
SCOTTISH LOCAL AUTHORITY BUSINESS LOAN FUND

Report by Service Director Strategy & Policy

EXECUTIVE

3 February 2015

1 PURPOSE AND SUMMARY

- 1.1 This report provides an overview of the proposed Scottish Local Authorities Business Loan Fund and seeks approval for the Council to become a member.**
- 1.2 Following consultation with the Scottish Government, SLAED and Scottish Enterprise, an opportunity has arisen to establish a Scotland-wide loan fund to support small and medium enterprises through the provision of loans of £5,000 to £100,000 in a new Scottish Local Authorities Business Loan Fund.
- 1.3 By aiming to integrate the existing South of Scotland Loan Fund into this new Fund, the Council will be able to ensure that Scottish Borders businesses are also able to benefit from access to this new investment finance. It would create an excellent opportunity to provide local businesses with more flexible and easier access to loan funds to sustain and grow their business and increase employment opportunities. The Fund would complement other business support activities that the Council and partners provide.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Executive:**
 - (a) Notes the development of the proposed Scottish Local Authority Business Loan Fund;**
 - (b) Agrees that Scottish Borders Council becomes a member of the new fund, subject to approval of appropriate funding from Scottish Enterprise;**
 - (c) Delegates authority to the Service Director Strategy & Policy and the Chief Financial Officer to finalise the operational arrangements for the Council's membership of the new fund; and**
 - (d) Agrees to the closure of the existing Scottish Borders Council Business Loan Fund at the end of March 2015.**

3 BACKGROUND

- 3.1 As a result of ongoing discussions between Scottish Government, Scottish Enterprise and SLAED (Scottish Local Authorities Economic Development Group), a new opportunity exists to create a Scotland-wide Local Authority Loan Fund. This would be achieved by merging the three existing loan funds noted below into a new loan company:
- (a) The West of Scotland Loan Fund – operated by a consortium of Local Authorities;
 - (b) The East of Scotland Loan Fund – operated by a consortium of Local Authorities;
 - (c) The South of Scotland Loan Fund – operated by Scottish Enterprise
- 3.2 The purpose of the fund would be to provide loan funding of between £5,000 - £100,000 for new start and existing micro and small to medium (SME) businesses to support growth activities. It is proposed that the fund would be established as a Company Limited by Guarantee whereby each member's liability is limited to £1. Membership will be open to all 32 Local Authorities in Scotland.
- 3.3 The fund would be created through a combination of financial contributions from the existing loan funds detailed in 3.1 above, with additional contributions from: Local Authorities, Scottish Government, the European Regional Development Fund (ERDF) and clearing bank finance.
- 3.4 The utilisation of ERDF funds is consistent with discussion and agreement at COSLA in relation to the Scottish Government's disbursement of EU funds for 2015 to 2020. An element of the ERDF programme allows for the creation of financial instruments, such as loan funds, which will support business growth.
- 3.5 The overall scale of the fund has yet to be fully determined but is estimated that it may be in the region of £18m over three years, commencing 1 April 2015. Then depending upon performance, a further £18m may be available through to March 2020.

4 SCOTTISH LOCAL AUTHORITY BUSINESS LOAN FUND - OPERATION

- 4.1 The fund would be established as a Company Limited by Guarantee with membership open to all 32 Local Authorities in Scotland. A management company would administer the fund with Local Authorities having decision-making representation at local level.
- 4.2 Each Member Authority's contribution to the fund would be exclusively ring-fenced to be invested in the respective local area. Operation and decision making on loan fund applications would be carried out at a local level for all applications up to £50,000. Applications between £50,000 and £100,000 would be assessed locally and referred to a regional panel (East of Scotland) for final approval.
- 4.3 The Business Gateway Team would act as the local point of contact for the fund, providing information and advice to potential applicants. As with the Council's existing Scottish Borders Loan Fund, an Investment Panel drawn from staff across the Council (including Economic Development and Finance) with relevant skills and experience, will be established to take local decisions.

