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**Report to Enterprise and Environment Committee**

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**Date of Meeting: 19th May 2016**

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**Subject: Scottish Local Authority Business Loans Fund**

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**Report by: Head of Development and Environment**

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**1.0 Purpose**

- 1.1. This report seeks to update the Committee on the Council's involvement in the Scottish Local Authority Business Loans Fund, as a means of supporting business growth locally, following its commitment to provide funding through a reprioritisation of the Development and Environment Service's budget for 2016/17.

**2.0 Recommendations**

- 2.1. It is recommended that the Committee:
- (a) Homologates the decision by the Head of Development and Environment and Legal Services Manager to conclude and agree the Articles of Association and Members' Agreement for the new Scottish Local Authority Business Loan Fund company
  - (b) Notes the Council's approval to become a member of Business Loans Scotland Limited where the Council has agreed a one-off contribution from the Council of £50,000 to the Scottish Local Authority Loans Fund. This will enable the drawing down of additional funding through a bank loan and ERDF, therefore providing a total fund of £167,000 for lending to local businesses.

**3.0 Considerations**

- 3.1. Proposals have been developed by the West of Scotland Loan Fund (WSLF), the East of Scotland Investment Fund (ESIF), the Scottish Government and the Scottish Local Authority Economic Development Group to create a new £16M pan Scotland Local Authority Business Loan Fund involving all 32 Scottish Local Authorities. A new company, Business Loans Scotland Limited, has been established to run the fund

on behalf of partners. Modelled on the successful West of Scotland Loan Fund and East of Scotland Investment Fund (with membership totalling 22 Scottish Local Authorities), it provides an opportunity for Councils that are not members of the existing funds to provide additional support for business growth in their areas.

3.2. The Fund is one of a suite of three 'Financial Instruments' being taken forward by the Scottish Government for support through European Structural Funds. These are:

- **Micro** finance providing support of up to c.£20,000 for businesses with less than 10 employees
- **Debt** finance generally providing support in the c£25,000 - £100,000 range, however provision exists to provide loans below £25,000 to eligible businesses with 10 or more employees
- **Equity** finance, generally at a value of over £100,000

The three strands are designed to be complementary and accessible to all eligible businesses in Scotland. A procurement exercise is currently under way for each element with Business Loans Scotland Limited bidding for the Debt strand.

3.3. Difficulty in accessing finance is recognised as a key barrier to promoting growth within small and medium sized enterprises (SMEs). The Fund will provide a source of funding to promote business and jobs growth in locally based enterprises. Access to such funding was identified by local businesses in Clackmannanshire as an issue where they were at a geographical disadvantage compared to other parts of Scotland. The measures referred to in paragraph 3.2 will provide new access to a range of funding sources to promote local company growth.

3.4. At the Special Meeting of the Council held on 23rd February 2016 the Council agreed its General Services revenue budget for 2016/17. This included reprioritisation of £50,000 from the Development and Environment Service's budget to support the establishment of a 'Small Business Grants' scheme. This is the Scottish Local Authority Business Loans Fund referred to in this report.

3.5. The Fund is a revolving mechanism providing loans to businesses on the basis of an agreed repayment schedule. This ensures that funding is recycled and businesses benefit from a continuing availability of funding. The Fund will be made up of members' contributions (30%), a bank term loan (30%) and ERDF funding (40%) from the European Structural Funds programme 2014-2020. For a one-off Council stake of £50,000 a total loan fund of £167,000 will be available locally over an assumed three year period. An ERDF funding application has been submitted. Subject to a successful bid, it is anticipated that Business Loans Scotland Limited will be fully operational from early Autumn 2016.

- 3.6. A small core team will run the Fund on behalf of member authorities. A management fee will be charged to cover overhead costs ( currently estimated at £13,125 for the Council over the Fund period with this being met from the overall £167,000 available in Clackmannanshire). These overhead responsibilities are likely to include collection of funds, administration, compliance and monitoring. Charges to individual Councils will reflect their share of the overall fund. The core team is likely to include a legal adviser to issue offers and agree legal documentation, thus removing the need for Local Authorities to provide this service.
- 3.7. Other key points to note are:
- Each member authority will be responsible for delivery of the fund in its area. This is likely to include promotion of the scheme to local businesses and stakeholders, identification of potential applicants, supporting businesses through the application process, appraising and determining applications and maintaining contact and providing aftercare to loan recipients. Detailed mechanisms for doing this will be developed before the fund goes 'live'.
  - The Scottish Local Authority Business Loans Fund Ltd will be established as a company limited by guarantee. It will be governed by a Members' Agreement and Articles of Association.
  - The Fund will be wholly public sector owned and controlled and is intended to be a partnership of the 32 Scottish Local Authorities. Full membership has been taken up by 30 Local Authorities with the remaining two being offered Associate membership to provide an option for full membership in the future.
  - The existing West of Scotland Loans Fund and East of Scotland Investment Fund will be subsumed within the new Fund.
  - Each member Authority's contribution to the Fund, and the leverage it attracts, will be exclusively ring fenced to investment in that Local Authority area.
  - Loans will be secured by Standard Security, Bond and Floating Charge and/or Personal Guarantee. There is also provision to offer loans on an unsecured basis. The interest rate will be fixed for the term of the loan and is likely to be set initially at 6% with no initial fees or charges.
  - The Fund can provide up to 50% of any funding package sought with the matching balance coming from the business itself.
  - The Fund will operate across three regional delivery areas ( East, West and Highlands and Islands) each of which would operate as a 'fund within a fund'. Clackmannanshire will become part of the East area.

