
West of Scotland Loan Fund – Transfer of Surplus Funds to Argyll and Bute Council

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this paper is to provide the members of the Policy and Resources Committee with an update on the proposed transfer of surplus funds from the West of Scotland Loan Fund (WSLF), which is no longer active following the launch of Business Loans Scotland (BLS), to Argyll and Bute Council. It is anticipated that just over £154,700 will be transferred. Loan funding is now facilitated pan Scotland through the BLS fund part financed by European Regional Development Funds (ERDF) under the 2014-2020 programme. Argyll and Bute Council's contribution to BLS was funded from the WSLF surplus.
- 1.2 The recommendations noted below align with the decision made at the Policy and Resources Committee on 17th March 2016 where members "Endorsed the proposal to seek to transfer any WSLF surplus to the Council's Economic Development Service, or other appropriate body able to provide loans, for the purposes of promoting commerce by giving financial assistance by way of loans, donations or subscriptions, noting that this may require the unanimous approval of all WSLF Member Authorities". The paper covered the establishment of the then new BLS scheme, where the transfer of WSLF surplus funds was also considered.
- 1.3 Historically it was understood that no WSLF allocation for Argyll and Bute could be transferred to the council. Whilst the WSLF Articles of Association are clear that on the winding-up or dissolution of WSLF, any "property" cannot be paid or distributed amongst the Member Authorities, subsequent advice from WSLF was that the Articles of Association of WSLF could be amended, with unanimous agreement of all members, to permit funds to be transferred to 'like-minded' organisations for the purpose of 'SME development', such as Business Gateway within the Economic Growth section of the Council's Economic Development service. All WSLF members have agreed to this change and the Articles of Association have now been amended. Argyll and Bute Council can now apply for WSLF Board member approval to transfer the surplus for the purpose of 'SME development'.
- 1.4 To date there has been no take-up of the current loan finance offered under BLS. It should be noted that BLS offers loans of £50k or more to limited companies, or partnerships with four or more members. Smaller loans, including to sole traders, are offered through an alternative ERDF funded microfinance scheme from Developing Strathclyde Ltd (DLS) Business Finance, launched last year, open to Argyll and Bute businesses.

- 1.5 Thus it is now proposed to use up half of the WSLF surplus as match funding for Phase 2 of the Argyll and Bute Business Gateway Local Growth Accelerator Programme. This could provide a three year programme of support offering grants and specialist advice at no additional cost to the council. If the WSLF surplus is used to provide £25k per year as match funding (£75k total), the council could lever in ERDF funding of more than £110k over three years (currently circa 60% intervention rate but can be up to 70%). The remaining surplus, circa £75k, could then be used to provide additional SME support specifically linked to Rural Growth Deal initiatives if opportunities are identified (this would not leverage European funding but would allow greater flexibility in terms of who and what could be supported).
- 1.6 The intention is to submit a bid for Phase 2 Business Gateway Local Growth Accelerator Programme by the end of the calendar year. The bid is dependent on Members approval to use some of the WSLF surplus as match funding for Phase 2.
- 1.7 The recommendation for the Policy and Resources Committee is therefore as follows:

Members approve that the transferred funds from the WSLF surplus be used to finance:

- a) £75k of match funding, circa £25k per annum for 3 years, for a Phase 2 Argyll and Bute Business Gateway Local Growth Accelerator programme, subject to a successful application.
- b) Additional SME support circa £75k, specifically linked to the Rural Growth Deal initiatives if opportunities are identified.

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2.0 INTRODUCTION

- 2.1 The purpose of this paper is to provide the members of the Policy and Resources Committee with an update on the proposed transfer of surplus funds from the West of Scotland Loan Fund (WSLF), which is no longer active following the launch of Business Loans Scotland (BLS), to Argyll and Bute Council. It is anticipated that just over £154,700 could be transferred.
- 2.2 Loan funding is now facilitated pan Scotland through the BLS fund part financed by European Regional Development Funds under the 2014-2020 programme.

3.0 RECOMMENDATIONS

- 3.1 The recommendation for the Policy and Resources Committee is as follows:

Members approve that the transferred funds from the WSLF surplus be used to finance:

- a) £75k of match funding, circa £25k per annum for 3 years, for a Phase 2 Argyll and Bute Business Gateway Local Growth Accelerator programme, subject to a successful application.
- b) Additional SME support circa £75k, specifically linked to the Rural Growth Deal initiatives if opportunities are identified.

4.0 BACKGROUND

- 4.1 The WSLF is no longer active and has been replaced by BLS. With no further investments/loans pending, £154,757.99 currently allocated to Argyll and Bute within WSLF is now surplus. It should be noted that Argyll and Bute Council made no additional financial contributions to the WSLF and that Argyll and Bute Council's contribution to BLS was funded from the WSLF surplus.
- 4.2 Previously it was understood that no WSLF allocation for Argyll and Bute could be transferred to the council. Whilst the WSLF Articles of Association are clear that on the winding-up or dissolution of WSLF, any "property" cannot be paid or distributed amongst the Member Authorities, subsequent advice from WSLF was that the Articles of Association of WSLF could be amended, with unanimous agreement of all members, to permit funds to be transferred to 'like-minded' organisations for the purpose of 'SME development', such as Business Gateway within the Economic Growth section of the Council's Economic Development service.

