

ANGUS COUNCIL

INFRASTRUCTURE SERVICES COMMITTEE 13 OCTOBER 2009

SUBJECT: FINANCIAL SUPPORT FOR ANGUS COMPANIES

REPORT BY THE DIRECTOR OF INFRASTRUCTURE SERVICES

Abstract: This report seeks approval to transfer the assets within the Angus Loan Fund to a proposed East of Scotland Investment Fund and in the process increase the amount of loan support available to Angus companies.

1 RECOMMENDATIONS

- 1.1 The Committee is requested to:
- (i) Note the proposal for 12 local authorities in the east of Scotland to form an East of Scotland Investment Fund (ESIF) and for an application to be made for ERDF funding to support the project;
 - (ii) Authorise the Head of Economic Development and Environmental & Consumer Protection to participate in the formation of the new loan fund to be governed by a Company in which Angus Council along with other local authorities will be Members;
 - (iii) Authorise the Head of Economic Development and Environmental & Consumer Protection, in discussion with the Head of Law and Administration and the Head of Finance, to discuss and agree with other Local Authorities how Angus Council's interests will be represented in the operation of the loan fund and the new Company;
 - (iv) Approve the transfer of the assets of Angus Loan Fund Ltd (circa £55,000) to the proposed new loan fund;
 - (v) Approve the transfer of funds (£12,000) received from the wind-up of Tayside Business Gateway Ltd into the Angus Grant Scheme for the benefit of local companies; and
 - (vi) Note that a progress report will be brought back to advise the committee on the outcome of the foregoing proposals.

2 INTRODUCTION

- 2.1 Angus Council has been operating a small loan fund available to local companies via Angus Loan Fund Ltd since 1997. The initial £60,000 fund was created by equal contributions of £30,000 from Scottish Enterprise Tayside and Angus Council. The fund has always been a lender of the last resort and has offered loans of up to £15,000 to small companies in situations where the companies have been struggling to access finance either for an expansion project or to sustain the business. The fund has been used selectively with 13 loans totalling £113,500 having been made to local companies. The five most recent loans, totalling £75,000 created 11 new jobs; safeguarded 31 jobs; and contributed to investments of £415,000. During the life of the loan fund there have been three bad debts totalling circa £11,000 incurred where companies have gone out of business after having only repaid part of their loans. The record is considered good given the success enjoyed by most of the companies and the sometimes risky, but warranted, circumstances in which loans have been made.

- 2.2 As recorded in Article 12 of the Minute of the Meeting of the Infrastructure Services Committee (Report 788/08 refers) held on 26 August 2008 it was agreed to:
- note the recent changes in the operation of Angus Loan Fund Ltd, arising from the resignation of Scottish Enterprise Tayside as a member of the company, and the decision taken to cease operations of the company; and
 - authorise the Head of Economic Development to enter into discussions with Scottish Enterprise in order to reach agreement on the future of their remaining financial interests in the Angus Loan Fund.
- 2.3 Subsequent to this Scottish Enterprise were supportive of these proposals with the caveat that any funds transferred into the Council be ring fenced for business grant or loan purposes. The remaining grant funding held by Angus Loan Fund Ltd was transferred into the Council. However, to date, as a result of continuing discussions with Scottish Enterprise over their future participation, the transfer of the assets of Angus Loan Fund Ltd and the closure of Angus Loan Fund Ltd have yet to be completed. Also, the situation was superceded by wider discussion on how to utilise this fund to lever out additional European funding which has resulted in the preparation of this report.

3 LOAN FINANCE FOR SMALL COMPANIES

- 3.1 Whilst for most of the life of the Angus Loan Fund there has been no acute demand to access the scheme, as finance was generally available on reasonable terms from the banks, it has on occasion been a critical form of support to companies when bank funding was not available. Of course market conditions have changed dramatically during more recent times and raising finance for companies is now even more difficult.
- 3.2 The Federation of Small Businesses issued a statement in August 2009 reporting that a quarter of small businesses are struggling to access affordable finance and it warned against the high street banks holding a potential monopoly of small business finance. It called for more alternative sources of finance provided locally such as through Regional Development Agencies, local councils or post offices. Obviously the proposed ESIF will help to meet this identified demand.
- 3.3 It should be noted that the Michelin Development Fund has been available to some Angus companies since 2007 and its representatives have actively engaged with Council officers. This is a loan fund financed by Michelin and operates where Michelin have, or did have, tyre manufacturing facilities. Previously it was only available to companies operating within the City of Dundee, however, the operating boundaries were extended to a 20 mile radius of the factory. This means that companies in Monifieth, Carnoustie, Arbroath and Forfar are now eligible. So far two Angus companies have received loans totalling £47,000 and a further loan application from a third company of £15,000 is being processed. It is intended that this scheme will continue to supplement any other loan fund facilities.

