

EAST AYRSHIRE COUNCIL

DEVELOPMENT SERVICES COMMITTEE – 15 MARCH 2000

MONITORING REPORT – BUSINESS LOANS

Report by Director of Development Services

1. PURPOSE OF REPORT

- 1.1 To inform Committee of the progress of its business loans activity through its involvement with the West of Scotland Loan Fund Ltd, and through the granting of special loans from the Departments capital programme, and to note other operating matters.

2. BACKGROUND

- 2.1 It is widely acknowledged that there is a funding gap for small, medium sized enterprises, i.e. where either start-up or existing businesses have difficulty in raising finance through the lack of bank security. To address this issue and in accordance with its wider Economic Strategy the Council provides loans through its involvement in the West of Scotland Loan Fund Ltd and by the provision of 'special loans'. These activities are detailed below:

2.2 West of Scotland Loan Fund Ltd

The Council has an involvement in the West of Scotland Loan Fund Ltd where, together with other Local Authorities in the West of Scotland, it grants loans up to £30k to SME's (businesses employing up to 250 staff). The fund was set up as an arms length company in 1996 following local government reorganisation to satisfy EU criteria and secure £2m of European Regional Development Grant Funding.

The ERDF support is to provide a cushion to help offset the cost of operating a high-risk fund. WSLF has operated since 1996, and to date has delivered within East Ayrshire the following:

1st April 1996 – 31st January 2000

▪ Loans advanced, -58	£739,000
▪ Loans repayments received (capital & interest)	£410,519
▪ Bad debts (less ERDF Grants)	£150,612
Less interest received	36,313
Net cost to Council over 3 years 10 months	£114,299

Jobs supported	-new	267
	-existing	170
	TOTAL	<u>437</u>
Net cost per job		<u>£260</u>
Value of Loans Outstanding		<u>£483,077</u>

The cost per job relates to the number of jobs supported by the fund related to the level of bad debts, less interest received. Information on current jobs supported is obtained from current monitoring information.

The fund was independently evaluated in 1999 by consultants appointed by the Strathclyde European Partnership, the outcome of which was found to be very positive. In addition to this, the fund also satisfactorily passed a 'Verification Audit' from the European Structural Funds Division of the Scottish Executive as well as obtaining a 'clean audit' certificate each financial year from the funds independent external auditors.

The value of the Council's outstanding interest in the fund at 31st January 2000 stands at £ 603k. All loan repayments are recycled back to the fund. The Council's interest in the fund is shown in the WSLF balance sheet as capital paid in although funds can be taken back out, provided the Council has sufficient cash available for distribution, i.e. each Local Authorities funds are ringfenced for their respective area.

2.3 Special Loans Activity

Where the need for the Council's support is for an amount which is outwith the operating criteria of the WSLF, i.e. usually where a loan request is above £30k, the Development Services Committee has granted a 'special loan' which is charged against the annual capital allocation for business loans in the departments capital plan for the year. The capital allocation each year stood at £190k per annum (1999/00 £140k) and was originally to be an annual allocation to the West of Scotland Loan Fund Ltd, but in view of the demand for special loans, the budget has mainly been used each year for this activity.

Since 1996 the following relate to 'special' loans activity:

<u>1st April 1996 – 31st January 2000</u>	
▪ Loans advanced - 9	<u>£677,810</u>
▪ Loans repayments received, (capital & interest)	<u>£207,256</u>
▪ Bad debts	£62,810
Less loan interest received	<u>£36,152</u>
Net cost to Council over 3 years 10 months	<u>£26,658</u>

Jobs supported	- new	50
	- existing	748
	TOTAL	<u>798</u>
Net cost per job		<u>£33</u>
Value of Loans Outstanding		<u>£423,896</u>

3. OPERATING MATTERS

3.1 The following operating principles apply to the Council's overall fund arrangements:

- (i) Loan repayments for special loans are paid directly to the Council, i.e. not presently recycled for future loans.
- (ii) All loan repayments in the WSLF for loans advanced can be used for new loans.
- (iii) That the Council's main objective in being involved in the fund is to support new and existing jobs, acting as gap provider, with no immediate commercial return to the Council in respect of the funds invested.
- (iv) The Committee will receive consolidated six monthly monitoring reports on both WSLF activity and 'special loans' activity, this will be in addition to ongoing regular reports to each committee, as noted in (v) below.
- (v) Targets, including a Service Level Agreement for WSLF activity covering the relationship with the fund will be reviewed by Committee on an annual basis. A report will be produced for the April meeting of the Development Services Committee in this respect.
- (vi) Loans through the West of Scotland Loan Fund Ltd are approved under the Scheme of Delegation and special loans through the Council are the subject of individual reports for approval, to the Committee. Approved loans are reported to the Development Services Committee in the Business Loans & Grants Report.

4. CONCLUSION

4.1 The Council has made a significant impact with local small businesses since the Council's inception, supporting over 1300 jobs. The net cost to the Council is £260 for jobs supported under the WSLF and only £33 for 'special loans'. Given that the average cost per job from other public sector agencies is £12,000, the results represent good value for money and this is supported by independent external evaluations. The WSLF has net assets of £5.6m and has been audited and evaluated in full.

5. FINANCIAL IMPLICATIONS

5.1 Agree the transfer of the balance in capital programme for business loans to the WSLF, and this only be done with the approval of the Director of Finance.

6. LEGAL IMPLICATIONS

6.1 Nil

7. POLICY IMPLICATIONS

7.1 The provision by the Council directly and through the West of Scotland Loan Fund Ltd of loan funding to local businesses supports the achievement of the objectives of the Economic Strategy (Pathway 1: Investment & Enterprise)

8. RECOMMENDATION

8.1 That Committee:

- (a) notes the activity of its involvement in business loans to date.
- (b) confirm approval of the operating principles set out in paragraph 3 above.
- (c) notes that a further report on the Service Level Agreement will be submitted to the next Development Services Committee.
- (d) Agree to the transfer of the remaining capital balance, subject to the agreement of the Director of Finance.

Stephen Chorley
Director of Development Services

RP/CF
 29/02/00

BACKGROUND PAPERS

- (i) Development Services Committee Reports:
 - 25 April 1996, Approval to participate in WSLF
 - 23 January 1997, Management arrangements, operation of WSLF
 - 21 October 1997, Summary of monitoring information
- (ii) External Evaluation, West of Scotland Loan Fund Ltd, Segal Quince Wicksteed (1999)
- (iii) European Structural Fund Division, Scottish Executive, Verification Audit (1999).

For further information on the content of this report please contact
 Robert Paton Tel 01563 5761

AGENDA

