

The City of Edinburgh Council

10.00am, Thursday 30 April 2015

Pan Scotland Local Authority Business Loan Fund – referral report from the Finance and Resources Committee

Item number	8.6
Report number	
Wards	All

Executive summary

The Finance and Resources Committee on 19 March 2015 considered a report on proposals that had been developed by the boards of East of Scotland Investment Fund (ESIF), the West of Scotland Loan Fund (WSLF), the Scottish Local Authority Economic Development Group (SLAED) and the Scottish Government to form a new £18 million Pan-Scotland Local Authority Business Loan Fund. The report has been referred to the City of Edinburgh Council for approval of the Council's membership of the Business Loan fund.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Terms of Referral

Pan-Scotland Local Authority Business Loan Fund

Terms of referral

- 1.1 The Finance and Resources Committee on 19 March 2015 considered a report on proposals that had been developed by the boards of East of Scotland Investment Fund (ESIF), the West of Scotland Loan Fund (WSLF), the Scottish Local Authority Economic Development Group (SLAED) and the Scottish Government to form a new £18 million Pan-Scotland Local Authority Business Loan Fund.
- 1.2 Delivery of the Pan-Scotland fund would be through a new company limited by guarantee and membership would be offered to all 32 Scottish Local Authorities. It was proposed that the business and assets of ESIF and WSLF be transferred to the new company. The debtor books (the existing loan portfolios) would also transfer which would allow both ESIF and WSLF to be wound up in due course.
- 1.3 The Finance and Resources Committee agreed:
 - 1.3.1 To note the proposal to create a Pan-Scotland Local Authority Business Loan Fund Company with membership offered to all 32 Scottish Local Authorities.
 - 1.3.2 To support the Council's membership of the new fund and to remit to Full Council for approval.
 - 1.3.3 To recommend that Council delegated authority to the Director of Economic Development in consultation with the Head of Legal, Risk and Compliance to enter into the necessary legal agreements to allow the Council to become a member of the Scottish Local Authority Business Loan Fund Limited; and transfer funds from both existing schemes (ESIF) and (ESBLF) to the new company.

For Decision/Action

- 2.1 The Finance and Resources Committee has referred the report to The City of Edinburgh Council for approval of the Council's membership of the Business Loan fund.

Background reading / external references

[Pan-Scotland Local Authority Business Loan Fund](#)

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Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Finance and Resources Committee

10am, Thursday, 19 March 2015

Pan-Scotland Local Authority Business Loan Fund

Item number	7.22
Report number	
Executive/routine	
Wards	All

Executive summary

Proposals have been developed by the boards of East of Scotland Investment Fund (ESIF) and the West of Scotland Loan Fund (WSLF); the Scottish Local Authority Economic Development Group (SLAED); and the Scottish Government to form a new £18 million Pan-Scotland Local Authority Business Loan Fund.

The Council has been a member of ESIF since 2010 when an initial £144,000 was invested. The loan fund has performed well over five years, leveraging 1:3.36 through bank funding and European grants, enabling the Council to lend £484,000 to 11 local businesses.

The Council has the opportunity to join the new Pan-Scotland Fund and transfer into it the assets currently within ESIF where it will attract similar levels of leverage as part of an evergreen fund. Legal Services have been consulted on the proposals within this report.

The report also highlights the opportunity to review and reinvest the assets of the Edinburgh Small Business Loan Fund (ESBLF), the need for which has been superseded by recent developments.

Links

Coalition pledges	P16,P28
Council outcomes	C07,C08, C09
Single Outcome Agreement	SO1

Pan-Scotland Local Authority Business Loan Fund

Recommendations

- 1.1 The Committee is asked to:
- Note the proposal to create a Pan-Scotland Local Authority Business Loan Fund Company with membership offered to all 32 Scottish local authorities.
 - Support the Council's membership of the new fund and to remit to Full Council for approval.
 - To recommend that Council delegates authority to the Director of Economic Development in consultation with Head of Legal, Risk and Compliance to enter into the necessary legal agreements to allow the Council to become a member of Scottish Local Authority Business Loan Fund Limited; and transfer of funds from both existing schemes (ESIF and ESBLF) to the new company.