4 EAST OF SCOTLAND INVESTMENT FUND

- 4.1 The concept of an ESIF has come about as a result of discussions amongst council officers in the east of Scotland led by Fife Council. Most of the councils currently operate some form of loan fund and there is a general consensus that access to loan funding for small and medium sized companies (SMEs) is now more difficult and this is hampering business and therefore job prospects. At the same time the officers are very aware of the long established West of Scotland Loan Fund (WSLF) and its more recent success in leveraging monies via the European Regional Development Fund (ERDF) to support its activities.

- 4.2 At the present time 12 local authorities in the east of Scotland have confirmed an interest in being part of an ESIF. It is proposed an ESIF will be modelled on the WSLF and will be a company limited by guarantee. It is suggested that a Board of Directors be appointed consisting of one representative from each of the member local authorities. In addition, it is likely that an operational team be appointed made up of local authority officers to monitor operations and recommend policy as appropriate. It is proposed that the day to day administration of the fund be carried out by a contracted third party with expertise in loan finance. It is possible that the WSLF may be able to provide such a service but this needs to be more fully explored.
- 4.3 The project proposal intends to put in place a new £4m investment loan fund for the east of Scotland. This amount will be made up of £1.2m provided by the local authorities, £1.2m from a term loan from a commercial lender (still to be negotiated) and £1.6m from the ERDF. An outline ERDF application has already been submitted and considered resulting in approval to proceed to a full bid.
- 4.4 In practice Angus Council will retain control of its own funds and any additional funding levered ie it will be the Council processing initial applications and deciding who to lend to. Once a loan is agreed the ESIF will be responsible for providing the funds, collecting payments and any other associated administration. ESIF will also put in place a rigorous investment appraisal process that members will be expected to follow. This is likely to include as a minimum appraisal of company business plans, due diligence checks and credit checks. Of course each loan application will need to demonstrate clear evidence of commercial viability.
- 4.5 It is proposed that the ESIF will commence operations in April 2010, subject to a successful ERDF bid, for an initial 5 year term. Member local authorities will retain the right to resign from ESIF subject to 12 months notice.

5 TAYSIDE BUSINESS GATEWAY LTD

- 5.1 As advised to the Infrastructure Services Committee on 28 August 2007 in Report 778/07 Tayside Business Gateway Ltd was to be wound up following changes to the Business Gateway contracts. The Council has recently been advised by administrators that after settling all liabilities there is a surplus of funds remaining and the Council's share amounts to £12,000. Committee approval is requested to transfer these funds into the Angus Grant Scheme. This will allow existing business support funding to be used to offer a further 3 or 4 business support grants to local companies.

6 FINANCIAL IMPLICATIONS

- 6.1 There are currently assets amounting to circa £55,000 within the Angus Loan Fund held by Angus Loan Fund Ltd. They consist of bank balances of £42,264 (as at 1 September 2009) and an outstanding company loan that is currently being repaid. It is proposed that these resources be used as the Council's contribution to the ESIF, subject to a successful ERDF bid.
- 6.2 Although it is proposed the ESIF take out a fixed term commercial loan of £1.2m to match the contributions of the member local authorities, and for which they will be liable, it is intended that this money will not be included in the loan fund available to companies. It will be retained ie not put at risk and in effect it will be used as a lever to secure additional European Funding.

6.3 This means each £100 the Council invests in the ESIF will secure up to a further £133 of ERDF funding. Therefore if Angus Council contribute £55,000 to ESIF it will lever up to a further £73,000 resulting in a loan fund available to Angus companies of £128,000. This combined with funding available from the Michelin Development Fund should be sufficient to meet the needs of small businesses in Angus.

6.4 The £12,000 surplus funds due to be returned to Angus Council following the wind up of Tayside Business Gateway Ltd will be used to augment resources currently available within the Angus Grant Scheme.

7 HUMAN RIGHTS IMPLICATIONS

7.1 There are no Human Rights implications arising from this report.

8 EQUALITIES IMPLICATIONS

8.1 The issues dealt with in this Report have been the subject of consideration from an equalities perspective (as required by legislation). An [equalities impact assessment](#) is not required.

9 SINGLE OUTCOME AGREEMENT

9.1 This report contributes to the following local outcome contained within the Single Outcome Agreement for Angus:

- We realise our full economic potential with more and better employment opportunities for our people.

10 CONSULTATION

10.1 The Chief Executive, Director of Corporate Services, Head of Law and Administration and Head of Finance have been consulted in the preparation of this report.

11 CONCLUSION

11.1 The availability of loan finance to SMEs is currently restricted and this is impacting on business activities and therefore the general well-being of the Angus economy. The ESIF provides an opportunity to ease the situation by not only providing finance directly to companies where none is available but also by encouraging commercial institutions to be more flexible in their approach to lending. This can be achieved by sharing risk ie a borrower will take out a loan from a bank matched with a loan from the ESIF.

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DIRECTOR OF INFRASTRUCTURE SERVICES

NOTE

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

ECDEV/DV/SW/LJP
08 October 2009