

EAST AYRSHIRE COUNCIL

DEVELOPMENT SERVICES COMMITTEE – 20 MAY 2003

WEST OF SCOTLAND LOAN FUND LTD – MONITORING REPORT

Report by the Director of Development Services

1 PURPOSE OF REPORT

- 1.1** To inform Committee of the Council's involvement in the West of Scotland Loan Fund Ltd (WOSLF) and of an important external evaluation of the performance of the Fund in relation to support to small, medium sized enterprises (SMES) and financial matters.
- 1.2** The report will not only look at the wider impact of the Fund but specifically how this relates to East Ayrshire.

2 BACKGROUND

- 2.1** The WOSLF is an arms length limited company whose members are the local authorities in the Strathclyde European Partnership Objective 2 area i.e. primarily those in the former Strathclyde area. The fund was set up to provide loan funding to SME's in order to fill a funding gap where good commercial proposals, either from start-up companies or existing companies, cannot raise finance from banks etc as a result of the lack of security. The fund received £2m in European Regional Development support.
- 2.2** Loans are provided up to £30,000 per company, with interest charged at 2% over bank base rate, and repayments up to a period of 7 years.
- 2.3** Each local authority funds within WOSLF are ring fenced, i.e. one local authority cannot use another's funds.
- 2.4** East Ayrshire Council took the lead on behalf of the local authorities to set up the fund and deal with all the financial and administrative arrangements, with the Council's Head of Economic Development being the Funds Company Secretary. Board representation is given to the Chair of Development Services.

3. EVALUATION OF THE FUND

- 3.1** In accordance with 'Public Pound' guidelines and 'Best Value' practice, the board of the Fund decided late last year to carry out an independent evaluation of the fund.

- 3.2** The objectives of the evaluation were as follows:
- 3.2.1 Assess the effectiveness of WOSLF in terms of providing gap funding and allowing projects to proceed.
 - 3.2.2 Evaluate the impact of WOSLF finance on existing clients.
 - 3.2.3 Evaluation of the economic impact of the Fund at both local and national level.
 - 3.2.4 Compare and benchmark WSLF with similar funds.
 - 3.2.5 Evaluate the sustainability of the Fund.
 - 3.2.6 Make recommendations on the future direction of the Fund.
 - 3.2.7 Evaluate the application procedures.
 - 3.2.8 Evaluation of the application process.
 - 3.2.9 Investigate and report on the availability of EU structural funds.
- 3.3** A number of independent economic evaluation consultants were interviewed for the assignment and national firm Strategem was selected for the task. Strategem have a high reputation within the economic development field and are recognised by the Strathclyde European Partnership.
- 3.4** A particular focus of the evaluation was to be the high number of clients to be interviewed in order to obtain an accurate assessment of the funds impact on SME's and jobs.

4. CONCLUSION OF EVALUATION

- 4.1** A total of 37% of the existing active loans (265) were interviewed, representing a high contact rate in evaluation terms. The view taken by the consultants was that from interviewing the businesses receiving loans from the WOSLF there is clear evidence of their being a funding gap with SME's i.e. 50% of borrowers could not have proceeded with the project, with a further 25% indicating their project would have been severely restricted.
- 4.2** A high level of 'additionality' has been achieved with clients. The business development activity which is directly attributed to the provision of loans from WOSLF is 70% to 80%. In economic evaluation terms, this is considered to be very high, indicating the appraisal and selection process of applications to the fund is robust.
- 4.3** Borrowers view of the benefits gained from WOSLF to their business is as follows:

- ❑ 14% said that without the loan the business would not have survived.
- ❑ 99% said that WOSLF finance had or was having a positive effect on their business.
- ❑ 83% said that the effect on their business would be long term.

4.4 Evaluation of the net outputs and impacts arising from the WOSLF loans taking account of displacement and additionality, on a **single year** are as follows:

Additional sales	£6m
Added value	£4m
Additional jobs	120

rolling this on to year two the jobs supported increase to 300, with business turnover increasing to £14m.