Background

- 2.1 The Council has a number of mechanisms in place to provide loan funding to local businesses as part of its Economic Strategy. These, in part, respond to the Coalition Pledge (P16); *Examine ways to source new funding to support small business.*
- 2.2 Loan funding is provided to local businesses through:
- The East of Scotland Investment Fund Limited
 - Edinburgh [Small] Business Loan Fund Limited.
- 2.3 Additionally, Business Gateway works in partnership with two external providers:
- Scottish Start-up Loans Scheme
 - Capital Credit Union
- 2.4 In June 2015 ESIF will reach the end of a five year funding agreement with the European Regional Development Fund (ERDF). Proposals have been developed with support from the Scottish Government to establish a Pan-Scotland Local Authority Loan Fund by merging ESIF with the WSLF and inviting the remaining Local Authorities to join.

- 2.5 Meantime, the ESBLF, which has been operational since the 1980s, requires to be reviewed. Demand for loans from this source has reduced significantly since finance has been made available from the Scottish Start-up Loan Scheme and the Capital Credit Union.
- 2.6 Financial support for business, including the proposals for a Pan-Scotland fund and the review of ESBLF, was considered by Economy Committee on 18 December 2014. The committee supported the proposals and the referred the matter to Finance and Resources Committee for approval.

Main report

East of Scotland Investment Fund Ltd

- 3.1 ESIF is a company limited by guarantee owned by ten East Scotland local authorities: Angus; Dundee; Edinburgh; Falkirk; Fife, West Lothian; Moray; Perth and Kinross; Stirling; and West Lothian. The Council's Membership of ESIF was approved by the Economic Development Committee in December 2009.
- 3.2 Modelled on the successful WSLF and active since April 2010, ESIF has raised a loan fund totalling £5 million. Local authority members contributed a cumulative £1.7 million; a commercial bank loan of £1.5 million was secured; and a five year grant of £1.8 million was provided by the European Regional Development Fund (ERDF). To date ESIF has supported 89 businesses with loans totalling in excess of £4.1m.
- 3.3 The Council invested £144,000 in ESIF in April 2010 and has achieved a leverage rate of 1:3.36. To date, ESIF has supported 11 businesses in Edinburgh with loans totalling £484,000.

Edinburgh Small Business Loan Fund Ltd

- 3.4 The Council also operates ESBLF. Established in the 1980s under Lothian Regional Council it is a limited company wholly owned by the Council. The fund has provided loans of up to £5,000 via Business Gateway to micro businesses at start-up or early growth stage. The fund has a cash balance of £49,000 available to lend, and £20,000 currently out on loan. Recent demand has been low since Business Gateway has been working with two new sources of lending which became available this year:
- Scottish Start-up Loan Scheme (provided by the UK Government and Private Sector) can provide loans of up to £25,000, to businesses under 2 years old; and

- The Capital Credit Union can now lend to small businesses, following recent changes to legislation.

3.5 With these new sources of lending in place, it is proposed to close the ESBFL.

Pan-Scotland Local Authority Business Loan Fund

3.6 ESIF and WSLF both benefit from a five year ERDF funding period due to end in June 2015. The boards of both funds entered into discussions early in 2014, with a view to ensuring sustainability and widening membership to all of Scotland's 32 local authorities. These discussions led to the proposal by SLAED to create a Pan-Scotland Local Authority Business Loan Fund (Pan-Scotland Fund). The Scottish Government is fully supportive of this proposal and, once approved, it will form part of a range of new financial instruments under the ERDF Programme 2015-2020.

3.7 The Pan-Scotland fund will be delivered through a new company limited by guarantee, membership of which will be offered to all 32 Scottish local authorities. It is proposed that the business and assets of ESIF and WSLF be transferred to the new company. The debtor books (the existing loan portfolios) will also transfer allowing both ESIF and WSLF to be wound up in due course.

