

**FALKIRK COUNCIL**

**Subject: BUSINESS SUPPORT – INVESTMENT FUNDING**  
**Meeting: EXECUTIVE**  
**Date: 17 MARCH 2015**  
**Author: DIRECTOR OF DEVELOPMENT SERVICES**

**1.0 INTRODUCTION**

1.1 The Growth and Investment Unit has been in operation since October 2012 and is responsible for delivering all business support including Business Gateway services. As part of the local discretionary support the Council helps provide access to business support funding which can be critical in assisting businesses to start up, grow and provide benefits for the local economy in terms of jobs, investment and wealth. The support is in the form of three funds:

- The East of Scotland Loan Fund
- The BP Loan Fund and
- Business Grant Scheme

1.2 This report advises of the progress of these funds and proposed changes for their delivery.

**2.0 EAST OF SCOTLAND INVESTMENT FUND**

2.1 Falkirk Council has been a member of the East of Scotland Investment Fund (ESIF) since 2011. A similar fund exists in the west of the country called the West of Scotland Loan Fund (WSLF). ESIF offers loans of up to £100,000 to new and growing, small and medium sized businesses. The aim is to ensure that good, commercially viable proposals do not fail from a lack of access to finance.

2.2 ESIF as a public sector owned fund can provide up to 50% of the funding package required to help start up, sustain and grow a business. The balance of the funding package is required to be matched from the private sector.

2.3 Since 2011, Falkirk Council has contributed £262k to the ESIF fund and to date has made 5 loans totalling £250k. The current balance of the fund for the Falkirk area is £148,707. The loans made to date will help to create an additional 55 jobs. Several local authorities contribute to the fund and the benefit of joining with these local authorities is the ability to lever in private sector bank funding and most importantly European Regional Development funds ( ERDF) which can provide up to 40% funding support. The current programme of European funding ends in October 2015 and the ESIF fund in its current state will end.

- 2.4 The Scottish Government and Boards of ESIF and WSLF are encouraging the creation of a pan-Scotland Loan Fund which would involve the restructuring of both loan funds (ESIF and WSLF) into a single fund. The pan-Scotland Loan Fund will be eligible to secure ERDF funding from the European Structural Funds Programme 2014–2020. It is estimated the amount of lending and support across all 32 local authorities would be in the region of £5m - £6m per annum. As ERDF is initially for a period of 3 years this could create a fund of £15m - £18m.
- 2.5 The Fund will offer businesses loans of up to £100k both on a secured and unsecured basis depending on risk to eligible companies at a fixed interest rate of 6% per annum with no additional fees or charges. The fund will be delivered through a newly incorporated company, offering efficiencies in fund management and will be limited by guarantee, with all 32 Scottish Local Authorities invited to join.
- 2.6 The proposed delivery structure comprises three operational areas – East, West and Highlands and Islands – each of which will essentially operate as a “fund within a fund”. It is envisaged that the company’s Board of Directors will consist of two to three members from each operational area.
- 2.7 Each local authority’s financial contribution to the Fund will be exclusively ring fenced for investment by that local authority solely in its area and as such will attract ERDF match funding at a rate of 40%.
- 2.8 The target “go live” date for the new fund is 1<sup>st</sup> April 2015. Prospectuses for the new fund along with operational guidelines have been circulated to all local authorities including Falkirk Council for consultation. Initial guidance and observations on the proposal received from Legal Services are favourable towards the new fund structure with arrangements well developed and minimal legal concerns with the proposed Articles and Members Agreement. The fund would have a dedicated solicitor who will deal with all loan paperwork and arrears / missed payment issues which relieves Falkirk Council of this ongoing fund management duty.

### **3.0 BP LOAN FUND**

- 3.1 The BP Business Loan Fund provides unsecured loans of up to £10,000 at 6% interest to anyone considering starting up or growing a business in the Falkirk Council area and cannot secure all of the required funds from other sources. The fund was established in 2001 in partnership with BP with a £500k contribution from the company to support new business growth in the Falkirk area. Falkirk Council and BP each added a further £100k in 2007 and £25k in 2010/11. The fund was originally managed by Falkirk Enterprise Action Trust and latterly by Falkirk for Business before transferring to Falkirk Council in October 2012 when business support services were brought in-house by Falkirk Council. Since inception the fund has approved 286 loans assisting 250 businesses totalling £2.045m (excluding interest). The current balance is £159,000.
- 3.2 Several external factors now require the continuation of the fund to be re-assessed:

#### *BP Role*

Due to repositioning of the company’s role in local partner initiatives and industrial activities in Grangemouth, partner representatives from BP have now intimated to the Council they wish to conclude their role as a partner in the loan fund. Since bringing the

fund in-house and continuing to promote and manage the fund with BP, both parties have recognised that the original loan fund working agreement between BP and Falkirk Council requires refreshed and as a consequence BP has taken this opportunity to review its involvement in the fund. BP propose the remaining fund balance is transferred in full to the Council with the condition that remaining sums continue to be managed and ring-fenced for business support purposes.

