

REPORT TO: CITY DEVELOPMENT COMMITTEE - 8 MARCH 2010

REPORT ON: EAST OF SCOTLAND LOAN AND INVESTMENT FUND

REPORT BY: DIRECTOR OF CITY DEVELOPMENT

REPORT NO: 133-2010

1 PURPOSE OF REPORT

- 1.1 The report proposes joining an East of Scotland Loan and Investment Fund that is being set up by a number of Local Authorities with the support of a major clearing bank and the European Regional Development Fund (ERDF).

2 RECOMMENDATION

- 2.1 It is recommended that the Committee agree to join the East of Scotland Loan and Investment Fund.
- 2.2 That the committee agrees to a contribution of £130,000, which will be met from the City Development revenue budget 2010/2011.
- 2.3 That it be remitted to the Directors of City Development and Finance and Depute Chief Executive (Support Services) to conclude the necessary agreements.
- 2.4 Notes that the Councils contribution will create a loan fund of £217,000 ring fenced for Dundee companies between now and 2015.

3 FINANCIAL IMPLICATIONS

- 3.1 The investment in the fund can be met from the Scottish Government Small Business Gateway Grant 2010/2011.

4 BACKGROUND

- 4.1 In November 2009 the Federation of Small Businesses Scotland published a report which stated that a "lack of access to affordable finance has precipitated or exacerbated the difficulties which small firms have experienced in the current recession". The report calls for more one-to-one support for existing businesses to help them through current difficulties, retain employment and return to growth and cites the need for better flow of working capital to small and micro businesses, achieved, for example, through existing mechanisms such as the West of Scotland Loan Fund (WSLF) or through the creation of a new project.
- 4.2 The concept of ESIF Ltd has come about as a result of discussions amongst council officers across the east of Scotland, led by Fife Council. Most councils currently operate loan provision for small businesses and there is a general consensus that access to loan funding for small and medium sized enterprises (SMEs) is now more difficult than ever. Officers are also aware of the long established West of Scotland Loan Fund and its recent success in leveraging in additional support via the ERDF to enhance its activities.
- 4.3 The WSLF has been in existence for over 12 years and provides loans of up to £50,000 to SMEs. The Fund is a consortium of 12 local authorities in the West of

Scotland. In 2003 it secured £8/9M of European Regional Development funding (ERDF) to create a fund of over £18M to invest in 1,000 businesses, create 4,000 jobs and lever £220M from the private sector.

- 4.4 The WSLF offers debt or loan funding to SMEs who have explored all the normal routes to raise the finances necessary to make a project viable, robust and sustainable but find themselves short of the level necessary to guarantee continuation of the project. Any loan offered is repaid monthly by direct debit according to the repayment schedule issued to each borrower. Loans are typically repaid over a 3 to 5 year period. At no time does this fund displace private sector lending, its role is to address market failure and work alongside the private sector.
- 4.5 The ESIF Ltd ERDF proposal intends to put in place a new £4M investment loan fund for the East of Scotland, funded by the local authorities who are participating in the fund (£1.2M), a term loan from a commercial lender (£1.2M currently in negotiation, but have a lender who is happy in principle to deliver) and ERDF (£1.6M), to benefit new and growing businesses which have good, commercially viable proposals but have experienced difficulty in raising finance from mainstream commercial sources. The Fund will be modelled on the successful WSLF. The ERDF project will run from the 1 September 2010 to the 31 March 2015.
- 4.6 It is proposed that Dundee City Council provides £130,000 of funding from the 2010/2011 capital plan, which will draw down an additional £87,000 in ERDF. Participating in the scheme will also allow us to access the additional ERDF and finance from the commercial lender and provide investment to more companies than we could otherwise be able to support.

5 PROJECT DELIVERY

- 5.1 The proposal is being developed by a strategic partnership of 9 local authorities in Moray and Perth & Kinross, the East of Scotland (Dundee City, Angus, Fife, Falkirk, City of Edinburgh, West Lothian and Midlothian) who are working together to improve the availability of loan finance for SMEs in their area. A formal partnership will be established to deliver this proposal, to which Dundee City Council will become signatories. The proposal is being modelled on the West of Scotland Loan Fund and will be a company limited by guarantee with a Board of Directors and an Operational Management Group (Dundee City Council will have a place on the Board and at the Operational Group) to ensure robust governance and effective delivery of the project. Contract compliance and monitoring will be undertaken by a Fund Manager. Administration of the fund will be managed by the WSLF under a contract arrangement with the established ESIF Partnership. This will enable the Partnership to operate with minimal overheads and gain from the experience and expertise of the WSLF.
- 5.2 Each local authority will sign a Members Agreement which outlines the roles and responsibilities of the partners and ESIF Ltd and is modelled on the successful Partnership Agreement that the WSLF have established.
- 5.3 ESIF Ltd will be responsible for policy, compliance, contract monitoring and guiding the overall strategic direction of the Investment Fund. It will have a key role to play in co-ordinating effective local delivery of the Fund. Individual partner authorities will engage with applicants businesses, appraise loan applications and monitor loans in conjunction with the WSLF Loan Tracking Software System.

- 5.4 ESIF Ltd will operate a rigorous investment appraisal process. Each applicant will be required to submit a robust business plan and up-to-date audited financial statements. Local authorities and their partner organisations will act as administrators of the fund and ensure that each successful loan application demonstrates clear evidence of commercial viability. They will appraise the business plan, undertake appropriate due diligence and arrange credit checks before making a recommendation to a funding panel (which will be established by each local authority) on an application, if it is above a certain size. Successful applicants must also demonstrate significant employment protection and/or job creation.
- 5.5 In practice Dundee City Council will retain control of its own funds and any additional funding levered against our capital investment (ERDF). It will therefore be the Council processing initial applications and deciding who to lend to. Once the grant is approved ESIF will be responsible for providing the funds, collecting the payments and associated administration. An appraisal process will therefore be created within the Council with recommendations for the making of loans brought to Committee in the normal way.

6 POLICY IMPLICATIONS

- 6.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

7 CONSULTATIONS

- 7.1 The Chief Executive, Depute Chief Executive (Support Services), Director of Finance and Assistant Chief Executive have been consulted and are in agreement with the contents of this report.

8 BACKGROUND PAPERS

- 8.1 There are no background papers of relevance to this report.

Mike Galloway
Director of City Development

Stan Ure
Head of Economic Development

MPG/SU/DM/KM

4 March 2010

Dundee City Council
Tayside House
Dundee