

Proposed Creation of a Scottish Local Authority Business Loan Fund

Report by Ian Johnson, Head of Communities and Economy

1 Purpose of Report

- 1.1 The purpose of this report is to provide an update on progress, to date, with the proposed creation of a Scottish Local Authority Business Loan Fund and to set out a recommended course of action in terms of possible participation in the new Loan Fund.

2 Background

- 2.1 At its meeting on 8 October 2013, Cabinet considered and approved the content of a report entitled 'East of Scotland Investment Fund: Progress Report'.
- 2.2 The East of Scotland Investment Fund (ESIF), which comprises nine Councils working together to provide loan finance to new and growing businesses within the East of Scotland, has the following objectives:
- address market failure in the provision of finance; and
 - encourage increased levels of entrepreneurship and business formation in the East of Scotland operating area.
- 2.3 The Council's Economic Development Manager is a member of the ESIF Board and also it's Corporate Working Group.
- 2.4 At the inception of ESIF in 2010, the Council's initial investment of £300,000 was matched with European Regional Development Fund grant bringing the total sum available to invest in Midlothian businesses to £609,000. At its meeting on 8 October 2013, Cabinet agreed that £40,000 be transferred from the Midlothian Small Business Loan Fund to the East of Scotland Investment Fund. This course of action attracted additional European Regional Development Fund top up support of around £40,000.
- 2.5 Since Autumn 2014, discussions have been underway at national level to create a Scottish Local Authority Business Loan Fund. These discussions have involved representatives from the Scottish Local Authorities Economic Development Group, the Scottish Government and the Fund Manager for the East of Scotland Investment Fund. The aim is to have the new Fund operational from April 2015, with lending commencing around July 2015.

2.6 The West of Scotland Loan Fund has operated since 1996 and the East of Scotland Investment Fund since 2010. Together, these Funds have, to date:

- invested around £36 million;
- supported over 1,700 businesses;
- generated increased turnover of £680 million; and
- helped create and safeguard over 29,000 jobs.

The proposed new Scotland wide Fund will build on the existing Loan Funds and see the creation of an innovative public-private partnership finance instrument which will help accelerate the growth of businesses in Scotland, complement other private and public sector forms of funding, create significant leverage effects and engineer valuable growth in small and medium sized enterprises. As well as standardising the product offering, it will greatly increase the scale and operational efficiency of delivering a Loan Fund to Scotland's small and medium sized enterprises.

2.7 Once fully established and operational, the Scottish Local Authority Business Loans Fund Limited will be a consortium of Scotland's 32 Local Authorities, incorporated as a company limited by guarantee and providing loan finance of up to £100,000 to new and growing small and medium sized enterprises across Scotland.

2.8 Details on the proposed operation of the new Loan Fund and a draft Business Plan 2015-18 in respect of the operation of the new Fund have been placed in the Members library. It should be noted that the documentation is subject to ongoing review and refinement prior to the launch of the new Fund.

2.9 Key points to note from the new Fund documentation include:

- a new company, limited by guarantee, has been incorporated in December 2014 with the name Scottish Local Authority Business Loan Fund, with the option to trade as Business Loans Scotland.
- a Member's Agreement and new Articles of Association have been drafted for adoption by the new company. These documents will regulate the running of the new company. Copies of the documentation have been forwarded to staff in the Council's Legal Section for scrutiny.
- the existing business and assets of the West of Scotland Loan Fund and the East of Scotland Investment Fund will be transferred to the new company.

- any cash contained within the West of Scotland Loan Fund and the East of Scotland Investment Fund, together with monies received from debtors in these companies will be transferred to the new company. It is emphasised that monies allocated to a Local Authority will be held exclusively for that Local Authority;
- the new Loan Fund is seeking to benefit from an award of £7.2 million from the European Regional Development Fund. Matched with funding from a Bank (to be advised) of £5.4 million and financial contributions from Member Authorities totalling circa £5.4 million, a Loan Fund of circa £18 million will be created to be invested over a three year period to 31 March 2018. Annually, the Fund will have the capacity to invest circa £6 million, support circa 150 businesses and help create over 600 new jobs;
- the Fund and its Local Authority members will operate across three regional delivery areas covering the whole of Scotland. These are East, West and Highlands and Islands areas; and
- the Fund's governance structure will consist of five elements:
 - i) The Board of Directors.
 - ii) Corporate Governance Working Group.
 - iii) Regional Management Group.
 - iv) Regional Investment Panels.
 - v) Regional Officers Groups.

Appropriate Council officer representation on one or more of these groups is currently being considered.

