

REPORT TO: WEALTHIER & FAIRER STRATEGIC GROUP 18 MARCH 2010

SUBJECT: EAST OF SCOTLAND LOAN FUND

BY: MORAY COUNCIL PLANNING & DEVELOPMENT MANAGER

1. REASON FOR REPORT

- 1.1 To advise members of the principles of the Constitution of the "East of Scotland Loan Fund Ltd". To confirm the Council's participation in it, and advise on the proposed mechanisms for delivering loans in Moray.

2. RECOMMENDATION

It is recommended that the Wealthier & Fairer Group note that this was agreed at the appropriate Council Committee:

- 2.1 **Confirms the Council's participation in the East of Scotland Investment Fund Company, subject to agreement of the Policy and Resources Committee to the forward commitment of £80,000 for 2011/12 and 2012/13.**
- 2.2 **Nominates a member to represent the Council's interest on board of ESIF Ltd.**
- 2.3 **Grants the Chairman of this Committee and the Convenor authority to form the panel of four members plus the member representing the Council on the Board of the Investment Fund company, when the ERDF grant has been awarded.**

3. BACKGROUND/UPDATE

- 3.1 Fife Council is leading in the development of an East of Scotland Business Loan Fund, mirroring the successful West of Scotland Loan Fund. The 10 other East of Scotland Local Authorities who have agreed to become partners in the Loan Fund are Aberdeen City, Angus, Dundee City, Edinburgh, Falkirk, Fife, Midlothian, Perth and Kinross, Stirling and West Lothian.
- 3.2 At the 18 August 2009 meeting of this Committee (item 12 refers), members agreed "in principle, to be a partner in the East of Scotland Loan Fund European application and set aside £80,000 per annum from the Economic Development budget for the next 3 financial years". The Economic Development budget is augmented by £348,000 transferred from HIE for the

delivery of Business Gateway. The Loan Fund objectives are job creation/safeguarding of jobs, business start up, business growth and gap funding.

- 3.3 The Loan Fund is made up from three sources of funding totalling £5 million in year one:

Local Authorities funding totalling £1.8 million;
A bank loan to be repaid over 3 years totalling £1.2 million;
European Regional Development Fund (ERDF) totalling £2 million.

- 3.4 Moray Council's contribution is £80,000 and will provide a Moray loan fund starting at £220,000 after including a share of the bank loan and of the ERDF grant. Loans are usually repaid over 3 to 5 years but may extend to 7 years, at an interest rate of 2% above the bank base rate.

- 3.5 The £2 million ERDF grant applied for is only for the first year, an application for a year two grant may be submitted subject to funds availability.

- 3.6 An application for ERDF grant has received stage one approval, and a stage two application has been submitted. A ministerial announcement on the ERDF awards is expected in March.

- 3.7 An agreement in principle has been reached with Barclays Bank for the provision of a £1.2 million loan to the ESIF repayable over 3 years at a 2% interest.

4. PROGRESS REPORT

- 4.1 A company limited by guarantee has been incorporated (ESIF Ltd (East of Scotland Investment Fund Limited)). The Draft Memorandum and Articles of Association have been circulated to partners legal advisers.

- 4.2 Tendering for the management of the Fund closed on Monday 1 February. The Fund Manager, who will act as company secretary, will be responsible for the day to day operation of the Fund.

- 4.3 There are still some operational matters to conclude, such as agreeing the location of an HQ, preparation of an operation manual, purchase of a loan management system, and training of advisors.

- 4.4 The over-arching management responsibility will rest with a board of directors, consisting of one representative from each of the member Local Authorities. Board meetings will be held at least quarterly with the AGM held within six months of the financial year end. A nomination is required from the Council.

- 4.5 Beneath the Board will be an Operational Group, which will meet at least quarterly. The Group will be largely made up of officers (although one of the directors can also be part of the Operational Group), representing each of the partners organisations.

5. LOAN DELIVERY

- 5.1 Applications to the Loan Fund will be made directly to the representative officer within the area which the applicant is in or proposing to trade from.

That officer will carry out a full appraisal of the application and recommend whether to approve or refuse, (based on the agreed lending criteria of the Fund) to the Council. Thereafter, the decision will be conveyed to the applicant with an indicative loan offer. Security will be required for loans above £20,000.

