

PERTH AND KINROSS COUNCIL

Strategic Policy and Resources Committee

11 September 2019

BUSINESS LOAN FUNDING UPDATE

**Report by Depute Chief Executive, Chief Operating Officer
(Report No. 19/248)**

PURPOSE OF REPORT

This report seeks approval to implement a Business Micro Credit Fund via the Perth and Kinross Credit Union; provides an update on business loans approved via Business Loans Scotland; and seeks approval to agree to a change in the Articles of Association of Business Loans Scotland.

1. BACKGROUND

- 1.1 In February 2018, the Council approved funding of £100K in 2019/20 to establish a Business Micro Credit Fund. At the Strategic Policy and Resource Committee in November 2018, the Council agreed in principle to further explore the establishment of a micro credit loan fund for business in rural Perth and Kinross. It was agreed to bring back a report on progress to this committee.
- 1.2 In parallel with the agreement to establish a Micro Credit Loan Fund the Committee approved a Rural Micro Enterprise Fund for 2018/19 and 2019/20. The Fund is now closed, with sixty three businesses awarded an average grant of £3750.

2. PROPOSED RURAL MICRO CREDIT LOAN FUND

- 2.1 The Council is not authorised by the Financial Conduct Authority to make business loans of between €200 and €75000 therefore there have been a number of meetings with the Perth & Kinross Credit Union to investigate the establishment of a micro loan fund for rural small businesses. The best option to allow the Credit Union to implement a Micro Loan Fund on the Council's behalf is to provide the organisation with the funding to distribute in a very similar way to their existing personal loans, but to business owners for business projects.
- 2.2 Rural micro businesses (either existing or proposed start-ups) could apply for between £500 and £1500, with an interest rate of 3% being applied, and a repayment period of between 6 to 24 months dependent on the amount loaned. A Service Level Agreement outlining the details of the proposal is attached at Appendix 1. The Credit Union will be required to provide quarterly

reports detailing the numbers and scale of loans provided. A review period has been built in which will allow us to reclaim the remaining funding if the Fund fails to attract sufficient business clients.

3. BUSINESS LOANS SCOTLAND

- 3.1 Business Loans Scotland (BLS) was formed in March 2017, with 27 Scottish Local Authorities becoming Full Members of the Company and 5 Local Authorities becoming Associate Members. Perth and Kinross Council is a Full Member. Prior to that Perth and Kinross Council was a member of the East of Scotland Loan Fund (which provided loans to 9 businesses between 2011 and 2015. Under BLS we have approved 1 loan to a Perth & Kinross Business to the value of £50K; and our current balance is in the region of £250K.
- 3.2 BLS is the Fund Manager for a £7M loan fund which seeks to invest in new and growing SMEs. Businesses across Scotland can borrow from £25K-£100K, with interest rates generally fixed at 6%.
- 3.3 Each Full Member made a match funding contribution to the initial finances of the Company that was then expected to be matched with a corresponding amount of European Regional Development Fund (ERDF) grant. This funded Phase 1 of Business Loans Scotland. Phase 2 has now been established since January 2019 following the awarding of a contract from the Scottish Government. A significant difference between the two phases is that Phase 2 is now fully funded by the Scottish Growth Scheme and the European Regional Development Fund. As such, it does not require any match funding contribution from the Member Authorities.
- 3.4 As the match funding, contributed by the Member Authorities under Phase 1, is not required to be used for Phase 2, there are a number of Member Authorities seeking to withdraw their Phase 1 match funding from BLS. The Articles of Association for BLS, as they are currently written, prevent the Company returning funds to a Member Local Authority due to the “asset lock” provisions written into them.
- 3.5 In order to change the Articles of Association to allow a Member Local Authority to withdraw funds from BLS and return those funds to its Local Authority to be used for economic development purposes, BLS has issued a Special Resolution to the Members. This report is seeking our approval as a member of Business Loans Scotland to approve this special resolution. Details are attached at Appendix 2.

4. CONCLUSION AND RECOMMENDATIONS

- 4.1 This report seeks to establish a new Micro Credit Fund for local businesses administered on our behalf by the Perth and Kinross Credit Union. In addition, it also seeks approval to amend the Articles of Association of Business Loans Scotland of which we are a member.

4.2 It is recommended that the Committee:-

- i. Approves the Perth and Kinross Rural Micro Credit Fund as set out in paragraphs 2.1 and 2.2 above, and within Appendix 1.
- ii. Agrees to the draft resolution of Business Loans Scotland as set out within Appendix 4.

Author

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Approved

Name	Designation	Date
Jim Valentine	Depute Chief Executive (Chief Operating Officer)	15 August 2019

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	
Community Plan / Single Outcome Agreement /Perth City Plan	Yes
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	No
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	None
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan

- 1.1 The activities contribute to the Community Plan's strategic objectives of 'Promoting a prosperous, inclusive and sustainable economy', and the outcomes of 'a thriving, expanding economy' and 'employment opportunities for all'.

Corporate Plan

- 1.2 Perth and Kinross Council Corporate Plan sets out five strategic objectives:
- (i) Giving every child the best start in life;
 - (ii) Developing educated, responsible and informed citizens;
 - (iii) Promoting a prosperous, inclusive and sustainable economy;
 - (iv) Supporting people to lead independent, healthy and active lives; and
 - (v) Creating a safe and sustainable place for future generations.
- 1.3 This report relates to Objective (iii) 'Promoting a prosperous, inclusive and sustainable economy' and the outcome of 'Thriving, expanding economy' by encouraging enterprising businesses and communities.

2. Resource Implications

Financial

- 2.1 £100K was allocated via a Budget Motion for funding for a Micro Finance project in 2019/20. This funding will be utilised to establish the Rural Micro Credit Fund as outlined in the report.

Workforce

- 2.2 No implications.

Asset Management

- 2.3 There are no asset management implications arising as a result of this report.

3. Assessments

Equality Impact Assessment

- 3.1 Not applicable.

Strategic Environmental Assessment

- 3.2 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals. No further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

Sustainability

- 3.3 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions. The activities in this report will contribute towards sustainable economic development in Perth and Kinross.

Legal and Governance

- 3.4 The consideration of the report is in line with the Council's Scheme of Administration and specifically the role of the Environment and Infrastructure Committee in developing measures to support and promote economic activity.

Risk

- 3.5 Risks and the controls required to mitigate any risks will be reported through the Council's risk management process

4. Consultation

Internal

- 4.1 The Heads of Legal and Governance and Finance have been consulted in the preparation of this report.

5. Communication

- 5.1 Any communications required will be undertaken by the Council. However we will also utilise the communication channels of a number of our partners including the Perthshire Chamber of Commerce, the Federation of Small Businesses, the Business Gateway, Perth College UHI, and Growbiz to highlight the new Micro Credit Fund to potential applicants.

2. BACKGROUND PAPERS

There were no background papers utilised in the preparation of this report.

3. APPENDICES

Appendix 1 – Service Level Agreement with the Perth & Kinross Credit Union

Appendix 2 – Business Loans Scotland Resolution