

North Lanarkshire Council Report

Enterprise and Growth Committee

approval noting

Ref PH/YW

Date 09/05/19

West of Scotland Loan Fund Ltd/Business Loans Scotland Ltd

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Executive Summary

The purpose of the report is to update Committee on the current status of the West of Scotland Loan Fund Ltd and the intention of the Board to wind-up the company.

The Board of West of Scotland Loan Fund Ltd (WSLF) has now agreed to wind-up the company due to the emergence of Business Loans Scotland Ltd (BLS) as the vehicle through which debt finance is provided to Small to Medium Sized Enterprises (SMEs) across Scotland.

In order to wind-up WSLF, the Board is required to consider a number of factors, specifically: the administration of the existing loan portfolio; the use of residual European Regional Development Fund (ERDF) funds which have conditions attached to them; and the excess funds member authorities have within the company. The implications of each of these are explained in full in the report.

The report also provides an update on BLS and the recently approved £7m of funding which is being fully funded through the Scottish Government. This second phase of funding will provide the main vehicle through which local authorities across Scotland will deliver debt finance to support the growth of Small to Medium Sized Enterprises. The report also seeks approval to amend the Articles of Association of BLS to enable the Council to withdraw its funds from BLS in the future.

Since 1996, through both WSLF and BLS, North Lanarkshire Council has provided 280 loans with a combined value of £6,248,400 which has been utilised to support the growth of local businesses who had commercially viable projects but could not raise the full funding package through traditional bank lending or other sources of funding.

Recommendations

It is recommended that the Enterprise and Growth Committee:

1. Note the content of the report.
2. Note the intention of the West of Scotland Loan Fund Ltd's Board to wind-up the limited company.

3. Note the Council's commitment to the treatment of residual ERDF money received during the 2007-2013 ERDF Programme.
4. Approve the transfer of the outstanding West of Scotland Loan Fund Ltd loan portfolio and ring-fenced ERDF funds required to be utilised for debt finance to Business Loans Scotland Ltd.
5. Approve the withdrawal of the remaining excess funds from the West of Scotland Loan Fund Ltd, once the debts and liabilities have been settled, to be utilised for SME development.
6. Note that a further a further paper will be presented to the Enterprise and Growth Committee later in 2019 outlining options for the utilisation of the excess funds withdrawn from the West of Scotland Loan Fund Ltd.
7. Delegate authority to the Convener of Enterprise and Growth and the Executive Director of Enterprise and Communities with advice from legal services to conclude negotiations with Business Loans Scotland Ltd to amend its Articles of Association to enable the Council to withdraw funds in the future.

Supporting Documents

The Plan for North Lanarkshire

Ambition Statement 4: Market and promote North Lanarkshire as the place to live, learn, work, invest and visit.

Ambition Statement 5: Grow and improve the sustainability and diversity of North Lanarkshire's economy.

Programme of Work: P022 - Review loans and grants for local businesses

1. Background

West of Scotland Loan Fund Ltd

- 1.1 The West of Scotland Loan Fund Ltd (WSLF) was created in 1996 to provide loans of up to £100K to small to medium sized enterprises (SMEs) in the West of Scotland who had a good viable business proposal but could not raise the full funding for their proposal from commercial sources.
- 1.2 North Lanarkshire Council along with 11 other local authorities in the West of Scotland are members of WSLF. Each local authority has a Director who represents their respective Council's interests on the Board of WSLF. North Lanarkshire Council has issued 276 loans through WSLF with a value of £5,938,400 to local Small to Medium Sized Enterprises (SMEs) to support their growth ambitions and job creation.
- 1.3 As at 31 January 2019, the Council had a total of £246,879 in outstanding loans which are currently being repaid by 18 companies. These loans are presently due to be repaid by October 2021.
- 1.4 The Council also had a residual cash at bank as at 31 December 2018 within WSLF of £427,491. Of this, £191,308 is ringfenced under former ERDF grant

funding conditions and must be utilised for future debt finance. The remaining funds must be utilised to support SME development.

- 1.5 In June 2018, following an amendment to the Articles of Association of WSLF, the Council withdrew £1m of its residual funds from WSLF. The Funds have a condition attached that they must be used for “SME development activities” to comply with previous ERDF funding accrued within the funds. A full options appraisal is being carried out on the use of these funds to align with the Plan for North Lanarkshire and to support the emerging Economic Regeneration Delivery Plan.