4.5 Taking into account all direct costs, i.e. bad debts, administrative charges and overheads, Strategem calculated the cost per job for each job supported by WOSLF stands between £5k and £8k, this compares favourably with the Government's Small Firms Loan Guarantee Scheme which stand at £16k (recent evaluation Pricewaterhouse Coopers).

4.6 WOSLF clients rated highly the support they received from local authorities economic development teams, with 77% rating the advisers as very good or better.

4.7 Strategem found there was a high degree of satisfaction with WOSLF and its delivery by its clients, it was found to be :

- ❑ Cheap
- ❑ Simple to obtain
- ❑ Friendly in its management of clients
- ❑ Local
- ❑ Soft

there is a strong desire by clients to see the continuation of the Fund.

4.8 On the other hand, Strategem also found that there was room for improvement:

- ❑ Some authorities need to increase their speed of delivery.
- ❑ The application process could be simpler.
- ❑ Some would welcome the availability of larger loans.

4.9 Strategem have recommended exploring further EU structural funds, although the current selection criteria by the EU for loan funds are that they should involve the private sector. Involving the private sector in the structure and management of the fund, however could prove to be problematic, although options are being considered.

5. EAST AYRSHIRE'S INVOLVEMENT IN WOSLF

5.1 As noted above, the evaluation work by Strategem encompassed the operation on outputs of the whole WOSLF. The following summarises the position with regard to the activity in East Ayrshire.

5.2 A four year extract summary of East Ayrshire's involvement in WOSLF is highlighted below:

INCOME AND EXPENDITURE WITHIN FUND

Period 1st April 1999 to 31st March 2003 (4Years)

<u>Expenditure</u>	£k
Loans advanced	592,500
General administration	11,053
	<u>603,553</u>
<u>Income</u>	
Loans and interest repayments	436,704
General interest	59,600
Contribution form EAC	245,000
	<u>741,304</u>
<u>Net increase in Fund</u>	137,751
Bank balance 1.3.99	79,427
Balance at Bank 31.3.03	<u>217,178</u>

5.3 A summary of the operating performance of loan activity is as follows:

Period 1st April 1999 to 31st March 2003 (4years)

	£k
Loan interest received	103,023
Bad debts (net ERDF)	173,362
	<u>70,339</u>
Operating costs	11,053
	<u>81,392</u>
Operating interest received	59,600
Net cost to the Council (4 years)	<u>21,792</u>

This equates to an annual cost to the Council of £5.5k per annum.

The current numbers of jobs supported by companies in East Ayrshire who have been supported by the Council/WOSLF are presently 492 highlighting the cost per job at below £500 per job, which represents a high level of 'value for ' money.

5.4 Each loan approved under WOSLF is reported to the Development Services Committee.

5.5 The Council's overall involvement in the Fund at 31st March 2003 stands at:

	£k
Value of loans outstanding	431,602
Funds available (as above)	217,172
	<u>648,774</u>

this investment is disclosed in the notes to the Council's annual audited accounts in accordance with standard accounting reporting practice.

6. GENERAL COMMENTS

- 6.1 The evaluation report by Strategem has proved to be very positive in terms of additionality and cost per job highlighting the robust operating procedures the fund has developed over the years.
- 6.2 The review has highlighted that there is a continuing problem facing SME's in accessing capital for start-up and existing businesses, which WOSLF has been successfully filling over the years.
- 6.3 Further work has to be done with certain partner local authority members to speed up the appraisal process.

7. LEGAL AND IMPLICATIONS

- 7.1 There are no legal or financial implications arising directly from the recommendations of this report.

8. RECOMMENDATIONS

- 8.1 Committee note the positive evaluation of the Fund in respect of the Public Pound and Best Value operating guidelines.
- 8.2 Note East Ayrshire's positive contribution to the Fund in terms of management and operating performance.

Stephen Chorley
Director of Development Services
SC/RP/CF
9 MAY 2003

BACKGROUND PAPERS

1. **Strategem – Evaluation of West of Scotland Loan Fund Ltd**
2. **Schedule of Loans and Jobs supported, as noted in 5.3 above.**

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