
Report To: Environment and Regeneration Committee Date: 5 March 2015

**Report By: Corporate Director - Environment,
Regeneration and Resources**

**Report No: E&R/15/03/06
SJ**

Contact Officer: Head of Regeneration and Planning Contact No: 01475 712402

Subject: Scottish Local Authority Business Loan Fund

1.0 PURPOSE

- 1.1 The purpose of this report is to update Committee on the West of Scotland Loan Fund, to seek authority to participate in the Scottish Local Authority Business Loan Fund (SLABLF) and to delegate authority to appropriate Officers to participate in the ongoing activities of the new Fund.

2.0 SUMMARY

- 2.1 The West of Scotland Loan Fund was established in 1996 by Strathclyde Regional Council as part its disaggregation, and its Board has representatives of the twelve member local authorities as its directors. This Fund provides loan finance, up to £100,000, to new and existing Small to Medium Enterprises in the West of Scotland.
- 2.2 Loan funding is available for businesses that are able to benefit the local economy in terms of job opportunities, wealth and growth. Eligible costs include investment in plant, equipment, purchase of business property and working capital for businesses operating in specific sectors. It is a valuable resource in the suite of interventions available to Economic Development Officers.
- 2.3 The model of the Fund is based on the original allocation of finance which along with bank finance, is used as match funding for European Structural Funding programmes, (ERDF).
- 2.4 Through lending £18m, the West of Scotland Loan Fund has been able to support over 1100 businesses by providing them with access to gap funding, thereby helping to create some 4000 new jobs and generate an additional £200m of sales. In Inverclyde, we have made twenty five loans with a total value of just under £0.5m.
- 2.5 Each Member Authority has a ring fenced allocation of monies available for it to lend. It is estimated that by 31st March 2015 Inverclyde's available funds will be £274,510. Subject to due diligence, decisions on loans in Inverclyde are made by Officers of the Council, supported by West of Scotland Loan Fund staff, loans greater than £50,000 are decided on by the Board. The legal structure of the Fund prevents Member Authorities from removing funds for any purpose.
- 2.6 In administering such a Fund, staff employed have gained significant knowledge and in 2011 the Fund was asked to tender for the newly created East of Scotland Investment Fund. Under advice, a further limited company was formed for this purpose (West of Scotland Management Services Ltd) and this company has successfully managed the East of Scotland Investment Fund contracts since then. Due to their track record the companies also administer the Ayrshire Investment Fund, Start Up Finance Scotland and are in the process of acquiring some of the assets of the Strathclyde Seed Capital Fund. The Head of Regeneration and Planning, or predecessor, has been a director of both companies since their inception.

- 2.7 Both the West of Scotland Loan Fund and the East of Scotland Investment Fund have benefitted from significant allocations from European Structural Programmes.
- 2.8 An opportunity exists for all of Scotland's Local Authorities to be part of a pan-Scotland Local Authority Loan Fund modelled on the successful West of Scotland Loan Fund.
- 2.9 The pan-Scotland Loan Fund is highly likely to be eligible to secure ERDF funding from the European Structural Funds Programme 2014–2020. A collective bid from Scottish Local Government is actively being encouraged by Scottish Government. Regional Funds are unlikely to be eligible to bid.
- 2.10 The Fund will offer loans of up to £100k, both on a secured and unsecured basis depending on risk to eligible companies at a fixed interest rate of 6% per annum with no additional fees or charges.
- 2.11 The Fund will be delivered through a newly incorporated company, limited by guarantee which all 32 Scottish Local Authorities will be invited to join.
- 2.12 The proposed delivery structure comprises three operational areas – East, West and Highlands and Islands – each of which will essentially operate as a “fund within a fund”. It is envisaged that the company's Board of Directors will consist of two to three members from each operational area.
- 2.13 Each Local Authority's financial contribution to the Fund will be exclusively ring fenced for investing by that Local Authority solely in their area and as such will attract ERDF match funding.
- 2.14 It is estimated the amount of lending across all 32 Local Authorities will be in the region of £6m per annum and as the ERDF funding is initially for a 3 year period this could create a fund valued at £18m.
- 2.15 If the Committee is minded to support the proposal the assets and liabilities of the existing companies would be transferred to the new company.

3.0 RECOMMENDATIONS

- 3.1 That Committee note the success of the activities of the West of Scotland Loan Fund Ltd and the West of Scotland Loan Fund Management Service Ltd.
- 3.2 That Committee agree that Inverclyde Council should participate in the Scottish Local Authority Business Loan Fund and agree for appropriate Officers to participate in regional and, if appropriate, national structures.
- 3.3 That Committee, under the terms of the Members' Agreements of WSLF, agree to delegate authority to the Corporate Director Environment, Regeneration and Resources to consent for the business of WSLF being transferred to SLABLF,