Business Loans Scotland Ltd

- 1.6 Following advice from the Scottish Government that a pan-Scotland loan fund would be eligible to secure additional funding through the 2014–2020 European Regional Development Fund (ERDF) programme, the Council considered a proposal in 2015 which had been brought forward to merge WSLF with the East of Scotland Investment Fund and South of Scotland Loan Fund to create a Scotland-wide local authority business loan fund. Business Loans Scotland Ltd was created as the vehicle to take this forward.
- 1.7 North Lanarkshire Council became a member of Business Loans Scotland Ltd (BLS) and also appointed an elected member as a Director to the Board of BLS. There are currently 27 full Members with Angus, East Lothian, Orkney Islands, Shetland Islands and Western Isles as Associate members.
- 1.8 During the transfer negotiations, North Lanarkshire Council and other WSLF authorities agreed to transfer the match funding required to initiate BLS, but the Council did not agree to transfer its existing loan book or residual funds within WSLF due to the conditions within the BLS Articles of Association which prevent resources being withdrawn from the Fund and returned to a Member Authority.
- 1.9 The Council to-date has transferred a total of £280,492 from its residual funds available within the WSLF as match funding for both loans and to support the administrative and management costs of BLS. As at 31 December 2018, the Council had delivered 4 loans through BLS to a value of £310,000.
- 1.10 Moving forward, BLS has subsequently been awarded a fully match-funded contract through the Scottish Government to deliver a £7m loan fund for the period January 2019 through to July 2023 (with a realisation period up to July 2026). The Phase 2 funding awarded also covers the management and administrative costs of BLS.

2 Report

Winding Up of the West of Scotland Loan Fund Ltd

- 2.1 The Board of WSLF has now agreed to wind-up the company due to the emergence of Business Loans Scotland Ltd as the primary vehicle through which debt finance is to be provided to SMEs by local authorities across Scotland.

- 2.2 In order to wind-up WSLF, the Board is required to consider a number of factors, specifically: the administration of the existing loan portfolio; the use of residual ERDF funds which have conditions attached to them; and the excess funds member authorities have within the company.

Future Administration of Existing West of Scotland Loan Fund Ltd Portfolio

- 2.3 As at 31st January 2019, North Lanarkshire had an existing portfolio of loans outstanding to 18 companies with a value of £246,879, currently being collected through the WSLF. It is anticipated that unless there are any defaults to outstanding loans or moratoriums awarded, that the loan book will be repaid in full by 31st October 2021.
- 2.4 In order to wind up the company, the loan portfolio requires to be transferred to another organisation that can carry out the administration and debt collection of loans. One option, is to transfer this loan book into the Council, however, there would be resource implications of doing so. The Enterprise and Housing Committee on 2nd November 2017 agreed that the Council would consider this, if required.
- 2.5 A second available option is to transfer over the loan portfolio to BLS where there is existing expertise and resource to absorb the management and administration of the outstanding loans. Agreement has been reached between the Boards of WSLF and BLS that should the loan portfolio be transferred into BLS, there will be no management fee.
- 2.6 A key benefit of transferring the loan portfolio to BLS is that it offers a vehicle for the management of residual European Regional Development Fund (ERDF) funding as well as providing a governance structure that would satisfy any future audit carried out by the Scottish Government. It is therefore proposed that the existing loan book is transferred from WSLF to BLS given the existing debt management structures and expertise being in place.
- 2.7 There is also recognition among the members of BLS that moving forward the Articles of Association for the company need to change in order for members to access excess funds generated through Phase 1 of BLS. This was agreed at the BLS Board meeting on 8th March 2019. As the residual ERDF funding used as match funding for Phase 1 of BLS is recycled, it will become eligible for member authorities to withdraw and use should they so wish. This is a fundamental shift from the BLS's position last year and would no longer lock individual member's assets within the company.
- 2.9 In order for the Articles of Association of BLS to be amended, a Special Resolution requires to be adopted by BLS. This will be a similar process to that already carried out by WSLF during 2018, and is anticipated to require the approval of 75% of the Full Members of the Company. There are currently 27 full Members of BLS. Therefore, for the Resolution to pass, it is expected that 21 full Members will be required to agree to the Special Resolution to amend the Articles of Association. The timescale to amend the Articles of Association is wholly dependent on each Member Authority but it is anticipated this will be concluded during 2019.
- 2.10 It is therefore proposed that delegated authority is given to the Convener of Enterprise and Growth and the Executive Director of Enterprise and Communities

with support from legal services to conclude any negotiations in relation to the wording of the Special Resolution required to amend the Articles of Association that will enable funds to be withdrawn from BLS in the future.