3.8 The Pan-Scotland Fund will aim to raise £18 million for use during its first three years 2015-2018 comprising £5.4 million contributions from local authorities; £5.4 million matched through bank funding and £7.2 million match funding from ERDF. Further funding is likely to be provided by ERDF in 2018-2020.

3.9 The Pan-Scotland Fund will operate under the same founding principles as ESIF and WSLF to deliver an identical product:

- Loans of up to £50,000 (or £100,000 in exceptional circumstances) to small to medium sized enterprises (SMEs) at a fixed interest rate of 6% with no other charges;
- Each local authority's contribution, and the leverage it attracts, is exclusively ring-fenced to be invested by that authority in their area only;
- Each local authority retains the right to determine the outcome of applications up to £50,000 following their own delegated authority procedures;
- Applications above £50,000 will be referred to a regional investment panel with appropriate skills and experience to appraise such loan applications.

3.10 As with ESIF, local authorities will be responsible for delivery of the fund within their own area. This includes local promotion of the fund to eligible businesses and stakeholders; identification of potential applicants; supporting businesses through the application process; appraising and determining applications; and,

maintaining contact with/providing after care to loan recipients. In Edinburgh this service will be provided through Business Gateway.

- 3.11 The fund will be “evergreen” in that capital and interest loan repayments ensure that monies will be recycled with businesses benefitting from continued funding availability.

Proposal to Join the New Pan Scotland Loan Fund and Transfer Existing Assets

- 3.12 The Council has an opportunity to join the new Pan-Scotland Loan fund. Doing so would further the coalition pledge to source new funding to support small businesses. As an existing member of ESIF the Council has benefitted from significant leverage against the original investment made. Joining the new fund will repeat this experience; transfer the Council’s current assets; add leverage of at least 1:3; and enable the Council to continue to provide loan funding to local businesses.
- 3.13 Transferring the remaining funds from ESBLF, comprising £49,000, to the Pan-Scotland Fund also achieve additional leverage. With small loans becoming available elsewhere, these funds would be put to better use, providing larger scale loans and generating a significantly higher level of benefit to the regional economy.
- 3.14 It is expected that the Pan-Scotland Fund will be incorporated in April 2015 and should be operational by June.
- 3.15 Legal Services have been consulted on the contents of this report and have confirmed that the proposals are unlikely to breach state aid rules, and do not consider that there are any legal obstacles to prevent the Council from proceeding in accordance with the proposals.

Measures of success

- 4.1 The following indicative targets have been set for the Pan-Scotland Fund over an initial three year period (subject to the approval of the Scottish Government):
- Establish a fund of £18 million;
 - Support circa 450 businesses (estimated average loan value of £40,000);
 - Lend 40% by value to “new” businesses;
 - Lend 60% by value to “growing” businesses;
 - Create/safeguard 1,800 jobs;
 - Increase recipient business’ turnover by an average £250,000, totalling £112 million; and

- Achieve leverage of 1:3 from the ERDF and private sector.
- 4.2 Based on the above targets, the Council's indicative minimum lending target would be £450,000 over the initial three year period, supporting ten business equating to circa 60 jobs created or safeguarded and total increased turnover of £1 million. Added to the loans provided to date through ESIF, the Council's total lend should be in the region of £1 million by 2018, from an original investment of £144,000 in 2010.

Financial impact

- 5.1 The Council's membership of a new Pan-Scotland loan fund can be achieved without the requirement to commit additional budget beyond the level already invested in the two existing loan funds.
- 5.2 The Council's original investment in ESIF of £144,000 made in April 2010 has attracted leverage on 1:3.36 enabling £484,000 to be lent to Edinburgh businesses.
- 5.3 ESIF assets apportioned to the Council, including monies out on loan, currently total £303,705 comprising:
- £234,688 currently still out on loan
 - £ 28,600 interest due through to projected maturity dates
 - £ 40,417 balance of funds still available to lend
- 5.4 Under the proposals within this report, these assets would transfer from ESIF to the new Pan-Scotland Fund. The Articles of Association for the company stipulate that any assets remaining on dissolution of the company should be transferred to an organisation with similar objects to ESIF and with at least the same restrictions.
- 5.5 Also within these proposals, £49,000 remaining in ESBLF would be further invested in the Pan-Scotland Fund, bringing the Council's share in the Pan-Scotland Fund to £352,705. Should the new fund perform to the same standard, leverage of at least 1:3 will be achieved over the lifetime of the new fund making £1.1 million available to lend.
- 5.6 £20,000 of ESBLF funding remains out on loan. Barring any default, this should be repaid by September 2016. It is proposed that no further loans are offered through ESBLF but that the accounts remain open until monies are repaid. Thereafter monies recovered will be transferred to the Pan-Scotland Fund and ESBLF Ltd will be dissolved.