- 5.2 All the partners are most likely to use Business Gateway as the delivery vehicle.

- 5.3 In Moray Business Gateway is delivered, under a shared service agreement with Highland Council, by Highland Opportunity, the Council's wholly owned Enterprise Trust. The shared service agreement with Highland Council has the flexibility to add on the delivery of business loans. Highland Opportunity has many years experience of successfully delivering loans to businesses on behalf of Highland Council.

- 5.4 Following discussions with Highland Council and Highland Opportunity, it is proposed that Highland Opportunity screen applications for eligibility, assess them and make recommendations to Moray Council in a similar way to applications made to the Highland Council. It will also provide after care service to the successful applicants for the duration of the loan.

It is proposed that recommendations from Highland Opportunity will be made to a panel set up by this Council, who will make the final decision. The panel will consist of 4 members plus the Council's representative on the Board of ESIF Ltd.

- 5.5 While the East of Scotland Fund Company will be responsible for promoting the Fund, Moray Business Gateway will be expected to advise and assist applicants with business plans and applications. It is expected that most referrals will come via Business Gateway.

6 SUMMARY OF IMPLICATIONS

(a) Single Outcome Agreement/Service Improvement Plan

The proposals contribute to the Single Outcome Agreement of the Community Planning Partnership with the Scottish Government in respect of the outcomes allocated to the Wealthier and Fairer Group and the stated priorities of the Council's plan for 2008-11 in relation to the economy and jobs. The initiative will help to achieve the Corporate Plan objective to support and develop local businesses, create an environment for sustainable growth.

(b) Policy and Legal

Partnership Agreement and Articles and memorandum of Association have been checked over by Legal.

(c) Resources (Financial, Risks, Staffing and Property)

Financial

As previously reported in the 18 August committee report and agreed in principle, the £80,000 contribution per annum for the next three financial years will come from the funding transferred from Highland and Islands Enterprise to operate Business Gateway. £338,000 was transferred from HIE budget to Moray Council for the delivery of Business Gateway. A Service Level Agreement with Highland Council for delivering Business Gateway is costed at £224,000 this financial, which year with additional commitment for national activities, is expected to result in future years at around £250,000. The overhead costs of operating the Loan Fund are expected to be covered by revenue from interest from deposited monies and loans.

Highland Opportunity cost of assessing applications including due diligence and after care will cost up to £6,000pa and will be paid from the Business Gateway allocation.

The total Economic Development budget for 2010/11 is £800,000 including £338,000 transferred from HIE for Business Gateway delivery.

To date £125,000 has already been committed. However one project, the Keith CARS, will only spend £15,000 of the £47,000 allocated should Historic Scotland funding be approved, thus giving a balance available of £707,000.

The Fund administration will be provided by the Fund Manager and the costs have been estimated at 2% of the total Fund value or £100,000 per annum. However the tendering process is currently underway and the exact cost is not yet known. The cost of administering the Fund will be offset by the interest received.

Staffing

Work related to the Loan Fund will be contained within existing staffing. Operational requirements will be provided under the shared services agreement.

(d) Consultations

Lorraine Paisey, Principal Accountant) have been consulted prior to
Aileen Scott, Principal Solicitor) reference to SDG

7. CONCLUSION

- 7.1 The ERDF application is to be considered this month by the advisory group with ministerial announcement expected in March. Should the application be successful, the Fund will start its activity in the new financial year. The partners have worked hard to keep to the timetable set at the beginning and it is believed that East of Scotland Loan Fund Company will be operational at the beginning of 2010/11. The Fund will provide businesses access to funding for growth and startup providing a vital contribution to the economic recovery.**
- 7.2 Based on the experience of the West of Scotland Loan Fund and of Local Authorities involved in the provision of loans and grants to businesses, it is expected that the average loan application will be £15,000 and that 144 loans per year will be approved between the eleven Local Authority partners. Based on an equal split Moray will process one loan every month.**
- 7.3 The eleven participating authorities are agreed on the basic principles of a Loan Fund Co, and the mechanisms for delivering loans in each Local Authority area.**

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Background Papers:
Ref: PM/JC