

NORTH LANARKSHIRE COUNCIL
REPORT

To: ECONOMIC DEVELOPMENT COMMITTEE		Subject: NORTH LANARKSHIRE COUNCIL BUSINESS LOANS FUND 1996
From: DIRECTOR OF PLANNING AND DEVELOPMENT		
Date: 15 April 1996	Ref: NLBLF/EB	

PURPOSE

The purpose of this report is to seek committee approval to proposals for the establishment of a West of Scotland Loans Fund (WSLF) which will cover the area previously covered by Strathclyde Regional Council , North Lanarkshire Business Loans Fund (NLBLF) will be a partner. The report also outlines the criteria and operational guidelines for the scheme.

BACKGROUND

The Strathclyde Business Loans Fund (SBLF) was established in 1983 to provide additional loan finance of up to £30,000 to both start up and existing businesses within Strathclyde. The principal objective of the fund was to provide additional investment to ensure that good business proposals did not fail through lack of necessary finance. The SBLF has proved to be a popular and effective business development measure with demand for investment being greater than available budgetary resources in each of the past three financial years. The fund has been in a position to attract matching European Regional Development Fund (ERDF) monies due to the size of the fund.

PROPOSAL

It had been planned to disaggregate the fund to each of the new unitary authorities. However, due to a proviso by the European funding partners that they would not consider supporting smaller local funds it is proposed that we "buy into" the West of Scotland Loans Fund (WSLF) which is being set up to centralise the budgets and repayments and therefore attract the matching funding from ERDF through this fund.

- This new fund will evolve into a company limited by guarantee with all the Councils being a member with each having a place on the board of the new company.
- That the loan repayments, plus any capital input and matched ERDF contribution will be 'ring fenced' for the Council area, with any unused allocation being carried forward from one financial year to the next, ie it will not be lost or used by another Council.
- That detailed operation matters of the WSLF are currently being progressed as a matter of priority by a working group involving all Councils, at the moment, which will be the subject of a separate report to Committee.

CRITERIA

The key criteria to be satisfied by loans fund applicants are as follows:

- 1. The North Lanarkshire Business Loans Fund will act only as a gap provider and will not act as the sole funder of any business development proposal. Before businesses can make a successful application to the Loans Fund they must demonstrate that they have accessed or attempted to access all other available sources of finance from both the private and public sectors.
- 2. By undertaking a rigorous investment appraisal process fund managers must ensure that each successful loan application demonstrates clear evidence of commercial viability.
- 3. Successful applicants must demonstrate significant employment protection and/or creation potential.
- 4. Priority will be given to the funding of companies from within the manufacturing sector, although applications will be considered from service sector companies. Retail sector businesses are specifically excluded from the scheme.

TERMS AND CONDITIONS OF THE FUND

- The maximum loan is £30,000.
- Interest rate is 2% over bank base rate, fixed for the period of the loan.
- The maximum repayment period is 7 years, although "holidays" from capital repayments for 6 months to a year can be considered.
- Loans under £15,000 are unsecured.

FUND APPRAISAL AND MANAGEMENT SYSTEM

The North Lanarkshire Business Loans fund will be managed in partnership with Economic Development Unit of the Planning and Development Department of North Lanarkshire Council and with the West of Scotland Loans Fund.

The main features of the fund management and appraisal system will be as follows:

Loan Appraisal

Each application to the fund must be accompanied by a comprehensive business plan and where appropriate up to date audited financial statements. The suitability of each application is determined by undertaking a full review of the business plan and associated financial information. All suitable applications will then receive an appraisal visit by an Economic Development Officer of the Council at which time a detailed discussion of the business development proposal takes place.

Approval of Loan Awards

It is proposed that the approval process for loan fund awards shall follow a two tier system. In the case of applications of a value of up to and including £10,000 it is proposed that they be considered by an internal loans fund panel made up of the Economic Development Unit Manager, the Senior Economic Development Officer with responsibility for Loans and Grants to SME's and the appropriate Economic Development Officer ie the Appraiser, with the power to approve loan awards being delegated to the Head of Planning and Development Department. In considering applications of a value greater than £10,000 it is proposed that the Economic Development Committee consider the reports and recommendations of appropriate officers, to formally approve loan awards.

The proposed timescale for handling completed applications is:

Loans £10,000 and under - 4 weeks.

Loans over £10,000 - 10 weeks.

Loan Monitoring Procedures

All successful loan applicants will receive monitoring visits at three monthly intervals by Economic Development Officers of the Council. The purpose of these monitoring visits is to ascertain whether business plan targets are being achieved in respect of turnover, profitability and employment levels. Where there is significant variance between business plan targets and actual results, appropriate advice and assistance will be provided by suitably experienced economic development officers.

A copy of the Operational Guidelines are attached at appendix 1 of this report. this will be included in any promotional material used to promote the Fund and will be circulated with additional briefing information to the Enterprise Trusts and Customers Services Department of the Lanarkshire Development Agency to ensure a full understanding of the workings of the fund.

