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COMMITTEE	Finance Policy and Resources
DATE	15 September 2015
DIRECTOR	Pete Leonard
TITLE OF REPORT	Business Loans Scotland
REPORT NUMBER:	CHI/15/255
CHECKLIST RECEIVED	Yes

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### 1. PURPOSE OF REPORT

The report outlines the opportunity for Aberdeen City Council to become a member of Business Loans Scotland, a proposed, pan-Scotland partnership initiative bringing together financial contributions from local authorities (30%), banks (30%) and European Regional Development Fund (40%) to create a business loan fund for Small and Medium Enterprises (SMEs).

### 2. RECOMMENDATION(S)

Committee is asked to

- a. approve Aberdeen City Council's membership of Business Loans Scotland
- b. approve Aberdeen City Council's 30% contribution of £75,000 per year for three years from within existing budgets, which would leverage a total loan fund for Aberdeen City companies of £250,000 per year for three years.

### 3. FINANCIAL IMPLICATIONS

The Fund will be made up of 30% contribution from Local Authority, 30% bank funding, 40% European Regional Development Fund (ERDF). It is up to each Local Authority to determine the amount of its own contribution and each Local Authority's contribution is ring-fenced for investment in its own area.

The Business Loans Scotland Business Plan 2015-2018 (Appendix One) offers suggested financial contributions by local authority based on a pro-rata share of the business population relative to demand/spend in the existing local authority loan funds (West of Scotland Loan Fund and East of Scotland Investment Fund), calculating a suggested Aberdeen City Council contribution of £325,000 per year. Alternatively it is proposed that a more modest sum be made available, namely an annual amount of £75,000 which, as a 30% contribution, would provide a total loan fund for Aberdeen City companies of £250,000 per year for three years.

The liability of Members of Business Loans Scotland is limited to £1.00.

The Business Loans Scotland Business Plan 2015-2018 (Appendix One) states in section 5.13 that “The Fund is fully aware of the State Aid rules and of the EU reference rate at which a loan is deemed to be a state aid. The interest rate for all loans is fixed at 6% for the term of the loan. Currently, BLS loans fall out with State Aid however the situation will be continually monitored to ensure state aid regulations are complied with.”

#### 4. OTHER IMPLICATIONS

Governance: There will be three regional delivery areas, detailed in section 5 below, and a Board of Directors. Decisions on loans of up to £50k will be made locally, while decisions on loans of between £50k and £100k will be referred to a Regional Management Group.

#### 5. BACKGROUND/MAIN ISSUES

Business Loans Scotland Ltd (BLS) is a proposed consortium of Scotland’s 32 local authorities, incorporated as a company limited by guarantee in March 2015, providing loan finance up to £100,000 to new and growing, small and medium-sized businesses (SMEs) across Scotland. The Fund is 100% public sector owned and controlled, and aims to start lending from 1 January 2016.

This new Fund builds on the existing local authority loan funds, the West of Scotland Loan Fund (WSLF) and the East of Scotland Investment Fund (ESIF), the assets of which will be transferred into the new company, and will offer membership to all Scottish local authorities. 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. As such, 25 Local Authorities to date have joined, including Aberdeenshire Council.

This innovative public-private partnership fund will help accelerate the growth of businesses in Scotland, complementing other private and public sector forms of funding, creating significant leverage effects and engineering valuable growth in SMEs. As well as standardising the product offering, it will greatly increase the scale and operational efficiency of delivering a Local Authority loan fund to Scotland’s SMEs.

Evidence from the existing WSLF and ESIF clearly shows this type of supportive investment vehicle has a positive impact in terms of creating new employment opportunities as well as safeguarding existing jobs. 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.

In terms of demand for business loans, the SME Finance Monitor (Q1 2014, 5000 businesses surveyed) shows that:

- “Whilst most applications for renewed facilities are successful, the gap between these and successful new applications is widening. In Q1

2014, 96% of renewals were successful but only 37% of new applications.”

- “Smaller, newer businesses remained less likely to be successful and those declined reported limited support options being offered as an alternative.”
- SMEs are still discouraged to apply for bank lending as there remains an assumption, amongst new businesses in particular, that if they approach the bank for funding they would automatically be turned down due to their credit history and size and therefore did not ask.”
- “Generally the SME population is still showing signs of pressure in a difficult economic climate in terms of profitability, external risk rating, credit balances and use of overdraft facilities”.

BLS is seeking to benefit from an award of £7.2 million from the European Regional Development Fund (ERDF). Matched with funding from a Bank of £5.4 million and contributions from the Member Authorities totalling £5.4 million, a fund of £18 million will be created to be invested over a three year period to 30<sup>th</sup> September 2018. Annually, the Fund will have the capacity to invest circa £6 million, support circa 150 businesses and help create over 600 new jobs.

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

#### 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

#### 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

#### Highlands & Islands

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

Aberdeen City Council has not operated a business loan scheme in some years and was in the process of exploring the renewal of the former Aberdeen Business Enterprise Scheme when the opportunity to participate in a more favourable (ie leveraging greater external investment) national scheme arose.

With businesses continuing to report access to finance as one of their critical barriers to growth, the opportunity to participate in a national business loan scheme which ring-fences the Local Authority's investment to the local area is a significant positive step to support the local SME community.

## 6. IMPACT

Active membership of the Scottish Business Loans Fund would contribute to the successful achievement of some of the economic and business development aspects of the Smarter Aberdeen agenda and the Single Outcome Agreement, including:

National Outcome 1 – We live in a Scotland that is the most attractive place for doing business in Europe

National Outcome 2 - We realise our full economic potential with more and better employment opportunities for our people

Local Outcome – Anchor the Oil and Gas Industry

Local Outcome – Diversification of the Economy

In addition, it is anticipated that active membership of the Fund would have the following positive impacts:

- substantially increase the supply of loan capital to new and growing, small and medium sized businesses in Aberdeen
- contribute directly to improving the business birth rate and creating the growth potential of those supported, as well as making a major contribution to job creation and wealth
- substantially address the “access to finance” barrier that exists for so many businesses in starting up, expanding and maintaining sustainability

## 7. MANAGEMENT OF RISK

The liability of Members of Business Loans Scotland is limited to £1.00. Arrangements for governance and due diligence are described in detail in the Appendices.

As part of the consultation process on this report, Legal and Democratic Services will work with the Economic Development Service to ensure there are no problems with the documentation and that a full legal review of the documentation is provided before the documents are signed.

## 8. BACKGROUND PAPERS

Business Loans Scotland Business Plan 2015-2018 (Appendix One)

Members' Agreement (Appendix Two)

Articles of Association (Appendix Three)

Membership Application (Appendix Four)

## 9. REPORT AUTHOR DETAILS

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