

Subject: Crowdfund North East Local Enterprise Partnership (LEP)**Report of: Chief Executive, North East Local Enterprise Partnership****Portfolio: Economic Growth**

Report Summary

The purpose of this report is to summarise the proposed Crowdfund North East LEP fund (CNEF), detail the relevant legal and financial considerations and that the North of Tyne Combined Authority, acting as Accountable Body to the North East LEP, is to proceed to enter into all relevant contractual arrangements to enable the CNEF to be made operational.

The reason for urgency is the North East LEP Board has agreed (through delegated authority given to the Chair and Vice Chairs) to create the Crowdfund North East LEP fund which will create a £1m fund to provide grants of up to £5,000 of match funding grant to an estimated 200 businesses in the North East LEP areas who are Crowdfunding to raise essential funds to ensure they can survive the current economic difficulties created by the COVID-19 pandemic. Any delays in setting up this fund will likely reduce the potential for the fund to provide much needed financial support and could mean loss of employment and failure of businesses.

Recommendations

The Head of Paid Service is recommended to approve:

- a) That the North of Tyne Combined Authority enter into relevant contractual arrangements to enable the Crowdfund North East LEP fund to be created and become operational

1. Background Information, Proposals and Timetable for Implementation

- 1.1 There are 45,800 micro businesses with less than 10 employees in the North East LEP area. A key aim of the Strategic Economic Plan is maintaining a growth-orientated, dynamic and productive environment where businesses invest, grow and thrive. As the UK faces unprecedented issues caused by the Covid-19 pandemic, North East businesses are being severely affected
- 1.2 To help supplement the support provided nationally by the Government, a £1m Crowdfund North East Fund (CNEF) is being proposed to help micro businesses and ensure the impact of the pandemic on the North East economy is mitigated. The CNEF will be initially targeted at those micro businesses who are not eligible to receive support from the Small Business Grants Fund or Retail, Hospitality and Leisure Grant Fund. Many of the 45,800 SMEs do qualify but intelligence from Local Authorities, the North East Growth Hub and direct conversations with businesses shows that there are number of micro businesses that 'fall through the gap' of the Government schemes. However, should there be limited demand from such businesses, the CNEF would then consider applications from businesses who have been in receipt of grants from Small Business Grants Fund or Retail, Hospitality and Leisure Grant Fund.
- 1.3 The CNEF will operate until December 2020 with the aim to support a minimum of 200 micro businesses by providing grants of up to £5,000 per eligible business to match funding a business has raised through a crowd funding mechanism. This funding can be used to help a business diversify and adapt to the current situation created by the Covid-19 outbreak, or simply provide much needed working capital to help maintain the business during these times.
- 1.4 Proposed eligibility criteria for business looking to access the match funding available through the CNEF:

- A micro business with no more than 10 full-time equivalent employees
- Those businesses who are not eligible for the Small Business Grants Fund or Retail, Hospitality and Leisure Grant Fund will be given priority
- Be an existing business or charity – or a sole trader who has been operating for at least 12 months
- Can demonstrate that the business has been adversely affected by Covid-19
- The business is located in the North East LEP area
- Be seeking to raise a minimum of £2,000 (i.e. seeking a minimum contribution of £1,000 from CNEF)

1.5 A pledge of grant support from the CNEF is triggered by the following:

- A business has received 25% of Funding Target from crowd funding (which must have come from at least 10 unique backers)
- an application for North East LEP grant is approved

1.6 The CNEF will then match the funding raised through the Crowd on a £ for £ basis to a maximum £5,000 per eligible business. The value of the grant is added to the funding raised on the Crowdfunder page for the businesses. Depending on the purpose of the fund raising, up to 50% of the grant award is payable immediately after approval. The remaining grant funding is released as cash once either the business raises their target amount of funding or the end date of the crowd fundraising has passed. Note that both the funding target and end date are set by the business when initiating the Pay It Forward scheme via Crowdfunder. By providing up to 50% of the grant award on approval, the CNEF can provide a business with much needed cash while incentivising continued fund-raising from the crowd.

