

REPORT TO POLICY AND RESOURCES COMMITTEE – 11 JUNE 2015

SCOTTISH LOCAL AUTHORITY BUSINESS LOAN FUND

1 Recommendations

The Committee is recommended to select Option 1 in reply to the invitation to join the Scottish Local Authority Business Loan Fund (SLABLF):

Option 1 – Do not sign up for membership of SLABLF.

Option 2 – Sign up for membership of SLABLF for the full amount that is considered possible to distribute as loans.

Option 3 – Sign up for membership of SLABLF with a minimum amount.

2 Background and Discussion

- 2.1 Aberdeenshire Council has been invited to join SLABLF which will offer loans to small and medium sized enterprises at a rate of 6%. This is a new fund created from local authority members of the existing West of Scotland Loan Fund (WSLF), East of Scotland Loan Fund (ESLF) and local authorities in the Highlands and Islands. The WSLF and ESLF were set up by Local Authorities that have contributed to the funds from their own budgets and from the European Regional Development Fund (ERDF) over the past decade. The Scottish Government is willing to support an application to the new ERDF programme 2014-20 as long as there is one Scottish fund which includes at least 28 of the Scottish Local Authorities.
- 2.2 Appendix 1 shows an extract from the business plan of the company limited by guarantee that has been set up to run the new fund, Business Loan Scotland Ltd, and it will replace the WSLF and ESLF. The board of this company will be made up of Councillor and council officer representatives from the three regions; east, west and highland. Business Loan Scotland Ltd has now been registered and is preparing an ERDF application which proposes a loan fund where LAs jointly contribute £5.4m (30%) with £5.4m (30%) borrowed from the banks which will then lever in £7.2m (40%) from ERDF. This will create a loan fund covering a three year period 2015 to 2018. There will be a chance to apply for similar proportions for the period 2018-2022 if the first phase is successful and the loan fund is spent. Banks have already agreed to lend the 30% needed.
- 2.3 The contribution sought from Aberdeenshire Council to join the scheme is £141,000 each year for three years for the loan element with an annual management charge of £30,550. This is the highest contribution of any LA based on the number of businesses located in Aberdeenshire. Officers have asked if a smaller contribution can be made to the fund along with a smaller annual fee and they have been told that this may be possible. The

Aberdeenshire contribution and matching bank and ERDF contribution would be ring-fenced for use by Aberdeenshire businesses only. The three year contribution from the Council would all have to be paid in 2015 to match the bank loans.

- 2.4 Aberdeenshire Council already operates the Support for Aberdeenshire Business (SAB) Scheme which offers loans and grants to businesses operating within Aberdeenshire, or businesses moving into Aberdeenshire, that have a business proposal to develop and expand their business. To be eligible for the scheme businesses have to demonstrate that their proposal meets the following criteria:
- (a) The proposal brings additional economic benefit to Aberdeenshire.
 - (b) The proposal demonstrates viability.
 - (c) The proposal has the potential to increase employment in the Aberdeenshire area.
 - (d) The proposal proves that there is a need for top up finance over and above what is available on the open market or within the business.
 - (e) The proposal does not have a detrimental effect on existing local businesses.

The SLABLF loans would demand that businesses meet similar criteria.

- 2.5 In 2014-15 the SAB scheme assisted 35 businesses with grants and loans and helped to create 55 jobs and safeguard 24 jobs. The funding from the SAB Scheme enabled businesses to lever in £1,315,761 from other sources, such as banks, to their business developments. Of the businesses assisted three were awarded loans and grants, one was awarded loan only and the rest were awarded only grants. In SAB, loans tend to be in the £5,000 to £25,000 bracket. The new SLABLF will offer loans up to £50,000 with options to consider loans up to £100,000.

- 2.6 The following table shows the amount that has been lent by the SAB Scheme in the past few years. In 2011 businesses were still finding it difficult to borrow from the banks. The SAB funds that are loaned out come from the Council's balance sheet and so do not impact on the Economic Development budget. The Council is able to offer low interest and interest-free loans with only the difference between what the business pays and what the Council pays in interest being borne by the Economic Development revenue account.

| Year | Numbers of Loans Awarded | Total Amount of Loans Awarded |
|---------|--------------------------|-------------------------------|
| 2011-12 | 14 | £181,100 |
| 2012-13 | 1 | £9,000 |
| 2013-14 | 5 | £59,933 |
| 2014-15 | 4 | £45,700 |

- 2.7 Arguments for joining the SLABF:
- a) To create a Scotland wide loan fund where a 30% contribution can create 100% of a fund.
 - b) Provision of loans up to £100,000.
 - c) Another organisation would handle credit checks and the legal side of issuing the loan.

- d) More loans could be offered as more businesses approach the Council for loans due to nationwide advertising campaign.