### 3.3 *New Start Up Loan Company (SULCO)*

The UK Government established a national Start Up Loan Company (SULCO) in Scotland during 2014. Like the BP Loan Fund this new fund is available to help individuals start up in business by providing loan finance of up to £10,000 at a similar interest rate of 6%. Given the similarities between this fund and the BP Loan Fund it is proposed to continue running the two loan funds in parallel for a period of a further year to allow the new SULCO fund to bed-in and be promoted within the Business Gateway suite of services. This will enable demand to be monitored for both funds. To date in the Falkirk area four SULCO applications have been put forward for approval with only one to date being successful. By comparison and despite promotion, demand for the BP Loan Fund has reduced.

### 3.4 *Financial Conduct Authority – authorisation*

Since the operation of the BP Loan Fund transferred to the Council the financial regulatory body has changed to the Financial Conduct Authority (FCA). Previously local authorities were exempt from having a Consumer Credit License – however initial changes by the new authority to their guidelines now indicate that local authorities managing loan funds such as the BP Loan Fund now require full permission from the FCA in order to legally comply. FC currently has interim permission to operate the fund and may require to make a full application between July and September 2015. The full extent of the Council's legal obligations and any associated costs or changes to administration of the fund are presently being confirmed with the FCA.

## 4.0 **SMALL BUSINESS GRANT SCHEME**

4.1 The Small Business Grant Scheme was introduced by the Council on 1<sup>st</sup> October 2012 with an initial budget of £35k to assist businesses invest for growth. This has been very popular with small businesses and during 2013/14 the budget was increased to £85k which assisted 36 businesses to start up or grow and attracted £157k of investment.

4.2 Present criteria states that eligible applicants must not employ more than 20 employees, however, this does permit companies with quite significant turnover (>£500k) to access this fund. Last year of the 36 businesses that received approval for grants, 9 of them had a turnover of more than £500,000. It is suggested that the criteria should be more restricted. If the eligibility criteria were reduced to no more than 10 employees or a turnover of less than £500k this would enable Falkirk Council to offer more focused support to smaller businesses with greater growth support need at this time. It is proposed that larger firms be directed towards loan fund support via the new pan-Scotland fund.

4.3 Additionally businesses may apply for the grant more than once if they are going through several periods of investment. Whilst this is closely monitored and managed, at present there are no eligibility criteria regarding more than one application being received from a business. Currently when applying for a grant, the applicant is required to state how

many jobs will be created as a result of the investment. It is proposed that a second grant application would only be considered when the job target figure from the first application had been met and it is demonstrated that the new investment will create additional jobs above the originally stated level.

## **5.0 IMPLICATIONS**

### *Policy Implications*

- 5.1 The Council's support of the local businesses sector is a key priority of the Strategic Community Plan, *My Future's in Falkirk* and related policies.

### *Financial Implications*

- 5.2 Proposed changes to the current ESIF loan fund will introduce a new externally managed fund with reduced demand on the Council in terms of governance or legal services for documentation and recovery of bad debt. All existing ESIF funds ring-fenced for the Falkirk area will be transferred to the new fund with funds enhanced by additional ERDF funds protected for future investment in Falkirk businesses.

Currently the BP Loan fund is managed by Chief Finance Officer on behalf of Falkirk Council with interim FCA permissions. Whilst there are no immediate additional resource implications for both Finance and Development Services this could alter as a consequence of changing legal requirements to operate the loan fund.

The Small Grant Scheme is currently contained within the Service's existing budget as part of the existing business support activities provided by the Growth & Investment unit.

All three business support funds do not require any new or additional revenue support. They offer additional opportunities to secure match funding and to reduce present staff resources employed in managing the funds.

### *Legal Implications*

- 5.3 Review of both the pan-Scotland Loan Fund and the BP Loan fund are being progressed with the support of the Council's Legal Services and, where necessary, external legal advisors.

## **6.0 CONCLUSION**

- 6.1 Falkirk Council recognises that delivery financial support is a key tool towards assisting business with investment projects and the creation of jobs. By providing assistance which is relevant and attractive to businesses the Council can encourage investment and business growth to happen faster and at a bigger scale than was possible without external funding. In some cases it will positively impact on business investment proposals progressing. It is important to continue to provide and promote a suite of efficiently managed, effective finance products which enable Falkirk businesses to invest in projects which in turn aid their sustainability and competitiveness and ultimately create jobs. By implementing the recommendations Falkirk Council will ensure that this suite of investment support products remains relevant and attractive to growing businesses.

## **7.0 RECOMMENDATIONS**

### **7.1 It is recommended that the Executive;**

- (1) agrees to progress Falkirk Council's membership of the pan Scotland Loan Fund replacing its current membership of the East of Scotland Loan Fund**
- (2) notes the establishment of the SULCO loan fund and agree to a review of the BP Loan Fund, and**
- (3) agrees to implement changes to the eligibility criteria for the Small Business Grant Scheme as set out in Section 4 of the report.**

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Director of Development Services

Date: 12 February 2015  
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## **BACKGROUND PAPERS**

Nil