

## **EAST AYRSHIRE COUNCIL**

**DEVELOPMENT SERVICES COMMITTEE – 10 MARCH 2004**

### **WEST OF SCOTLAND LOAN FUND LTD**

### **EUROPEAN REGIONAL DEVELOPMENT FUND**

#### **Report by Director of Development Services**

## **1 PURPOSE OF REPORT**

- 1.1** To inform Committee of a positive outcome of a bid for European Regional Development Fund (ERDF) resources for the West of Scotland Loan Fund Ltd and its impact on the Council's involvement in the fund.

## **2 BACKGROUND**

- 2.1** The Council was instrumental in the set up of the West of Scotland Loan Fund Ltd (WSLF) in 1996 following local government re-organisation. All the local authorities in the West of Scotland are members of the fund.
- 2.2** The fund was set up to address the funding gap that some small, medium enterprises (SME's) encounter as they either start up their business or expand and then find they have difficulty in securing bank lending as a result of the lack of security.
- 2.3** This funding gap is addressed by the WSLF filling this gap by providing loan finance up to £30,000, repayable over a seven year period, at an interest rate of 2% over bank base rate.
- 2.4** The fund operates very successfully on a decentralised basis through each Council in the West of Scotland, with funds for each authority being ringfenced for their own area. Loan decisions are taken within a standard operating procedures manual to ensure high standards of appraisal and consistency. Over 800 loans have been granted by the fund since 1996.
- 2.5** The fund has its 'headquarters' at East Ayrshire Council where all financial and administrative arrangements are maintained. In addition, since the inception of the fund, the Chair of the board has been held by East Ayrshire Council, currently Councillor Eric Ross, and in the initial years of operation, Councillor Drew McIntyre. The fund's company secretary throughout this period has been the Council's Head of Economic Development.

- 2.6 The fund has been successfully audited over the years by both the Scottish Executive and independent auditors.
- 2.7 In 2003, the directors of the WSLF decided to commission an independent extensive valuation of the fund to: assess its economic impact of the fund to date; whether there is still a funding gap; and whether the fund has delivered value for money to its stakeholders.
- 2.8 Allied to 2.7 above an application for additional funding was pursued to increase the size of the fund, given the board's view of the need for the fund in their local community, and the increasing funding gap that some businesses were encountering.

### 3. FUNDING BIDS

3.1 The outcome of the independent evaluation proved to be very positive, the salient points of which were as follows:

- There is a funding gap, and this is increasing.
- The WSLF is a vital source of funding that helps fill this gap.
- The fund has an 'additionality' rating, i.e. has outputs, which can be totally attributable to the loan fund, of around 80%, which is deemed to be high.
- The fund has supported over the last 6/7 years around 3,000+ jobs across the West of Scotland.
- The cost per job supported stands at £7k, which is low compared to other similar funds, e.g. Governments Small Firm Loan Guarantee Scheme of £15k and the average for ERDF of £30k.
- There is now a need to appoint a full-time manager

3.2 As a result of this independent valuation and the successful management of the fund over the last 6/7 years, the Council secured, on behalf of the WSLF, the following additional funding:

- |  |               |
|--|---------------|
| □ European Regional Development Fund Ltd | £6.4m         |
| □ Royal Bank of Scotland                 | <u>4.0m</u>   |
|  | <u>£10.4m</u> |

3.3 The above adds to the existing £5m the fund has at present, giving the gross value of resources as follows:

- |                   |               |
|-------------------|---------------|
| □ Existing Assets | £5.0m         |
| □ New Funding     |               |
| ▪ ERDF            | 6.4m          |
| ▪ RBS             | <u>4.0m</u>   |
|                   | <u>£15.4m</u> |

This makes the loan fund the key sourced of public sector loan finance to SME's in the West of Scotland.

- 3.4 The board of the fund has agreed to appoint a new fund manager who will be answerable to the fund's company secretary. The post was advertised in the national press on 14<sup>th</sup> February. The fund manager, once appointed, will be based at East Ayrshire Council.
- 3.5 The allocation of the £6.4m ERDF resources will result in around £1m being allocated to East Ayrshire Council, which will supplement the Council's existing resources in the fund, which presently stands at £510k.

#### **4. LEGAL IMPLICATIONS**

- 4.1 Nil, as there are no changes to the existing operating criteria of the fund, as previously approved by committee.

#### **5. FINANCIAL IMPLICATIONS**

- 5.1 Nil, as this represents a windfall to the fund.

#### **6. POLICY IMPLICATIONS**

- 6.1 The receipt of the award is a major boost to SME's in the West of Scotland and East Ayrshire in particular helping both start-up and existing businesses.
- 6.2 The fund contributes to the East Ayrshire Community Plan – Improving Opportunities.

#### **7. RECOMMENDATION**

- 7.1 That the Committee notes the report.

**Stephen Chorley**  
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RP/CF 26/02/04

#### **BACKGROUND PAPERS**

Nil

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