- 2.10** As is the current practice with ESIF applications made to the Council, the initial loan applications appraisal will be undertaken by a member of staff from this Council's Economic Development Section. An appropriate report will be prepared for Cabinet recommending approval or rejection of the loan application. In line with the Fund's (draft) Articles of Association and Members Agreement, final decisions for loans between £50,000 and £100,000 will be the responsibility of the (to be formed) Regional Investment Panels.
- 2.11** The new Fund will use a web based online loan application system, allowing loan applications, appraisals, compliance checking, approval, drawdown, customer care and monitoring to be undertaken online.

3 Report Implications

3.1 Resource

In terms of human resource implications, participation in the new Fund will be undertaken by Economic Development Section staff in close liaison with Council officer colleagues and the managing body for the new Fund. Business Gateway staff will be involved in loan application appraisal and monitoring. In addition, the Council will be represented, in due course, by an appropriate officer(s) on one or more of the groups highlighted in section 2.9 of this report.

With regard to financial resource implications, the (draft) Business Plan 2015-18 for the new Local Fund highlights an ambition to put in place an overall Fund of circa £18 million. This would comprise of:

- £7.2 million European Regional Development Fund support;
- £5.4 Bank (to be advised) funding support; and
- Circa £5.4 million Member Authorities funding support.

Each Council would transfer the balance from its current business loan accounts into the new Fund. For Midlothian this would comprise funds currently held in its East of Scotland Investment Fund, and its Midlothian Business Loan accounts.

3.2 Risk

There is a risk that the Council's failure to participate in the new Loan Fund will reduce the potential access to loan funding to enable Midlothian based businesses to develop and grow. Midlothian Council's participation in ESIF has been active since December 2010.

In any loan scheme of this nature, there is an inherent risk that businesses will default on loan payments. This risk will be mitigated by rigorous credit checks, due diligence controls, the taking of appropriate security and regular after care monitoring visits. The (draft) Business Plan for the new Fund proposes the implementation of a debt management policy with the aim of acting swiftly to safeguard the interests of the Fund.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- X Improving opportunities in Midlothian
- X Sustainable growth
- X Business transformation and Best Value
- ☐ None of the above

3.4 Impact on Performance and Outcomes

A supportive business environment is a strategic priority highlighted in the Scottish Government's Economic Strategy, which will shortly be the subject of review. The Strategy includes the provision of advice and support to help small and medium sized enterprises grow. This supports Ambitious Midlothian (formerly Midlothian Economic Recovery Plan) and the Single Midlothian Plan by contributing to economic growth and business support within Midlothian.

3.5 Adopting a Preventative Approach

In assisting businesses to grow, the new Loan Fund may save the business from ceasing to trade and may, as a consequence, safeguard jobs as well as create them.

3.6 Involving Communities and Other Stakeholders

Appropriate consultation has been undertaken with other Council staff during the preparation of this report. Once the new Loan Fund is operational, staff from the Fund management body will be fully consulted throughout the application process and be fully advised of caseload developments.

3.7 Ensuring Equalities

Appropriate checks will be undertaken to ensure that applicants comply with employment legislation.

3.8 Supporting Sustainable Development

All businesses participating in the new Loan Fund will be informed about services to enable their uptake of good environmental practice. This was/is standard practice during the operation of ESIF. Relevant schemes include the Green Ticks scheme operated by the Business Partnership. The proposed funding model for the new Loan Fund consists of investment in the Fund by Member Authorities, a Bank (to be advised) and the European Regional Development Fund. The proposed revolving nature of the new Fund, consisting of capital and interest loan repayments, will help to ensure its sustainability as successive generations of borrowers meet their debt obligations to the Fund.

3.9 IT Issues

There are no IT issues although it should be noted that, as stated at section 2.11 of this report, the new Fund will use a web based online loan application system. It is not anticipated that this will pose any problems from an IT perspective.

4 Recommendations

4.1 It is recommended that Cabinet:

- i) notes progress with the proposed establishment of a Scottish Local Authority Business Loan Fund;
- ii) agrees that the Council participates in the proposed establishment of the Scottish Local Authority Business Loan Fund;
- iii) approves, at the appropriate time, transfer of existing balances in the East of Scotland Investment Fund account, and the Midlothian Business Loan account, to the new Scottish Local Authority Business Loan Fund; and
- iv) requires that further progress reports be submitted to Cabinet to advise on the establishment, development and operation of the proposed new Scottish Local Authority Business Loan Fund.

5 February 2015

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Background Papers:

Scottish Local Authorities Business Loan Fund