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| Report to: | Community and Enterprise Resources Committee |
| Date of Meeting: | 6 March 2018 |
| Report by: | Executive Director (Community and Enterprise Resources) |

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| Subject: | West of Scotland Loan Fund and Business Loans Scotland |
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ update the Committee on the Council's membership of the West of Scotland Loan Fund Ltd and Business Loans Scotland Ltd and
- ◆ seek approval to amend the Articles of Association to enable West of Scotland Loan Fund members to allocate funds for alternative business support activity.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendations:-

- (1) that the content of the report and the current status of the West of Scotland Loan Fund Ltd and Business Loans Scotland Ltd be noted;
- (2) that the proposal to amend the Articles of Association to enable the Council to access legacy funds from the West of Scotland Loan Fund Ltd in line with the requirement that ensures they continue to be ring-fenced and utilised in a way that is aligned with the objects of the company to support business growth, the Council Plan and Economic Strategy; and
- (3) that it be noted that amendment of the Articles of Association is subject to approval of the other 11 member authorities.

3. Background

3.1 The West of Scotland Loan Fund was set up in 1996 to provide gap funding of up to £100k for new and existing small and medium sized enterprises (SMEs). Companies with good commercial proposals, but unable to find the level of finance necessary to support them, could apply for funding in these circumstances.

3.2 The Fund is administered by West of Scotland Loan Fund Ltd, which was established by the twelve unitary authorities that succeeded Strathclyde Regional Council. South Lanarkshire Council, along with 11 other local authorities in the West of Scotland, are members of the company. The Board of the company consists of twelve directors drawn from elected members and officers of the participating Councils as well as a company secretary. Currently, Councillor John Anderson represents South Lanarkshire Council on the Board.

3.3 Since 1996, WSLF has issued a total of 1,760 loans at a value of £38,004,672.

- 3.4 An integral part of the West of Scotland Loan Fund over the past nineteen years has been maximising European funding with private sector match funding. The programme period 2007-2014 was made up of £6m European Regional Development Funding (ERDF), £4.5m from West of Scotland Loan Fund and a further £4.5m Bank funding, providing a total loan fund value of £15m.
- 3.5 In order to streamline their processes, the Scottish Government required local authorities to combine their resources to form a pan-Scotland loan fund in order to access European funding through the 2014-2020 ERDF programme. The Council agreed to participate in the new fund with Executive Committee approval granted on 11 January 2015. Subsequently, WSLF committed funds along with the East of Scotland Investment Fund (ESIF) and two Scottish Enterprise funded lending schemes in Borders and Dumfries Council areas (SEBSED) to create a Scotland-wide local authority-led loan fund. Business Loans Scotland Ltd (BLS) was created and began offering loans in April 2017.
- 3.6 South Lanarkshire transferred £212k into BLS from its ringfenced funds available in the WSLF. This, combined with ERDF and bank funding, provides a £400k loan fund for eligible South Lanarkshire SMEs up to 31 December 2018. The overall fund has a lending target of £8million which must be achieved in order for the company to earn ERDF which is distributed among members on a ratio reflecting their relative performance.
- 3.7 During transfer negotiations, the Council agreed to transfer match funding to initiate Business Loans Scotland and to resource the Council's agreed lending target, but did not agree to transfer over its existing loan portfolio or additional funds within the WSLF. WSLF will continue to receive repayments and interest on its existing loans but it is not intended to offer new loans in competition with BLS. The existing loan book and remaining legacy funds are retained in WSLF. South Lanarkshire Council as at 31 December 2017 had a total of £107,000 in outstanding loans which are currently being repaid by 10 companies and remaining legacy funds as at 31 December 2017 of £1.37million at WLSF.
- 3.8 As BLS is now the primary source of local authority lending to SMEs, as part of the transfer arrangement to BLS, a TUPE transfer is underway to move the 5 existing staff members employed by WSLF and its subsidiary to BLS. In addition, options are being considered by the WSLF Board to agree how the residual portfolio of £4.6m loans (as at 25 July 2017) will be administered in the future. South Lanarkshire was the first member authority of BLS to issue a loan (£100,000 to Making Waves in East Kilbride) and has a pipeline of enquiries which indicate the target will be met.
- 3.9 Following on from the above, member authorities are now considering options for the future deployment of WSLF resources, their 'legacy funds' for alternative business support purposes as well as the way in which the residual loan portfolio will be administered.

4. West of Scotland Loan Fund - Articles of Association

- 4.1 The West of Scotland Loan Fund (WSLF) is a company limited by guarantee and the activities of the company, 'the objects,' are governed by its constitution, which is made up of a Members' Agreement and Articles of Association. The principal objects of the company are to hold and manage a fund to promote commerce by giving financial assistance by way of loans, donations or subscriptions or otherwise to any firm, company, individual, association or other body carrying on a commercial

enterprise whose business is carried on within the loan fund area. These Articles do not permit members to withdraw funds from the company except in the event the company is wound up when funds may only be transferred to a 'like minded' organisation with similar objectives.

- 4.2 As outlined in 3.7, the Council, along with a number of other member authorities within WSLF, has considerable legacy resources within the company of just under £9.4million following the transfer of initial match funding to BLS. Currently, officers predict that the level of funding available through BLS is sufficient to satisfy demand. As a result, the full value of the legacy resources is no longer fully required for debt finance activity.
- 4.3 Between 2007 - 2013, WSLF received EU Finance (ERDF) to increase the Fund. Under Scottish Government rules, £374,969 of the re-paid EU loans must be retained for future loans. Moreover, the Scottish Government have indicated that they may continue to make funds available for loan finance beyond 2018 and will expect local authorities to provide match funding. It is currently proposed that BLS will be the appropriate vehicle for local authorities to provide this support. It is, therefore, necessary to retain £374,969 funding to use as match for further loan funding after December 2018. There is also a potential sum of money of £107,000 which is accumulated as existing loans from WSLF are repaid, assuming no bad debt is incurred. In this regard, it is considered prudent to discount these repayments at this point in time. Taking this together, the surplus funds amount to £994,262, with the position summarised in the table below.

