

Shetland Islands Council Economic Development Service



Shetland Investment Fund Lending Policy and Guidelines

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V 1.2 Feb 17 - Final

Loans from Shetland Islands Council

1.0 Introduction

Shetland Islands Council (the Council) can provide commercial finance to new and growing businesses in the Shetland Islands. The purpose of this Council service is to ensure that good, commercially viable proposals do not fail from a lack of access to finance.

The Council aims to encourage and support the creation, development and growth of businesses within the local authority area. Loan applications will be assessed against key eligibility criteria and proposals must demonstrate that they will contribute to, and strengthen, the local economy in terms of jobs, growth and other benefits.

2.0 Who can Apply?

- 2.1 Sole traders, partnerships, limited liability partnerships and limited companies can apply for loan finance to start up or grow businesses in the Shetland Islands.
- 2.2 The Council can invest in micro, small and medium sized businesses (up to 250 employees and turnover not exceeding €50m).
- 2.3 UK Financial Services Regulation places restrictions on lending £25,000 or less to sole traders and partnerships/limited liability partnerships with 3 or fewer members. The Council is therefore unable to provide direct loans to sole traders/small partnerships of £25,000 or less but can assist with signposting to other loan providers who offer approved lending services.
- 2.4 Whilst there is no lower application limit for larger partnerships or limited companies, a loan below £25,000 may not be a cost effective way of financing a project.

3.0 Types of Funding Available

- 3.1 Secured loans are the main form in which assistance is provided although equity and hire purchase finance can also be considered where there are specific advantages to these forms of finance. It is advised that applicants discuss the type of finance sought with Economic Development Service (EDS) staff prior to submitting an application.
- 3.2 The Council provides gap funding or co-investment with Banks and other finance providers rather than being the primary lender to businesses. All applicants are required to maximise other private and public sector forms of funding before approaching the Council. EDS can assist applicants to identify other funding sources.
- 3.3 Loans are repayable over a fixed term and interest and capital repayments collected by Direct Debit each month.

- 3.4 Legal fees are recharged to the borrower at cost. No arrangement fees are charged and no early repayment fees apply to Council loans.

4.0 Eligibility Criteria

- 4.1 The Economic Development Service will prioritise the development of projects within certain key areas of economic activity, and will require that projects seeking assistance will realistically achieve a number of outcomes relating to improving the local economy.
- 4.2 Applications must comply with policy objectives of the Corporate Plan and Economic Development Policy Statement 2013-17, which specifies target areas for assistance and key outcomes for all economic development activity. The Policy Statement can be viewed at:
http://www.shetland.gov.uk/economic_development/documents/EconomicDevelopmentPolicyStatement201317FINAL.pdf

4.3 Priority Outcomes

Projects applying for loan assistance will be expected to demonstrate that at least one of the following primary outcomes can realistically be achieved:

- Introduce new business activity
- Improved product quality
- New market development
- Improved productivity
- Improved service delivery
- Introduce new or improved manufacturing/production processes
- Import substitution

Projects which cannot demonstrate that they will achieve one or more of the above primary outcomes will not be considered for assistance.

4.4 Secondary Outcomes

Applications must also demonstrate which of the following secondary outcomes will be achieved by their project:

- New job creation
- Encourage inward investment from the private sector
- Encourage receipt of external grant funding
- Improve access to employment and economic opportunities in rural areas
- Improve local control of resources
- Improve the local skills base
- Improve local employment conditions
- Increase local wage rates
- Infrastructure and/or service development in remote and rural areas

(Secondary Outcomes continued)

- Promote more sustainable use of resources
- Reduce costs and/or improve efficiency
- Result in environmental improvements

Projects which cannot demonstrate achievement of secondary outcomes may still be considered for assistance, but will not be regarded as a priority for funding.

- 4.5 Loans to acquire established businesses will only be considered if combined with plans to develop the business. Assistance towards a management or employee buy-out will require a robust succession plan.
- 4.6 Projects which will lead to the duplication of existing local service provision will only be considered for assistance if it can be demonstrated that there is market demand for additional supply.

4.7 Target Economic Areas

The following is a list of the target areas of economic activity which the Economic Development Service regard as priorities for development, where there is a particular focus on innovation, diversity and growth:

- Creative Industries
- Food and Drink (inc. fisheries and agriculture)
- Manufacturing
- New Technology
- Renewable Energy
- Tourism

Projects generating activity within the above areas will be considered priorities for assistance. Projects outside of these areas may also be considered for support if strong links to the above primary and secondary outcomes can be demonstrated.

4.8 Ineligible Projects

The following paragraphs detail the areas where projects will be considered ineligible for loan assistance. Decisions on whether projects are deemed ineligible will be made by the Executive Manager – Economic Development.

4.8.1 Projects which are not financially viable will not be eligible.

4.8.2 Funding will not be available for specific cost items where this will have the potential to distort local market activity, such as the purchase of property on the open market.

4.8.3 Debt repayment, i.e. direct replacement of existing loan facilities, will not be eligible.

4.8.4 Businesses which are deemed to be failing will not be eligible for assistance. Projects which have no intrinsic value other than as rescue packages are also ineligible.