- 5.7 It is projected that investment by the other 31 Local Authorities will total circa £5 million bringing total Local Authority investment to circa £5.4 million. A further £5.4 million is to be provided by commercial bank loan. This total of £10.8 million allows £7.2 million match from ERDF to establish a total Pan-Scotland Fund of £18 million in the initial period 2015-2018.
- 5.7 The Scottish Government is actively supportive of the Pan-Scotland loan fund. Although the process is subject to approval, the Government has included an indicative allocation with the ERDF Structural Funds Programme 2014-2020 of £14.4 million. It is expected that ERDF funding of £7.2m will be awarded during 2015 to 2018. Subject to satisfactory performance, the fund should expect to secure a similar ERDF award covering the period 2018-2020.
- 5.8 Any investment in the new Pan-Scotland Fund would effectively become asset-locked, forming part of an evergreen fund. The evergreen nature of the fund is a requirement of ERDF match funding and would apply to the investment until at least 2026, (six years following the end of ERDF programme 2014-2020). The Memorandum and Articles of Association of the new company will however, provide for the redistribution of assets in proportion to members' original investment, including leverage, in the event of the dissolution of the company.
- 5.9 The fund is designed to be self-sustaining with operational costs covered by interest gained on loans and deposits.

Risk, policy, compliance and governance impact

- 6.1 Under these proposals the Council would become a member of a new Pan-Scottish Local Authority Business Loan Fund Ltd, a company limited by guarantee. The company will require to comply with both company law and its own Articles of Association and Members Agreement. Governance of the company will rest with a Board of Directors comprising local authority representatives.
- 6.2 Both ESIF and WSLF have operated to date under close scrutiny including quarterly external audits. Both companies have also complied fully with the requirements of European Funding, operating successfully with no non-compliance issues. The funds are operated under the requirements of the Financial Services Authority and all relevant legislation. This compliance experience will ensure that risks are minimised and managed effectively in the future.
- 6.3 Any investment made by the Council will stay in the city as the loan fund operating procedures ring fence funding provided by the Council, including leverage, for use exclusively within Edinburgh.

6.4 Risk of loan default is minimised by prudent use of credit checks and secured lending. To date, there have been no defaulted loans in Edinburgh.

Equalities impact

7.1 There are no equalities impacts arising from this report

Sustainability impact

8.1 The recommendations in this report propose a sustainable legacy to replace ESIF and would therefore result in a positive impact.

Consultation and engagement

9.1 Consultation has taken place with the Boards of ESBLF, ESIF and WSLF; Scottish Government, and all 32 Scottish Local Authorities through SLAED and CoSLA.

Background reading/external references

The following background reading is relevant to this report:

[Enterprise and Innovation Progress Report 15 Dec 2009 – Reports, 1.64 MB](#)

[Enterprise and Innovation Progress Report 9 Mar 2010 – Reports, 4.68 MB](#)

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Links

Coalition pledges	P16 – Examine ways to source new funding to support small businesses P28 – Further strengthen our links with the business community by developing and implementing strategies to promote and protect the economic wellbeing of the city
Council outcomes	CO7 – Edinburgh draws new investment in development and regeneration CO8 – Edinburgh's economy creates and sustains job opportunities CO9 – Edinburgh residents are able to access job opportunities
Single Outcome Agreement	SO1 – Edinburgh's economy delivers increased investment, jobs and opportunities for all
Appendices	None

