impact measure will increase.

Working with the University of Birmingham, our plans include updating the Social Impact measure and will include a study on the processes of lending that will lead to uncovering important aspects about borrower perceptions and enhance our knowledge of well-being and ultimately improve business practice.

"The Economic Impact Tool is a milestone in the evolution of the CDFI sector. It enables all CDFI's regardless of their lending market, to convert aggregate lending data into the kind of hardnosed economic analysis that even those further away from the sector will take seriously. CDFI's economic impact is impressive, we've always known that, but for the first time, we can now really prove it". says Ben Hughes Chief Executive CDFA



Outcome Indicator	No. of Outcomes (annual)	Unit Value of Benefit (£)	Total Value of Benefits (£)	Notes
Number of loans made to unemployed individuals who created a business	49	£24,253	£1,188,397	Economic impact of business creation PLUS fiscal value to government of move off benefits PLUS social impact (individual well-being value)
Number of loans made to employed individuals who created a business	69	£10,619	£732,711	Economic impact of business creation only. No social impact valuation included
Number of jobs created through loans to existing businesses	209	£28,417	£5,939,153	Economic impact of jobs only. No social impact valuation included
Number of jobs saved through loans to existing businesses	70	£42,305	£2,961,350	Economic impact of jobs only. No social impact valuation included
Number of individuals who received business/financial support/advice (including all who received a loan)	266	£290	£77,140	Economic and social impact valuation
Economic Impact £1 = £15.68	Cost of Delivery 2013/14 (including expected capital attrition) £695,144		Total Value of Economic Benefit £10,898,751	



Foundation East

T 01284 757 777

e info@foundationeast.org

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