Use of Residual European Regional Development Funding (ERDF)

- 2.11 In the paper presented on 2nd November 2017 to the Enterprise and Housing Committee, the previous conditions of grant awarded to WSLF during the 2007-2013 ERDF programme were outlined. The conditions stipulate that any ERDF from that period paid back through loans has to be ring-fenced and re-used for future debt finance activity.
- 2.12 As of 28th February 2019 the Council has £191,308 of ERDF within the WSLF still ring-fenced for debt finance activity. The remaining conditional ERDF funding was transferred to support the delivery of loans through Phase 1 of BLS.
- 2.13 Phase 2 of BLS has seen the emergence of the Scottish Government providing all of the match funding for loans, removing the need for local authorities to use their ring-fenced funds for debt finance.
- 2.14 A decision has still to be taken on how best to utilise these funds, however it is anticipated that BLS would be the most effective vehicle in providing the administrative support to any future debt finance programme developed, either individually by member authorities, or through a wider collaboration either nationally or regionally.
- 2.15 Taking all of this into consideration, it is proposed that the ring-fenced ERDF money is transferred along with the existing loan portfolio and that any future debt finance programmes using the ERDF, are administered through BLS.
- 2.16 Should it subsequently emerge that BLS is not the most effective vehicle, the proposed changes to the BLS Articles of Association outlined above would enable the Council to withdraw these funds and manage their use internally or through another like-minded vehicle.

Treatment of Excess Funds within West of Scotland Loan Fund Ltd.

- 2.17 As outlined in section 1.5 of this report, the Articles of Association of WSLF were changed last year to enable Councils to withdraw funds from WSLF. This was unanimously agreed by all 12 member authorities who form the Board of WSLF, enabling funds not required for BLS to be accessed and utilised by the Council for purposes directly related to delivering like-minded economic development activity and more specifically to support SME development.
- 2.18 As of 31st December 2018, the Council has excess funds of £236,183 that could still be withdrawn (subject to the conclusion of any debts and liabilities of WSLF) in addition to the £1m already withdrawn by the Council. A condition of withdrawal remains that the funds must be utilised to support the creation, growth and sustainability of SMEs in North Lanarkshire.
- 2.19 It is proposed that upon the winding up of WSLF, the Council withdraws its excess funds from WSLF, once all other debts and liabilities have been settled.
- 2.20 An options appraisal is underway for the utilisation of the excess funds and a further paper will be presented to the Enterprise and Growth Committee later in

2019 outlining options for the utilisation of this funding to meet the ambitions outlined in the Plan for North Lanarkshire and the emerging Economic Regeneration Delivery Plan.

3. Equality and Diversity

3.1 Fairer Scotland

Full consideration of Fairer Scotland will be undertaken in relation to the future plans for utilisation of funds withdrawn from WSLF/BLS.

3.2 Equality Impact Assessment

None has been undertaken for the purposes of this report.

4. Implications

4.1 Financial Impact

The proposed changes are positive with no direct impact on existing budgets within the Council. The current costs of administering WSLF from funds within WSLF will be removed.

The Council has currently ringfenced the £1m of funding withdrawn from WSLF and a further paper will be brought to Committee later in 2019 with plans for how this and additional funding withdrawn from WSLF will be utilised to support SME development in alignment with the Plan for North Lanarkshire and the emerging Economic Regeneration Delivery Plan.

Any outstanding debts and liabilities within both WSLF and BLS will require to be accounted for in advance of any funds being withdrawn.

4.2 HR/Policy/Legislative Impact

Legal advice on the winding up of WSLF is being provided by the WSLF lawyers Wright Johnston and MacKenzie. Advice will also continue to be provided from Legal Services to support the implementation of the recommendations outlined within this paper.

All staff previously employed by WSLF have now undergone a TUPE transfer to BLS.

4.3 Environmental Impact

There is no environmental impact anticipated from this report.

4.4 Risk Impact

The Boards of WSLF and BLS are considering all the risks involved in the transfer. The most significant risk is the treatment and adherence to the conditions attached to previous ERDF funding. Legal advice and advice from the Scottish Government has been sought to mitigate this risk.

5. Measures of success

- 5.1 The delivery of the £7m Phase 2 of funding available through BLS to support the growth and development of SMEs across Scotland.
 - 5.2 The utilisation of the excess funds withdrawn from WSLF to support the development of SMEs in North Lanarkshire in alignment with the Plan for North Lanarkshire and the emerging Economic Regeneration Delivery Plan.
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