2.8 Arguments against joining the SLABLF:

- a) The SAB loans are paid from the Council's balance sheet, so switching to a new fund would have a significant impact on existing revenue budgets.
- b) Membership of SLABLF would significantly reduce the Business Support budget due to the loan contribution to the SLABLF and having to pay the SLABLF management charge.
- c) Loans up to £50,000 would be assessed by LA staff so there would be no reduction in Economic Development staff if SAB loans were stopped.
- d) There are several other public sectors loans on offer to businesses in the £25,000 to £100,000 bracket.
- e) At present the legal and finance work to issue the SAB loans is covered by Finance and Legal staff within existing workloads and with no charge on the loan. If SAB loans ceased there would be no reduction in Finance or Legal staff.
- f) At present Area Committees decide on SAB cases over £20,000. There would be less local control if all loans were issued through the SLABLF.
- g) Having to contribute significant proportion of the Business Support budget to SLABLF would mean that the SAB Scheme would have significantly smaller amount to give out in SAB Grants. The provision of grants is product of highest demand for SAB and includes 1-2-1 time with a Business Advisor. It would also reduce the Council's ability to match European LEADER grants and European Fisheries Fund grants.
- h) Having to use a revenue budget for loans which does not happen at present.

2.9 The third option is to offer to contribute to SALBF an amount similar to that suggested for Angus Council. This would be £15,000 for each of the three years with an annual fee of £3,250. This would mean paying £45,000 to SALBF in 2015 as the three year funding is needed up front. The funding to Aberdeenshire businesses from the SLABLF would be restricted to what is in the Aberdeenshire part of the Fund. The third option would at least allow Aberdeenshire Council to be a signed up member of the scheme and allow Aberdeenshire Businesses to have access – all be it more limited – to the scheme.

2.10 The Head of Finance and Monitoring Officer within Business Services have been consulted and their comments have been incorporated into this report.

3 Equalities, Staffing and Financial Implications

3.1 The Business Support line, line 19, in the Economic Development budget, page 99, covers the difference between the interest that the business pays and the interest that the Council pays on the amount borrowed. There is £10,000 set aside annually to cover this cost. The cash requirement for the SAB loan financing is met from an element within the Council's borrowing.

- 3.2 An Equalities Impact Assessment is not required as there will be no differential impact as a result of this report on people with protected characteristics.
- 3.3 There may be an impact on staffing in terms of work scope if SLABLF is taken up.

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Appendix 1

Extract from the business plan of Business Loans Scotland Ltd

2.1. Background

Business Loans Scotland Ltd (BLS / the Fund), established in March 2015, is a company limited by guarantee. The Fund is 100% public sector owned and controlled and is a partnership of the 32 Scottish Local Authorities.

This new Fund builds on the existing loan funds, the West of Scotland Loan Fund (WSLF) and the East of Scotland Investment Fund (ESIF), both of which will be subsumed into the new company.

WSLF has operated since 1996 and ESIF since 2010. Together, these funds have invested a total of £36 million to date, supporting over 1,700 businesses, generating increased turnover of £680 million and helped create and safeguard over 29,000 jobs.

Over this time, the two funds have developed robust systems and processes and gained valuable experience which will be utilised by the new fund. The move to a single Scotland-wide fund will also bring benefits in the form of a standardised product offering and greatly increased scale and operational efficiency.

In addition to the former WSLF and ESIF, the loan portfolio of the South of Scotland Loan Scheme will also transfer to Business Loans Scotland Ltd.

The Fund and its Local Authority Members will operate across three regional delivery areas covering the whole of Scotland:

Highlands & Islands

- Argyll & Bute Council
- Eilean Siar
- Highland Council
- Moray Council
- Orkney Council
- Shetland Council

West

- Dumfries & Galloway Council
- East Ayrshire Council
- East Dunbartonshire Council
- East Renfrewshire Council
- Glasgow City Council
- Inverclyde Council
- North Ayrshire Council
- North Lanarkshire Council
- Renfrewshire Council
- South Ayrshire Council
- South Lanarkshire Council
- West Dunbartonshire Council

East

- Aberdeen City Council
- Aberdeenshire Council
- Angus Council
- City of Edinburgh Council
- Clackmannanshire Council

- Dundee City Council
- East Lothian Council
- Falkirk Council
- Fife Council
- Midlothian Council
- Perth & Kinross Council
- Scottish Borders Council
- Stirling Council
- West Lothian Council

A collective ERDF bid to the 2014-2020 European Structural Funds Programme is being actively encouraged by the Scottish Government and the fund is targeting an initial award of £7.2 million. This would be combined with a private sector contribution of £5.4 million from the Bank and Member Authority contributions totalling £5.4 million, creating a fund of £18 million to be invested during the period 2015 - 2018. This business plan covers that 3 year period and will be updated annually.

Details of the funding package are set out below:

| Funding Package | £ |
|------------------------------------|-------------------|
| Member Authorities' Contribution | 5,400,000 |
| Bank | 5,400,000 |
| European Regional Development Fund | 7,200,000 |
| Total | 18,000,000 |