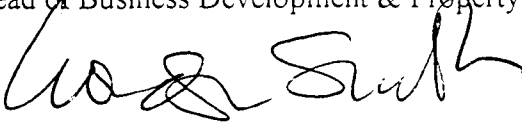
A Business Plan Checklist is included at Appendix 2. This would be given in the application pack for the loan to enable businesses to prepare an acceptable business plan from the outset..

RECOMMENDATIONS

That the Committee note the contents of this report and;

1. Approve the operational guidelines;
2. Agree to participate in the set-up of the West of Scotland Loans fund as detailed in the report, noting that any funds relating to income/payments will be ringfenced for North Lanarkshire.

Gordon Smith
Head of Business Development & Property



For further information contact Maurine McConachie, Economic Development Manager

Appendix 1

NORTH LANARKSHIRE BUSINESS LOANS FUND 1996 OPERATIONAL GUIDELINES

1. What is the North Lanarkshire Business Loans Fund?

This fund is a loans scheme to provide finance to new and existing small businesses in North Lanarkshire, on the basis of helping firms "in need". The scheme will not normally be the sole funder of projects, but will operate in conjunction with other lending agencies.

2. What is the objective of North Lanarkshire Business Loans?

North Lanarkshire Business Loans aims to encourage the creation and growth of small businesses which can contribute to the local economy in terms of jobs, growth potential, etc.

3. What firms can benefit?

The scheme is primarily targeted at small companies involved in manufacturing, however, service sector companies can apply. Businesses within the retail sector are not normally supported under this scheme. Whether the business is a sole trader operation, partnership, co-operative or limited company, the scheme is available.

4. What can the Loans be used for?

Loans can be used for the purchase of plant and equipment (new or used) and for the provision of working capital. The loans cannot be used to purchase premises or to obtain private cars.

5. What are the main terms of the scheme?

Loans range from £5,000 with the maximum loan of £30,000.

Interest rate is 2% over Bank Base Rate, fixed for the period of the loan.

The maximum repayment period is 7 years, although "holidays" from capital repayments for 6 months or 1 year can be considered.

Loans under £15,000 are unsecured.

6. How does the scheme work?

A letter of application, supported by a copy of a business plan, audited accounts where appropriate and including 2 years financial projections, will normally be prepared and submitted to North Lanarkshire Economic Development Unit.

Applications which are not eligible for funding

1. Applications requesting finance for items which cannot be funded - private cars, heritable property.
2. Applications where any of the directors:
 - have been disqualified under the company directors (Disqualification) Act 1986
 - or have been sequestrated within the last five years;
 - or are the subject of outstanding court injunctions for non-payment of debts, and a reasonable explanation could not be obtained from the applicant;
 - or have been convicted of fraud or any other offence relevant to the business.
3. Applications from organisations which are materially insolvent, as defined by the Insolvency Act 1986 ie where there is no reasonable prospect of avoiding insolvent liquidation.
4. Applications where no other source of funding has been identified or where there is no personal commitment from the directors.
5. Applications where the information necessary (eg audited accounts) to assess the proposal has not been provided, despite requests for it.
6. Applications where a director or the organisation has outstanding debts (eg rates/poll tax/. etc
7. Applications where there is no material evidence of commercial viability or additionality.

Your Business Plan Should Include:-

1. **EXECUTIVE SUMMARY** - Brief overview of company and proposal.
2. **BUSINESS HISTORY** - Brief description and history of the business, including its structure and current sources of finance.
3. **PRODUCTS** - Description of principal products or services, markets, applications, significant product advantages, features of current technology, proposed future developments.
4. **MARKET ANALYSIS** - Description of specific markets to be targeted, size of market, major customers, expectations of price, quality and service, major competitors.
5. **MARKETING STRATEGY** - Market share and sales forecasts for next three years, pricing policy, promotion and advertising policy, firm orders or letters of intent from prospective customers.
6. **MANUFACTURING AND OPERATIONS** - Summary of the nature and content of operating facilities and procedures, description of premises, manpower requirements and availability, dependence on key materials, quality control.
7. **MANAGEMENT** - Chart the structure, detail the skills and background, identify missing skills and explain how this will be overcome, include CV's of key individuals, detail proposed salaries and any incentive scheme.
8. **FINANCIAL INFORMATION** - Most recent audited accounts, most recent management accounts, detailed financial projections covering a three year period. The projections should include as a minimum cash flows, profit and loss accounts, balance sheets and the key assumptions on which they are prepared.
9. **RISK EVALUATION** - What are the risks and threats to the business. How will these be minimised.
10. **FUNDING** - Summary of the total funding requirement of the business, how the funds will be applied and the likely sources of the funds.

NORTH LANARKSHIRE BUSINESS LOANS FUND

PROCESS FLOW DIAGRAM