- 4.3 WSLF’s solicitors, Wright, Johnston & Mackenzie have been consulted regarding what type of organisations would constitute being “like minded”. Their advice is that such organisations would require to meet the test of being “*trusts, companies, organisations, associations or institutions having objects similar to the objects of the Company (WSLF) and subject to the same or similar restrictions to and which are at least as strict as those contained in Article 4.2 and Article 20*”.

The further provisions in Article 20 describe entities with “objects” similar to WSLF and “subject to the same or similar restrictions to and which are at least as strict as those contained in Article 4.2”. The provisions of Article 4.2 say that the “income and property of the Company are to be used in furtherance of the Company’s objects as set out in Article 4.1”.

The primary objects of the Company at Article 4.1 relate to holding and managing a “fund”, for the purposes of promoting “commerce by giving financial assistance by way of loans, donations or subscriptions” (4.1.1) and also relate to “raising funding for such purposes from the Company’s Members and other entities and sources (including ERDF)”.

- 4.4 A Special Resolution was proposed to amend the Articles of Association, specifically Article 4.2 and Article 20. This proposed that:

- (1) Article 4.2 of the existing Articles of Association of the Company be deleted and the following be substituted therefor:

["4.2 The income and property of the Company, howsoever derived, shall be applied solely towards the promotion of the objects of the company as set forth in Article 4.1, save that the Company may distribute funds it holds to the Members in the proportions agreed among them"] and;

- (2) Article 20 of the existing Articles of Association of the Company be deleted and the following be substituted therefor:

["20 If, upon a winding up or dissolution of the Company there remains, after the satisfaction of all of its debts and liabilities, any property whatsoever, the same may be paid to or distributed among the Members in the proportions agreed among them"]

- 4.5 Officers requested advice from the Council’s Legal Manager on this matter. The improvements to the wording to the Special Resolution was authorised by the legal department, it did not require separate Argyll and Bute Council approval, and the Fund Manager was notified on 25th January 2018.

- 4.6 All other WSLF members agreed to the Special Resolution and the Articles of Association have now been amended, meaning Argyll and Bute Council can apply for WSLF Board member approval to transfer the surplus to the council for the purpose of ‘SME development’.

- 4.7 Rather than keep the surplus within the inactive WSLF funds, it could be used by the council to help the growth of the area’s SME base, at no additional cost to the council.

- 4.8 There is a clear opportunity to use the surplus effectively within Phase 2 of the ERDF funded Business Local Growth Accelerator Programme, from 2019. It is proposed to use up half of the WSLF surplus as match funding for Phase 2. This could provide a three year programme of support offering grants and specialist advice at no additional cost to the council. If the WSLF surplus is used to provide £25k per year as match funding (£75k total), the council could lever in ERDF funding of more than £110k over three years (at circa 60% intervention rate).
- 4.9 The intention is to submit a bid for Phase 2 Business Gateway Local Growth Accelerator Programme by the end of the calendar year. The bid is dependent on Members approval to use some of the WSLF surplus as match funding for Phase 2.
- 4.10 The remaining WSLF surplus, circa £75k, could then be used to provide additional SME support specifically linked to Rural Growth Deal initiatives if opportunities are identified. This would not leverage European funding but would allow flexibility in terms of which businesses and activities could be supported.

5.0 CONCLUSION

- 5.1 This paper is to provide the members of the Policy and Resources Committee with an update on the situation of transferring surplus WSLF monies to the Council's Business Gateway service.
- 5.2 The paper has proposed to use the surplus funds to match fund Phase 2 of the Argyll and Bute Business Gateway Local Growth Accelerator Programme over a three year period and use the remaining funds to support SMEs through activities aligned to the proposed Rural Growth Deal.

6.0 IMPLICATIONS

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| 6.1 | Policy | Additional funding for business activity across Argyll and Bute will contribute to the Local Outcome Improvement Plan Delivery Plans particularly for Outcomes one and three; aligns with the Argyll and Bute Council's Administration priority of 'championing economic development, working in partnership with businesses and supporting targeted economic development within local areas as part of a strategic approach'; and contributes to the Council's overarching Strategic Economic Development Action Plan, 2016-2021. |
| 6.2 | Financial | An element of the surplus WSLF monies will be used as match funding in order to lever ERDF monies with an anticipated European funding intervention rate of up to 70% (currently circa 60%). |
| 6.3 | Legal | Articles of Association for the WSLF (reviewed by the Council's Legal Manager) have been amended to allow for surplus monies to be transferred to the Council's Economic Development Service, in particular Business Gateway. |
| 6.4 | HR | This activity will be met by the current complement of |

Business Gateway staff to add to the wealth of discretionary activity already delivered over and above the required national core service of business support and advice.

- 6.5 Equalities/Fairer Scotland Duty All activities will comply with all Equal Opportunities/Fairer Scotland Duty policies and obligations.
- 6.6 Risk As this funding will help to extend the provision of additional business activity across Argyll and Bute the risk to the council is limited. The risk of claiming money back from a Phase 2 ERDF funded Argyll and Bute Business Gateway Local Growth Accelerator Programme is also reduced as the same compliance processes and procedures will be as that under Phase 1.
- 6.7 Customer Services None.

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