1.7 It is proposed the CNEF be launch at the earliest opportunity, is possible 24 April 2020 in order to ensure the support is available quickly as it will be likely be providing much needed working capital to micro businesses that would otherwise have received no public sector support.

2. Potential Impact on Objectives

2.1 The CNEF will deliver against the objectives of the North East Strategic Economic Plan and the North East COVID-19 Economic Response Group.

3. Key Risks

3.1 There are three primary risks associated with the CNEF; that there will be little uptake of grants; fraudulent grant applications; and that those businesses who receive grant will fail.

3.2 In order to mitigate any poor uptake of the grant opportunity, the North East LEP Team will work closely with Crowdfunder UK to market the fund through social media and other channels. The pace at which the fund is made operational will also help to increase potential interest in the grant.

3.3 The risk of fraud is mitigated through the Crowdfunder UK platform, which uses Mangopay who undertake anti-money laundering, fraud and identification checks on all businesses who use the platform to fund-raise.

3.4 The North East LEP and NTCA officers will also undertake due diligence checks on the businesses through Companies House and Fame. These checks will look to see if the businesses was previously in a position where it was at risk of failure before the COVID-19 pandemic, and will includes credit worthiness information. However, due to the unprecedented nature of the current situation created by the pandemic, it is not possible to mitigate this risk to a significant degree and it is anticipated that some of the businesses that received a grant may fail and there will not be an opportunity to have the grant repaid should this occur.

4. Financial and Other Resources Implications

4.1 An allocation of £1,000,000 from the North East LEP's North East Investment Fund will be made available during financial year 2020/21. As project costs are to be treated as revenue expenditure, it has been agreed with the NTCA Chief Finance Officer that the interest payments received by the North East Investment Fund will be used in order to allow revenue grants to be awarded.

- 4.2 In order to manage risk while ensuring that the CNEF provides sufficient cash available via the online escrow Mangopay wallet, it is anticipated that the £1m fund will be released in the following stages:
- £100,000 initial wallet value
 - Additional £150,000 tranches paid (maximum of six tranches) when value remaining in wallet is below £20,000 (until the maximum £1,000,000 fund value is reached)

4.3 There are no Human Resources or ICT budget implications. The grant awards will be managed by the North East LEP Investment Team with support from NTCA Finance Team.

5. Legal Implications

5.1 A State Aid assessment has been undertaken on behalf of the Monitoring Officer of the North of Tyne Combined Authority. This has concluded that the award of grants to businesses would be issued under the de minimis regulation.

5.2 There is considered to be no Aid awarded to Crowdfunder UK, who operate the platform which will be used by the CNEF, as there are no fees being charged. While there are no fees payable, they could be an indirect beneficiary due to the exposure and or engagement with the relevant businesses and parties. However, on a factual basis this does not provide them with more than would be expected if they were engaged to operate at market basis. Therefore, they are in the main simply acting as the conduit for the funding to the businesses (who will be in receipt of de minimis Aid).

5.3 Similarly, the procurement of Crowdfunder UK's services, as there is no charge and this is a limited term contract with Crowdfunder UK, a direct award is considered to be appropriate.

6. Equalities Implications

6.1 There are no equality implications directly arising from this report.

7. Inclusive Economy Implications

7.1 There are no inclusive economy implications directly arising from this report.

8. Climate Change Implications

8.1 There are no Climate Change implications directly arising from this report.

9. Consultation and Engagement

9.1 The following individuals and groups have been consulted on the proposal to create the CNEF:

- North East LEP Chair and Vice Chairs
- Local Authority Economic Directors
- Local Authority Chief Finance Officers
- NTCA Key Officers

10. Appendices

10.1 None

11. Background Papers

11.1 North East LEP Board Delegated Decision report and approval by the Chair and Vice Chairs

12. Glossary

12.1 CNEF – Crowdfund North East LEP fund

12.2 LEP – Local Enterprise Partnership

12.3 NTCA – North of Tyne Combined Authority