

Shetland Islands Council Economic Development Service



Shetland Investment Fund Lending Policy and Guidelines

Contact:

Shetland Islands Council
Economic Development Service
Solarhus
3 North Ness Business Park
Lerwick
Shetland ZE1 0LZ

tel: 01595 744 940

e-mail: economicdevelopment@shetland.gov.uk

web: www.shetland.gov.uk

Business Gateway

tel: 01595 707451

e-mail: businessgateway@shetland.gov.uk

web: www.bgateway.com

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.

This document should be read as guidance only, and the Council retains sole discretion on what support it will enter into.

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 [small to medium sized enterprises](#) (SMEs) as defined by the UK Government.
- 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 have an open constitution or similar set of rules that clearly define the organisation's aims, objectives and procedures.
- 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. The reference to 'loans' within these guidelines is intended to cover all forms of lending.
- 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. The Council can assist applicants to identify other funding sources and further information on public sector support for businesses in Scotland can be found at [Find Business Support](#).

- 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 by the Council. 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 are in line with policy objectives of [Our Ambition 2021-26](#) and can demonstrate a clear benefit to the Shetland economy will be given consideration.
- 4.2 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, projects involving: new business activity or creation; business expansion and new employment; quality and service improvements; skills development/upskilling workforce; increased productivity and efficiency; technological innovation; import substitution; positive environmental impact; etc.
- 4.3 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.
- 4.4 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.

4.5 Ineligible Projects

The paragraphs below detail the areas where projects or cost items will be considered ineligible for loan assistance. The following list is non-exhaustive and decisions on eligibility will be made by the Executive Manager – Economic Development and will be final.

- 4.5.1 Projects which are not financially viable.
- 4.5.2 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.
- 4.5.3 Debt repayment, i.e. borrowing to finance existing loan facilities or other debts.
- 4.5.4 Businesses and organisations must be able to demonstrate a reasonable degree of financial health. Those which are deemed to be failing will not be eligible for assistance.
- 4.5.5 Any investment will be subject to the terms of the UK Subsidy Control Act 2022. Any project which is deemed to be in contravention of prevailing legislation governing subsidies will not be considered for support.

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 reviews after a set time.
- 5.5 The Council invests on commercial terms, therefore the borrowing interest rate set will be in line with commercial/bank lending rates available to the market at that time and no lower than minimum rates laid out in the prevailing Council Medium Term Financial Plan.
- 5.6 The Council can consider requests for short interest-only periods to be applied but it is stressed that such proposals must be accompanied by strong justification.
- 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 must demonstrate clear need to be approved.
- 5.8 Applicants are expected to fund a proportion of project costs from sources other than the Council. The Council will generally 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. At a minimum, employers must follow [ACAS codes of practice](#) relating to standards of fairness in the workplace.
- 5.10 Applicants for loan support should indicate within their business plans what steps they are taking to reduce carbon emissions and engage with the [transition to net zero](#).

6.0 How to Apply

- 6.1 In the first instance applicants should make contact with the Council's Economic Development Service. Applicants may wish to use the [online enquiry form](#) to provide a summary of their project. At an early stage, Council officers will identify if an applicant requires any other business support including the services offered by [Business Gateway](#).
- 6.2 Business Gateway Shetland provides support to businesses and individuals wishing to start up or to grow an existing business. This publicly funded service is supported by local and national resources and includes:
- Access to training courses and webinars
 - Business planning advice from an accredited adviser
 - Advice on funding opportunities
 - Access to national information services and specialist support
- 6.3 Once Council staff have indicated that a proposed project is in line with lending criteria, the applicant will be invited 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. Officers will advise, on a project-by-project basis, what supporting evidence will be required.
- 6.4 All applicants must submit a business plan including the following information:
- Business background
 - Overview of the business sector
 - Company/organisational structure
 - Management structure
 - Description of the development project
 - Project costs – including capital and revenue spending
 - Proposed funding
 - 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
 - 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
 - Risk assessment
 - Timescales
- 6.5 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.

- 6.6 Note that existing businesses are 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.
- 6.7 All applicants will be 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 and any additional information requested, a due-diligence exercise is conducted to evaluate the viability of the project/business, the intended contribution to the local economy and the risk to the Council as a lender - taking into account the securities with which the loan will be linked.
- 7.2 Council officers 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. An indication of the timescale for a decision will be given by Council officers at the earliest opportunity.
- 7.4 Decisions will be taken by either the Executive Manager – Economic Development or Development Committee, depending on the value and terms of the loan. Successful applications will then progress to a formal contract stage.

8.0 Monitoring of Investments

- 8.1 All approved loans are monitored to ensure that the loan recipients meet the agreed conditions of the investment. As part of the monitoring activity, Council officers will carry out annual business reviews. This includes following up on the achievement of any benefits to the business and local economy from the project supported.
- 8.2 The Council's Finance Service monitors all interest and capital repayments collected on a monthly basis using the Council's financial management system. A schedule of loan repayments is issued on commencement of the loan and regular statements provided during the loan period.
- 8.3 All successful applications are expected to demonstrate an open approach and transparency with the Council throughout the period of the loan.

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 the Council within the application form or accompanying documents:

9.1 Subsidy Control Act 2022

The Subsidy Control Act 2022 came into force on 04 January 2023 and conferred a duty on all public authorities to ensure that any public funding provided is consistent with the principles of subsidy control and follows requirements for transparency.

In general terms, a “subsidy” is: (1) any financial assistance given from public resources; (2) which confers an economic advantage to one or more enterprises; (3) benefitting them over other enterprises; and (4) which is capable of distorting competition. Under the Subsidy Control Act 2022 that potential impact on competition can be wholly within the UK.

Any funding approved must be consistent with Council’s responsibilities under the prevailing legislation.

For further information on Subsidy Control, guidance on subsidies for beneficiaries can be found [here](#).

9.2 Data Protection 2018

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

9.3 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 prior approval. The Council may also make details of any approval public through local press releases.

9.4 Freedom of Information (Scotland) Act 2002

Any information provided with an application may be released into the public domain under the 2002 Act. If there is any information contained in an application form or supporting documentation which an applicant does not wish to be publicised, they must disclose this at the time of application. Any requests for disclosure of such information may be discussed with applicants, 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.