

**To: Leadership Board**

**On: 19 June 2019**

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**Report by: Chief Executive**

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**Heading: West of Scotland Loan Fund (WSLF) and Business Loans Scotland (BLS)**

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## **1. Purpose**

- 1.1 The purpose of this report is to update Board on the status of the West of Scotland Loan Fund Limited (WSLF) and the intention of the WSLF Board to wind-up the company and transfer the loan portfolio to Business Loans Scotland Ltd (BLS).
  - 1.2 The report seeks approval to amend the Articles of Association of Business Loans Scotland (BLS), of which Renfrewshire Council is a Full Member. This proposed change will allow all member authorities (including Renfrewshire) to take the decision to withdraw any of their surplus cash currently being held by the Fund, which can then be made available for use for other economic development activities.
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## **2. Recommendations**

- 2.1 Board members are asked to:
  - (i) note the content of the report and the WSLF Board's intention to wind-up the West of Scotland Loan Fund Ltd;
  - (ii) approve the transfer of the Council's existing loan portfolio to Business Loans Scotland Ltd;
  - (iii) note the Council's commitment to the treatment of residual ERDF money received during the 2007-14 programme and approve the transfer of ring-fenced funds to Business Loans Scotland Ltd;

- (iv) note the Council's position with regards to excess funds and approve the withdrawal of funds for like-minded economic development activity in Renfrewshire as stated in the WSLF company's Articles of Association; and
  - (v) approve the proposal to amend the BLS Articles of Association to enable member authorities to make decisions on the remaining funding within BLS.
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### **3. Background**

- 3.1 The West of Scotland Loan Fund Ltd (WSLF) is a consortium of the twelve West of Scotland local authorities and was incorporated as a company limited by guarantee in June 1996, following local government reorganisation. The fund provided loan finance in individual amounts up to £100k and successfully operated across the West of Scotland as a fund for more than 18 years filling the funding gap to both new and growing, small and medium sized enterprises.
- 3.2 To support this activity, each participating local authority had an allocation of ring-fenced loan funding based on its individual budget commitment matched by European Regional Development Fund (ERDF) monies.
- 3.3 In 2014, the Scottish Government indicated its desire to move away from regional loan funds (such as WSLF) to a national loan fund and advised that such a mechanism would be required to access any further EU resources. The Economy and Jobs Policy Board 28 January 2015 approved Renfrewshire Council's support for a proposal to create a Scotland-wide local authority business loan fund. Business Loans Scotland Ltd (BLS) was created as the vehicle to take this forward.
- 3.4 Business Loans Scotland was formed with Scotland's 32 local authorities (27 Full Members and 5 Associate Members), incorporated as a company limited by guarantee in March 2015 to provide loan finance up to £100,000 to both new and growing, small and medium-sized businesses (SMEs) across Scotland. This effectively replicated the role of WSLF.
- 3.5 The Board of West of Scotland Loan Fund Ltd (WSLF) have now agreed to wind-up the company due to the emergence of Business Loans Scotland Ltd as the vehicle through which debt finance is provided to SMEs across Scotland.
- 3.6 Renfrewshire Council, as of 31<sup>st</sup> March 2019, has combined assets of £723,795 within the WSLF. This is broken down as: loan portfolio to the value of £86,236; ring-fenced residual European Development Funding (ERDF) of £111,914; and excess funds of £525,645.
- 3.7 In order to wind-up West of Scotland Loan Fund Ltd, the WSLF Board are required to consider a number of factors listed below. These are each dealt with in more detail in the remainder of this report:
  - the administration of the existing loan portfolio;
  - the use of residual ERDF; and

- the excess funds member authorities have within the company.

#### **4 Administration of Existing WSLF Loan Portfolio**

- 4.1 As of 31<sup>st</sup> March 2019, Renfrewshire Council has an existing portfolio of loans with a value of £86,236, being collected currently through the West of Scotland Loan Fund Ltd. The loans will be repaid by November 2021.
- 4.2 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.
- 4.3 It is proposed to transfer over the loan portfolio to Business Loans Scotland Ltd where there is existing expertise and resource to absorb this. Agreement has been reached between the boards of West of Scotland Loan Fund Ltd and Business Loans Scotland Ltd that should the loan portfolio be transferred into BLS, there will be no management fee.
- 4.4 A key benefit of transferring the loan portfolio to BLS is that it offers a vehicle for the management of residual ERDF as well as providing a governance structure that would satisfy any future audit carried out by Scottish Government.
- 4.5 It is recommended that the Leadership Board approve the transfer of the Council's loan portfolio to Business Loans Scotland Ltd.

#### **5. Use of Residual European Regional Development Funding (ERDF) WSLF**

- 5.1 The Board will recall from the paper presented in February 2018 that a condition of the grant awarded during the 2007-14 ERDF programme meant that any ERDF paid back through loans had to be ring-fenced and re-used for future debt finance activity.
- 5.2 As of 31<sup>st</sup> March 2019, the Council has £111,914 of ERDF within the West of Scotland Loan Fund Ltd ring-fenced for debt finance activity.
- 5.3 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 Business Loans Scotland Ltd.
- 5.4 Should it emerge that BLS is not the most effective vehicle, the proposed changes to the BLS Articles of Association highlighted in section 8 of this report will enable the Council to withdraw these funds and manage their use internally.

