

# **Shetland Islands Council Economic Development Service**



## **Shetland Investment Fund Lending Policy and Guidelines**

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## **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 and towards development projects which can demonstrate economic benefits to the local community. The purpose of this Council service is to help 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 organisations 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 economic 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 entities (up to 250 employees).
- 2.3 Voluntary and community organisations are eligible to apply to fund business or development projects which can demonstrate economic benefits to the local community, and where these organisations are properly constituted.
- 2.4 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.
- 2.5 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 arrangements can also be considered where there are specific advantages to these forms of finance.
- 3.2 The Council provides gap funding, or co-investment with Banks and other finance providers, rather than being the primary lender. 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 are 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 borrowing.

#### **4.0 Eligibility Criteria**

- 4.1 All viable commercial loan applications that can demonstrate a clear benefit to the Shetland economy will be given consideration.
- 4.2 Applications must be in line with policy objectives of [Our Ambition 2021-26](#) and [Economic Development Strategy \(2018-2022\)](#), which specifies target areas for assistance and key outcomes for all economic development activity.
- 4.3 The positive impact of each application will be assessed thoroughly on a case-by-case basis, with a particular focus on the intended business sector and the impact it intends to pursue. All successful applications will demonstrate, at a level commensurate with the required financing, a clear contribution to the growth of the Shetland economy. This could be, but not limited to: new business creation; new employment creation; new skills development/upskilling workforce; technological innovation; positive environmental impact; etc.
- 4.4 Loans to acquire established businesses will only be considered if combined with plans to develop the target business. Assistance towards a management or employee buy-out will require a robust succession plan.
- 4.5 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 evidential market demand for additional supply.
- 4.6 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.

- 4.6.1 Projects which are not financially viable will not be eligible.
- 4.6.2 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.
- 4.6.3 Debt repayment, i.e. borrowing to finance existing loan facilities or other debts will not be eligible.
- 4.6.4 Applicant organisations which are deemed to be failing will not be eligible for assistance. Proposals which have no intrinsic value other than as rescue packages are also ineligible.

#### **5.0 Lending Terms**

- 5.1 Any loan offered to an applicant by the Council will be subject to acceptance of appropriate terms and conditions as determined by the Council at its sole discretion. 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 Businesses and individuals applying for funding will be credit checked using an external credit checking agency.
- 5.3 Applicants for commercial funding will be required to provide adequate security for lending, which has not been committed exclusively to other lenders.
- 5.4 The interest rate applied to a loan will reflect the risk associated with investing in the business and the level of collateralisation/security deemed to be present for this specific loan. 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.
- 5.5 The borrowing rate established will be no lower than commercial/bank lending rates available to the market.
- 5.6 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.
- 5.7 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 require strong justification to be approved.
- 5.8 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.
- 5.9 Businesses should support fair work practices including no inappropriate use of zero hour contracts or exploitative working patterns.
- 5.10 Businesses applying for loan support should indicate, in plans provided to support an application, what actions they plan to take to embrace circular economy principles in support of Shetland's transition to net zero in the next 1-3 years.

## **6.0 How to Apply**

- 6.1 Businesses should make contact with the EDS to discuss their development project before a formal application is made. Potential applicants can complete an [online enquiry form](#) which will enable EDS staff to learn more, in outline, about the proposed project.
- 6.2 Within 5 working days an EDS representative will aim to be in contact to discuss eligibility and identify if the applicant requires any other business support including the services offered by [Business Gateway](#).
- 6.3 Business Gateway Shetland provides support to businesses and individuals wishing to start up 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

- 6.4 Once EDS is satisfied that the project is in line with lending criteria, the applicant will be required to complete and submit a loan application form. An electronic link will be emailed to allow the online form to be completed and returned along with supporting documents.
- 6.5 All applications must submit a business plan including the following information:
- Business background
  - Overview of the business sector
  - Company structure
  - Management structure
  - Description of the development project
  - 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
  - Benefits of the project to the business and wider benefits to the Shetland economy
  - Details of current and proposed employment
  - Analysis of the market in which the business operates
  - Details of current/potential competition
  - Details of actions being taken to transition to net zero
  - Justification for seeking funding from the Council
  - Impact on the business if the project does not proceed
  - Timescales
- 6.6 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 forecasts should be prepared on a monthly basis and projections should be accompanied by detailed assumptions in relation to statements made in the application.
- 6.7 Note that existing businesses will be asked to supply year end accounts for the previous trading year. Further information may be sought at a later stage, including prior year's financial accounts, management accounts, asset lists, details of key contracts, licences held, etc.
- 6.8 All applicants are assigned a Business Investment Officer throughout the process and receive direct, pre- and post-loan drawdown support.

## **7.0 Decision Making Process**

- 7.1 On receipt of a completed application, a robust due-diligence exercise is conducted to evaluate the viability of the project/business, its intended contribution to the local economy, the risk to the SIC as a lender - taking into account the securities with which the loan will be linked.
- 7.2 EDS staff will provide advice and feedback on the potential success of an application before progressing further. It will be necessary at this stage for applicants to agree in writing to meet any legal costs incurred by the Council.

- 7.3 Following the assessment process, investment proposals will be recommended for decision.
- 7.4 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 SIC Finance monitors all interest and capital repayments as well as the issue of new capital using the Council's financial management system.
- 8.3 All successful applications are expected to demonstrate an open approach and transparency with the EDS throughout the application process and the term of the loan. Feedback, advice and other assistance may be available from the EDS as a part of its regular service provision.

## **9.0 Applicable Legislation**

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

### **9.1 Data Protection 2018**

The Shetland Islands Council is registered under the Data Protection Act 2018. Any personal information provided by you in this form will be used solely by the Council in connection with your application for loan assistance.

### **9.2 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 so decide. This may be done without your prior approval. The Council may also make details of any approval public through local press releases.

### **9.3 Freedom of Information (Scotland) Act 2002**

Any information you provide with your application may be released into the public domain under the 2002 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 information will be kept confidential. The Council is required to form an independent judgement as to whether information is exempt from disclosure. Accordingly, the Council cannot guarantee that any information identified as confidential or commercially sensitive will not be disclosed. The Council cannot accept any liability for loss as a result of any information disclosed in response to a request under the 2002 Act.