- 4.4 The level of funds which would be invested in the Scottish Borders each year still is still to be determined. However, a target of 20 loans per year would be realistic based on previous levels of loan activity (Scottish Borders Business Loan Fund and South of Scotland Loan Fund) and recent conversations with senior managers at the Royal Bank of Scotland, Bank of Scotland and the Clydesdale Bank.
- 4.5 Whilst still subject to approval by Scottish Enterprise (February/March 2015), it is intended that the Council funding contribution would be fully covered through the integration of the existing South of Scotland Loan Fund. If progressed in this way the Council would not be required to make any direct cash contribution to the Fund.
- 4.6 The fund also has the potential to include a "Borders Railway Investment Fund", linked to the Borders Railway Blueprint agreement announced by the First Minister in November 2014. This element is also subject to negotiation and approval from Scottish Enterprise.
- 4.7 It is intended that this new national fund will replace the Scottish Borders Council Business Loan Fund from April 2015. This fund has received 26 applications and approved 10 loans to the value of £87,000 since its launch in 2013. It is forecast that the activity from these loans will create 12 jobs, safeguard 37 and will have an economic impact of around £281,000 GVA.
- 4.8 The implementation of a Scottish Local Authorities Loan Scheme would create an excellent opportunity to provide our area's businesses with more flexible and easier access to loan funds to sustain and grow their business and increase employment opportunities. The fund would complement other business support activities that the Council and partners provide.

5 IMPLICATIONS

5.1 Financial

- (a) The final details of membership of the proposed Loan Fund, including governance, financial and operational arrangements have still to be fully agreed at a national level. However, by integrating the South of Scotland Loan Fund into the new loan fund, the direct financial implications for the Council have been minimised during the life of the Fund. As well as funds for loans, the cost of the Council's contribution to the management and administration of the fund will be drawn from the funds transferred by Scottish Enterprise from the South of Scotland Loan Fund.
- (b) It is expected that the existing Scottish Borders Council Loan Fund, that has run as a pilot scheme over the last 18 months, would be formally wound up if the Council successfully joins the new national Local Authority Loan Fund.

5.2 Risk and Mitigations

- (a) There is a risk that Scottish Enterprise does not approve transfer of South of Scotland Loan Fund. In order to mitigate this, the Council, along with Dumfries & Galloway Council, is already in discussion with senior executives at Scottish Enterprise. Officers expect that a suitable figure will be agreed. If Scottish Enterprise approval is not forthcoming, the Council will not be in a position to participate in this national fund and will have to consider a smaller, local based intervention.

- (b) There is a risk that businesses will not apply for loans. This will be mitigated through promotion by Business Gateway advisers, officers within Economic Development and Scottish Enterprise.
- (c) In providing financial support, the Council must be aware of State Aid regulations designed to prevent distortion of competition in a market place. The current proposal is that these loans will attract 6% interest and as such this would not be state aid.

5.3 Equalities

An Equality Impact Assessment (EIA) is being undertaken at the Scottish level to meet European funding requirements. A key aspect of the Council’s Economic Development Team’s work is to reduce barriers to economic inequality and information on service delivery to equalities groups is monitored and this will be done for the life of this Fund.

5.4 Acting Sustainably

The activities of the Loan Fund fit alongside the Business Plan for Economic Development and the Business Gateway service which both contain a number of targeted outputs and outcomes that will deliver economic benefit: these relate to the number of businesses assisted, start-up, growth and local service priorities as defined by the Council.

5.5 Carbon Management

There is no net increase at a Scottish Borders level as this is the continuation of an existing service delivery, replacing the Scottish Borders Business Loan Fund.

5.6 Rural Proofing

Rural Proofing is not required as the proposal does not relate to a new or amended Council policy or strategy.

6 CONSULTATION

- 6.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted and their comments have been incorporated into the report.

Approved by

David Cressey
Service Director Strategy & Policy

Signature

Author(s)

Name	Designation and Contact Number
Sam Smith	Economic Development Manager, tel 01835 826539
Jim Johnstone	Principal Officer - Business, tel 01835 826727

Background Papers: None
Previous Minute Reference: None

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Jim Johnstone can also give information on other language translations as well as providing additional copies.

Contact us at Jim Johnstone, Economic Development Team, Scottish Borders Council, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA

Tel 01835 826727

Fax 01835 825071

Email eitranslationrequest@scotborders.gov.uk