- In exceptional cases loans of up to £100,000 can be considered. Those up to £50,000 can be determined locally. Any proposed loan above this level will be referred to a regional investment panel made up of advisers with appropriate skills and experience.
- An Operations Manual will be produced to promote consistency of service delivery across Scotland. Delivery staff will be provided with training by the core fund management team.

3.8. The Fund's governance structure will be made up of four elements:

- Board of Directors - including two or three members from each operational area. Provision has also been made for representation from other stakeholders and the private sector.
- Corporate Governance Working Group - to support the Board with membership coming from a mix of Board Directors, officers from member authorities and the Fund Manager.
- Regional Management Groups - with membership comprising a senior representative from each member authority within that region and with responsibilities including monitoring and reviewing the Region's performance. This group will also be responsible for the final appraisal and determination of any loan applications above £50,000 as well as providing wider support for member authorities.
- Regional Officers Groups - for each area with officer membership from each Local Authority together with the Regional Loan Fund Officer and Fund Manager.

3.9. Involvement in the Loan Fund offers an additional mechanism for Clackmannanshire Council to demonstrate the priority it places on supporting and further developing the local economy. It will add value to other support mechanisms, such as the proposed Micro and Equity strands, as well as Business Gateway, and allows the Council and its partners to offer a wider and more integrated package of support to local businesses with growth potential.

#### **4.0 Sustainability Implications**

4.1. Participation in the Business Loans Fund has the potential to have the following positive impacts:

- Improve quality of life in Clackmannanshire
- Achieve sustainable economic development
- Target skills and training and reduce unemployment

## 5.0 Resource Implications

### *(a) Financial Details*

- 5.1. As described in paragraph 3.3. the Council's contribution to the Fund is coming from a one-off re-prioritisation of the Development and Environment Service budget for 2016-2017 of £50,000.
- 5.2. The new fund will be established for an initial period of between two and three years (depending on ERDF approval dates). Further funding is likely to be available from 2018-2020. Any investment by the Council in the fund is likely to be locked in for a period up to at least 2026 as a condition of the ERDF support. The Members' Agreement and Articles of Association of the new company will, however, provide for the redistribution of assets in proportion to members' original investment, including, leverage, should the company be dissolved.
- 5.3. The new fund will implement a debt management strategy to ensure a proactive approach is taken in managing any arrears, defaulters and bad debts. As with any Loan fund there is a possibility that the Council could suffer a loss of capital should recovery action fail. The use of Standard Securities, Bond and Floating Charge and/or Personal Guarantees will help reduce this risk.
- 5.4. Finance have been consulted and have agreed the financial implications as set out in the report.

Yes

### *(b) Staffing*

- 5.5. The Business Loans Fund initiative will be delivered by the Council's Economic Development team, in conjunction with Business Gateway, and supported, as required, by the Scottish Business Loans Fund company's core team.

## 6.0 Exempt Reports

- 6.1. Is this report exempt? Yes  (please detail the reasons for exemption below)  
No

## 7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities** (Please double click on the check box )

The area has a positive image and attracts people and businesses   
Our communities are more cohesive and inclusive

People are better skilled, trained and ready for learning and employment

Our communities are safer

Vulnerable people and families are supported

Substance misuse and its effects are reduced

Health is improving and health inequalities are reducing

The environment is protected and enhanced for all

The Council is effective, efficient and recognised for excellence

## (2) Council Policies

- Clackmannanshire Single Outcome Agreement 2013-2023
- Building Clackmannanshire Economic Development Framework 2008-2018
- Clackmannanshire Employability Strategy 2015-2017

## 8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?  
Yes  No  Not required

## 9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers.  
Yes

## 10.0 Appendices

10.1 None

## 11.0 Background Papers

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)  
Yes  (please list the documents below) No

- Business Loans Scotland Ltd Members Agreement
- Business Loans Scotland Ltd Articles of Association

**Author(s)**

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**Approved by**

| <b>NAME</b>   | <b>DESIGNATION</b>                   | <b>SIGNATURE</b>  |
|---------------|--------------------------------------|---|
| Gordon McNeil | Head of Development &<br>Environment |  |
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