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| Cash at Bank 31/12/17 | £1,369,231 |
| Less restricted funding to be held for future lending | (£374,969) |
| Potential surplus for Economic Development | £994,262 |
| Outstanding loan portfolio – Only available if all loans repaid in full | £107,000 |

- 4.4 To progress this situation and enable member authorities to access their funds to undertake wider business support initiatives, three key actions are required and the position with these are set out in paragraphs 4.5-4.10:
1. The current Articles of Association require to be amended which can only be undertaken with unanimous approval of all 12 member authorities;
 2. Confirmation is required from Scottish Government over the treatment and value of ERDF funding that was received through the 2007-2013 programme that must be used for future loans; and
 3. Agreement requires to be sought over the future fund administration arrangements for the existing loan portfolio within the West of Scotland Loan Fund.
- 4.5 Five of the eleven other member authorities have already obtained their Committee or Cabinet approval, (East Ayrshire, East Dunbartonshire, North Lanarkshire, South Ayrshire and West Dunbartonshire) and two others (East Renfrewshire and Glasgow) have confirmed they are currently submitting recommendations to this end. It is anticipated the remaining four, (Argyll and Bute, Renfrew, North Ayrshire and

Inverclyde) will also obtain approval to reach the required unanimous members' decision.

- 4.6 The current Objects of the company, which in legal terms lay out the overall objectives of WSLF, are relatively broad and wide ranging. In particular, they state the Fund must be used *"to promote commerce by giving financial assistance by way of loans, donations or subscriptions or otherwise to any firm, company, individual, association or other body (whether incorporated or unincorporated) carrying on a commercial enterprise whose business is or is to be carried on in whole or in part"* within the WSLF (Section 4.1 of Articles of Association).
- 4.7 However, Section 4.2 of the Articles of Association state that *"the income and property of the Company, howsoever derived, shall be applied solely towards the promotion of the objects of the company as set forth in Article 4.1 and no portion thereof shall be paid or transferred directly or indirectly, by way of dividend, bonus to otherwise howsoever by way of income or profit, to the Members"*.
- 4.8 It is therefore proposed that Article 4.2 be deleted by Special Resolution to enable the Funds to be accessed and applied solely towards the promotion of the objects of the company as set forth in Article 4.1. If this is unanimously agreed by all 12 member authorities, this would enable the funds not required for Business Loans Scotland (i.e. £994,262) to be accessed and utilised by the Council for business support purposes directly related to the Council Plan, Economic Strategy and supporting the creation, growth and sustainability of local businesses in South Lanarkshire. A range of potential business supports will be appraised, which could include site specific initiatives, support for key sectors, supports to fill in gaps in provision to support business start up and growth and these will be the subject of a future committee report and recommendations.
- 4.9 In relation to the ERDF received, written confirmation has been sought from Scottish Government by the Chair of WSLF on behalf of the members to verify the Council's understanding of the value of available funds that require to be retained for future loan funding i.e. £374,969. In the meantime, it is considered appropriate to set this level of funding aside for this purpose as indicated in paragraph 4.3.
- 4.10 It is currently proposed existing WSLF loans will be administered by BLS.

5. Next Steps

- 5.1 Should the changes of the Articles of Association and confirmation on treatment of future ERDF from the Scottish Government be agreed, the Council will be able to access additional resources to support local businesses in line with the Objectives of the Fund. A full options appraisal on how the funds can be best utilised to achieve maximum benefit and impact will be carried out and be the subject of a future report to committee.
- 5.2 Once confirmation from Scottish Government is obtained, £374,969, will be available to provide match funding for the next round of Scottish Government backed SME loan funding.
- 5.3 When the existing loans have been repaid, a further £107,000, assuming no bad debt is incurred, will be available to contribute to either additional business support activity or loan fund match funding.

6. Employee Implications

6.1 There are no employee implications for South Lanarkshire Council as the fund is managed by a dedicated team located within East Ayrshire Council.

7. Financial Implications

7.1 The proposed amendment to the Articles of Association of the WSLF company, subject to there being unanimous agreement of the member authorities, is a positive step for the Council and creates the opportunity to access additional financial resources to support businesses in South Lanarkshire. This will assist the Council in achieving its objectives under the Council Plan, its Economic Strategy and recent service restructuring to focus on supporting sustainable economic growth.

8. Other Implications

8.1 The risks in not proceeding with these proposed Business Support programmes are that the Council will fail to adequately achieve the Connect objective of supporting local businesses to grow in a time of economic uncertainty. This will, in turn, have a negative impact on the local economy, employment and general social wellbeing. This will also create a threat to existing partnerships and have a considerable negative impact on the Council's reputation.

8.2 There are no implications for sustainability in terms of the information contained within this report.

9. Equality Impact Assessment and Consultation Arrangements

9.1 This report does not introduce a new policy, function or strategy and therefore no impact assessment is required.

9.2 Consultation has taken place with relevant partner agencies.

Michael McGlynn

Executive Director (Community and Enterprise Resources)

14 February 2018

Link(s) to Council Values/Objectives

- ◆ Support the local economy by providing the right conditions for inclusive growth

Previous References

- ◆ Executive Committee 11 February 2015 Scottish Local Authority Business Loan Fund.

List of Background Papers

None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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