**Aubrey Fawcett, Corporate Director
Environment, Regeneration and Resources**

4.0 BACKGROUND

- 4.1 The West of Scotland Loan Fund was established in 1996 by Strathclyde Regional Council as part its disaggregation and has twelve member local authorities. This Fund provides loan finance, up to £100,000, to new and existing Small to Medium Enterprises in the West of Scotland. It is a valuable resource in the suite of interventions available to Economic Development Officers.
- 4.2 Loan funding is available for businesses that are able to benefit the local economy in terms of job opportunities, wealth and growth. Eligible costs include investment in plant, equipment, purchase of business property and working capital for businesses operating in specific sectors.
- 4.3 Through lending £18m, the West of Scotland Loan Fund has been able to support over 1100 businesses by providing them with access to gap funding, thereby helping to create some 4000 new jobs and generate an additional £200m of sales. In Inverclyde, we have made twenty five loans with a total value of just under £0.5m.
- 4.4 In administering such a Fund, staff employed have gained significant knowledge and in 2011 the Fund was asked to tender for the newly created East of Scotland Investment Fund. Under advice, a further limited company was formed for this purpose (West of Scotland Management Services Ltd) and this company has successfully managed the East of Scotland Investment Fund contracts since then. Due to their track record the companies also administer the Ayrshire Investment Fund, Start Up Finance Scotland and are in the process of acquiring some of the assets of the Strathclyde Seed Capital Fund. The Head of Regeneration and Planning, or predecessor, has been a director of both companies since their inception.
- 4.5 An opportunity exists for all of Scotland's Local Authorities to be part of a pan-Scotland Local Authority Loan Fund modelled on the successful West of Scotland Loan Fund.
- 4.6 The pan-Scotland Loan Fund is highly likely to be eligible to secure ERDF funding from the European Structural Funds Programme 2014–2020. A collective bid from Scottish Local Government is actively being encouraged by Scottish Government. Regional Funds are unlikely to be eligible to bid.
- 4.7 The Scottish Government has committed £40 million to Financial Instruments for the first 3 years of the 2014-2020 European Structural Funds Programme.
 - These funds are to be used to create an SME Fund specifically for:
 - Recapitalisation of Scottish Investment Bank and
 - Recapitalisation of Local Authority loan funds
 - A further £40 million ERDF potentially available for 4 years thereafter.
- 4.8 The table below identifies the progress each of the 32 Scottish Local Authorities has made regarding membership of the Scottish Local Authority Business Loan Fund.

To date, 14 of the 32 Councils have agreed in principle to participate in the new Fund with a further 12 scheduled to go to Council / Committee before the end of March.

An update has been requested from the remaining 6 Local Authorities as to their timescale.

Member Authority	Committee Date	Outcome
East		
Aberdeen City		
Aberdeenshire		
Angus	20th January	Approved
Clackmannanshire	Late February	
Dundee City	26th January	Approved
East Lothian	13th January	Approved
City of Edinburgh	March	
Falkirk	24th February	
Fife	3rd February	Approved
Midlothian	3rd March	
Perth and Kinross	21st January	Approved
Scottish Borders	3rd February	Approved (subject to SE transfer)
Stirling		
West Lothian		
Highlands & Islands		
Argyll & Bute	13th February	
Eilean Siar	Early February	Approved
Highland	March	
Moray		Approved
Orkney Islands		
Shetland Islands		Approved
West		
Dumfries & Galloway	December	Approved
East Ayrshire	28th January	Approved
East Dunbartonshire	December	Approved
East Renfrewshire	March TBC	
Glasgow City	March TBC	
Inverclyde	5th March	
North Ayrshire	March TBC	
North Lanarkshire	19th February	
Renfrewshire	28th January	Approved
South Ayrshire		
South Lanarkshire	11th February	Approved
West Dunbartonshire	March	

5.0 PROPOSALS

- 5.1 It is proposed that all assets and liabilities of the West of Scotland Loan Fund, and indeed the East of Scotland Investment Fund, will be transferred (as a going concern) to the Scottish Local Authority Business Loan Fund Limited.
- 5.2 The assets and liabilities to be transferred include:
- The businesses and assets of WSLF and ESIF, for example computers, office equipment, employees and pensions;
 - The cash at bank; and
 - The Loan Book (to be transferred at a date after SLABLF has become operational).
- 5.3 It should be noted that each Member Authority's ring fenced balance of cash at bank and the outstanding loan book will ultimately transfer to each Member's ring fenced balance within SLABLF. However, as WSLF will have some ongoing liabilities it is proposed an agreed amount of the "cash at bank" be retained by the Fund to allow those liabilities to be met.

- 5.4 In return the Scottish Local Authority Business Loan Fund will be asked to guarantee the debts of WSLF and ESIF to ensure that if any further cash is required to meet liabilities, WSLF and ESIF are able to meet these.
- 5.5 Under the terms of the Members' Agreements of WSLF and ESIF, the directors of each company can alone (i.e. without Member Authority consent) authorise the transfer of assets and liabilities of WSLF and ESIF to SLABLF.
- 5.6 However, the Agreements also set out that the consent of the Member Authorities is required where it is proposed to "change the nature or scope of its business as carried (by WSLF or ESIF) on from time to time".
- 5.7 The scope of the businesses of WSLF and ESIF is changing here and so to formally approve the transfer of the business and assets to SLABLF, the following requires to take place:
- a written resolution is sent to all Member Authorities, setting out the Member Authority consenting to the businesses of WSLF and ESIF being transferred to SLABLF;
 - after receipt of such signed resolutions from Member Authorities, the board of directors of each of WSLF and ESIF shall meet to approve the transfer of business and assets to SLABLF; and
 - following approval by the Members and the directors of WSLF and ESIF, a business purchase agreement will be entered into by each of WSLF, ESIF and SLABLF to formally complete the business and asset transfer.

6.0 IMPLICATIONS

6.1 **Legal:** none.

6.2 **Finance:** none.

Financial implications – one-off costs

Cost Centre	Budget Heading	Budget Year	Proposed Spend this Report	Virement From	Other Comments
n/a	n/a	n/a	n/a	n/a	n/a

Financial implications – annually recurring costs/(savings)

Cost Centre	Budget Heading	Budget Year	Proposed Spend this Report	Virement From	Other Comments
n/a	n/a	n/a	n/a	n/a	n/a

6.3 **Personnel:** none.

6.4 **Equalities and diversity:** there are none.

6.5 **Repopulation:** there are no direct implications.

7.0 CONSULTATION

7.1 **Chief Financial Officer:** Commented on the report.

7.2 **Head of Legal and Property Services:** Commented on the report.

7.3 **Head of Organisational Development, Human Resources and Communications:** no requirement to comment.