5.0 Lending Terms

- 5.1 All loans will have appropriate terms and conditions applied. The loan offer will detail conditions to be met prior to any loan release and those conditions which apply for the period of the loan.
- 5.2 Applicants for commercial funding will be required to provide security for lending.
- 5.3 The interest rate applied to borrowed finance will reflect the risk associated with investing in the business. Once an interest rate has been set it is fixed for the loan period although longer term loans may incorporate an interest rate review after a set time e.g. 5 years. Rates will be no lower than bank borrowing rates and must also meet a minimum rate set annually by the Council (5.2% for the financial year 2016-2017). The Council can consider applications for short interest only periods but it is stressed that the project must demonstrate clear need for such conditions if they are to be applied.
- 5.4 The loan period will be set following an assessment of the project and financial ability to repay. As a guideline loan periods beyond 10 years are unlikely to be approved.
- 5.5 Applicants are expected to fund a proportion of project costs from sources other than the Council. The Council will fund no more than 75% of capital costs within a project.
- 5.6 Applicants who are employers will be required to pay no less than the 'Living Wage' as set by the Living Wage Foundation to all employees.

6.0 How to Apply

- 6.1 In the first instance, potential applicants should make contact with the Economic Development Service to discuss the development project and the eligibility of the project for a loan application. At this point, the EDS will identify if an applicant requires any other business support including the services offered by Business Gateway.

Business Gateway

This is a government initiative which aims to provide a range of support measures to those who wish to start up a new business or to grow an existing business. This service is supported by local and national resources and includes:

- Access to training courses
- Business planning advice from an accredited adviser
- Advice on funding opportunities
- Access to national information services

The Business Gateway is operated in Shetland by the Economic Development Service and is regarded as the first point-of-contact for all business enquiries.

- 6.2 Once the Economic Development Service is satisfied that the project will meet the eligibility criteria for a loan, the applicant will be required to submit a completed loan application form and business plan.

6.3 Application Form

6.3.1 The application form details all information and documentation which is required to apply. The form is available from the Economic Development Service in paper or electronic form. Contact details are listed on the front page and a direct link to the form is below:

http://www.shetland.gov.uk/economic_development/documents/LoanandCommercialFinanceApplicationForm2013-2017.pdf

6.3.2 Within the form applicants are requested to detail the measurable and non-measurable benefits/impacts the development will bring to the local economy.

6.3.3 The application form includes a declaration and undertaking which must be printed and signed before the form is returned. The main body of the application can be emailed or submitted in paper form.

6.4 Business Plan

6.4.1 Support with business planning can be provided through the Business Gateway Service, if required. Contact details for Business Gateway are included on the front page.

6.4.2 A business plan should include the following information:

- Business background
- Overview of the business sector
- Company structure
- Management structure
- Description of the development project
- Benefits of the project to the business
- Details of current and proposed employment
- Analysis of the market in which the business operates
- Details of current/potential competition
- Project costs – include both capital and revenue expenditure
- Funding sources identified – state whether or not applications have been submitted, any feedback received and/or any approvals
- Justification for seeking funding from the Council
- Impact on the business if the project does not proceed
- Timescales

6.4.3 The business plan must be supported by financial projections for a minimum of 3 years. This will include profit & loss accounts, cashflows and balance sheet forecasts. The cashflow requires to be prepared on a monthly basis and projections should be accompanied by detailed assumptions in relation to statements made in the application.

6.4.4 Note that existing businesses will be asked to supply year end accounts for the previous 3 years. Management accounts may also be requested along with other information required in the assessment process, for example, asset lists, details of key contracts, licences held.

7.0 Decision Making Process

7.1 On receipt of an application, EDS staff will look carefully at your application and provide advice and feedback on the potential success of an application before progressing further. Investment proposals which meet the Council's lending objectives will be assessed and a recommendation made for decision.

- 7.2 Decisions will be taken by either the Executive Manager – Economic Development or Development Committee, depending on the size of investment sought and terms of the proposal. An indication of the timescale for a decision will be given by EDS staff at an early stage in the application process.

8.0 Monitoring of Investments

- 8.1 EDS staff monitor loans to ensure that the loan beneficiaries meet the requirements and conditions of the Council. As part of the monitoring of all investments EDS staff will carry out annual business reviews on each borrower. Part of this process will involve following up on the achievement of estimated benefits to the local economy as detailed at the time of application.
- 8.2 Finance Staff monitor all interest and capital repayments as well as the issue of new capital using the financial management system.

9.0 Applicable Legislation

- 9.1 Applicants must be aware that the following UK and Scottish legislation applies to any and all information provided to the EDS within the application form or accompanying documents:

9.1.1 Data Protection 1998

The Shetland Islands Council is registered under the Data Protection Act 1998. Any personal information provided by you in this form will be used solely by the Council in connection with your application for loan assistance.

9.1.2 Local Government (Scotland) Act 1973

It is normal practice for reports on applications for loan assistance to be considered in private due to the exempt content including personal and financial detail. However, some information provided in the application form and in the supporting submissions may be made public in reports to the Council or any of its relevant Committees if the Council Members decide, without your approval. The Council may also make details of any approval public through local press releases.

9.1.3 Freedom of Information (Scotland) Act 2002

Any information you provide with your application may be provided to the public under the Act. If there is any information contained in the application form or supporting documentation which you do not wish to be publicised, you must disclose this at the time of application. Any requests for disclosure of such information may be discussed with you, however, it cannot be guaranteed that your information will be kept confidential.