#### **6. Excess WSLF Funds**

- 6.1 The paper presented to the Leadership Board on 21st February 2018 sought approval to amend the Articles of Association of the WSLF to enable member authorities to make decisions on the remaining funds within the company (in

line with the requirement that ensures it continues to be ring-fenced and utilised in a way that is aligned with the objects of the WSLF company).

- 6.2 The amendment was unanimously agreed by all 12 member authorities who form the West of Scotland Loan Fund Ltd Board, enabling funds not required to be transferred to Business Loans Scotland Ltd to be accessed and utilised by the individual councils for purposes directly related to delivering like-minded economic development activity.
- 6.3 As of 31<sup>st</sup> March 2019, Renfrewshire Council had excess funds of £525,645 in WSLF. Based on the decisions referred to above, this can be withdrawn and used to support the creation, growth and sustainability of local businesses in Renfrewshire.
- 6.4 It is proposed that Renfrewshire Council withdraws its excess funds from WSLF and, once all other debts and liabilities have been settled, a further paper will be presented to Board outlining options for how this money could be used locally to meet the WSLF objectives.
- 6.5 The funds must be used in keeping with the spirit against which the funds have been accrued – *'likeminded economic development activity'* and will be earmarked for new and existing SMEs and will form part of the mix of financial support that will be available to Renfrewshire businesses requiring assistance to realise their growth and development ambitions. The funding will help to contribute to the following key outcomes:
- Increased economic output/GVA
  - Increased business start-up and sustainability
  - Increased business growth and employment
  - Improved economic outcomes for local people through jobs created
- 6.6 A further report will be brought back to Board in this regard.

## **7. Required Amendments to the Articles of Association Business Loans Scotland**

- 7.1 From January 2019 Business Loans Scotland is being fully funded by the Scottish Government and the European Regional Development Fund and therefore does not require any match funding contribution from the Member Authorities.
- 7.2 As the match funding, contributed by the Member Authorities prior to 2019 is not required to be used there are several Member Authorities seeking to withdraw their match funding from BLS.
- 7.3 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 the Articles.

- 7.4 In order to move forward and enable member authorities to consider using funds for additional business development activities, it is proposed by the BLS Board of Directors, in discussion with the loan fund's solicitors, Wright, Johnston and Mackenzie LLP (WJM) to issue a Special Resolution to the Members.
- 7.5 The current Objects of the company which in legal terms lay out the overall objectives of BLS are relatively broad and wide ranging, and in particular state that the Fund must be used:  
*"to promote commerce by giving financial assistance by way of loans, donations or subscriptions or otherwise to any firm, company, individual, association or other body (whether incorporated or unincorporated) carrying on a commercial enterprise whose business is or is to be carried on in whole or in part" within the BLS area (Section 4.1 of Articles of Association).*
- 7.6 It is proposed that any future use of the funds would still require being in line with the original Objects of the Company.
- 7.7 However, **Section 4.2** of the Articles of Association, states that  
*"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 and no portion thereof shall be paid or transferred directly or indirectly, by way of dividend, bonus to otherwise howsoever by way of income or profit, to the Members..."*
- 7.7 Taking the above into account and on the advice of the WJM solicitors it is proposed to amend Articles 4.2 and 20 as follows:
- **Article 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".*
  - **Article 20** *"If, upon a winding up or dissolution of the Company, there remains, after the satisfaction of all its debts and liabilities, any property whatsoever, the same may be paid to or distributed among the Members in the proportions agreed among them".*
- 7.8 For the Special Resolution to be passed by the Company, it requires the approval of 75% of the Full Members of the Company. That is, 21 Full Members are required to agree to amend the Articles of Association as prescribed in the Special Resolution.
- 7.9 The timescale to amend the Articles of Association is wholly dependent on each Full Member agreeing and returning the Special Resolution, once issued by WJM. If the Special Resolution has not been passed within 28 days of its circulation, the resolution process will need to start again.
- 7.10 It is recommended that Leadership Board approve the proposal to amend the BLS Articles of Association which will enable member authorities to make decisions on the remaining funding within BLS. This will allow Renfrewshire Council to use the loan repayments at a future date.

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## Implications of the Report

1. **Financial –**  
No additional resources are requested, the proposal will enable the Council to access and utilise additional financial resources to support local businesses.
2. **HR & Organisational Development –** All staff employed by WSLF have undergone TUPE transfer to Business Loans Scotland Ltd.
3. **Community Planning**  
  
**Jobs and the Economy –**  
Provides funding for local business to enable them to grow and provide employment opportunities.
4. **Legal –** Legal guidance on the wind-up will continue to be provided by the company lawyers Wright Johnston & Mackenzie.
5. **Property/Assets –** None
6. **Information Technology –** None
7. **Equality & Human Rights -**  
The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report because it is for noting only.
8. **Health & Safety –** None.
9. **Procurement –** None
10. **Risk –** None
11. **Privacy Impact -** None

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## List of Background Papers

- (a) None
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AM/RC/CS  
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**Author:** Ruth Cooper, Economic Development Manager:  
[ruth.cooper@renfrewshire.gov.uk](mailto:ruth.cooper@renfrewshire.gov.uk)  
0141 618 7868