

**WEST DUNBARTONSHIRE COUNCIL****Report by Chief Officer (Regulatory and Regeneration)****Infrastructure Regeneration and Economic Development Committee****6 November 2024**

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**Subject: Business Loans Scotland Ltd****1. Purpose**

- 1.1** The purpose of this report is to update Committee on the current status of Business Loans Scotland Ltd and to obtain approval to withdraw the remaining West Dunbartonshire Council funds from Business Loans Scotland Ltd.

**2. Recommendations**

- 2.1** The Committee is invited to:

- (i) Note the update provided on the current status of Business Loans Scotland Ltd and;
- (ii) Approve the decision to respond to Business Loans Scotland with option 3 (per paragraphs 4.3 – 4.5) and withdraw the remaining West Dunbartonshire Council funds from Business Loans Scotland Ltd.

**3. Background**

- 3.1** Business Loans Scotland Ltd was formed in March 2017, with 27 Scottish Local Authorities becoming Full Members and 5 Local Authorities becoming Associate Members. West Dunbartonshire Council is a full member.
- 3.2** Business Loans Scotland Ltd. is incorporated as a company limited by guarantee and administers a number of loan funds providing finance of between £25,000 - £250,000 to growth small and medium sized businesses across Scotland. Business Loans Scotland Ltd evolved from two previous funds, namely the West of Scotland Loan Fund, which started lending in 1996 and the East of Scotland Investment Fund, which started lending in 2010.
- 3.3** Business Loans Scotland Ltd was awarded the contract to deliver a new Scottish Growth Scheme Debt Fund (Phase 2) from January 2019. This fund was fully funded through the Scottish Growth Scheme and the European Regional Development Fund and therefore did not require any match funding contribution from the Member Authorities.
- 3.4** Since the start of the fund in January 2019, Business Loans Scotland Ltd have issued a total of 190 loans for over £16.2 million to 166 businesses in 26

local authority areas with an average loan size of £85,000. This includes 2 West Dunbartonshire Council businesses which had a total loan value of £90,000.

- 3.5** Business Loans Scotland Ltd bid to run the new national loan fund “Investment Fund for Scotland” but were unsuccessful. In effect, without new loan finance to administer the company will gradually reduce in scale over the next 5 years.
- 3.6** As of 31st July 2024, the Council had £233,505 funds in Business Loans Scotland Ltd which has built up over the last few years from interest payments from business loans which were transferred from West of Scotland Loan Fund (WSLF) to Business Loans Scotland Ltd. In terms of Business Loans Scotland Ltd’s Articles of Association, no distribution can be made to any Member unless approved by the Board as being in keeping with the Company’s Objects. There is one company still making payments to a historical WSLF loan so this figure may rise slightly by approximately £5,800.
- 3.7** The Council previously withdrew £200,000 from Business Loans Scotland Ltd in 2019 when the West of Scotland Loan Fund portfolio was transferred to Business Loans Scotland Ltd

#### **4. Main Issues**

- 4.1** Scottish Government have decided not to recapitalise the Scottish Growth Scheme which means Business Loans Scotland Ltd won’t be able to process or approve any further loan applications and will only be responsible for maintaining the existing loan portfolio. Hence, the lending phase for the Scottish Growth Scheme concluded at 31st March 2024, and the focus for Business Loans Scotland Ltd is now to deliver the Realisation Phase of the contract with Scottish Government to 31st March 2029.
- 4.2** A Working Group was set up to look at the future “lending” options for Business Loans Scotland Ltd. They have presented Member Authorities with the following three options: -
- Option 1 - as a Local Authority Member of Business Loans Scotland Ltd are you prepared to allow 35% of your ring-fenced cash at bank balance to be top sliced thereby creating a £3.5 million Fund to allow lending to continue to Small to Medium Enterprises (SMEs) based in Scotland on a demand led, first come first served basis?
  - Option 2 - do you want to continue lending to SMEs in your own local authority area using your ringfenced cash at bank balance within Business Loans Scotland Ltd?
  - Option 3 - do you want Business Loans Scotland Ltd to cease lending to SMEs?

- 4.3 Option 1 would result in West Dunbartonshire Council funding being used to provide loan funding to businesses outwith the West Dunbartonshire boundary and would therefore not be considered as an attractive option.
- 4.4 Option 2 would mean loan funding only being delivered in some local authority areas and (mostly) at a relatively small scale. This may also cause duplication in the marketplace as there are now other loan providers that can provide business loan funding such as DSL Finance Ltd, Funding Circle & British Business Bank.
- 4.5 The recommended option is option 3, for Business Loans Scotland Ltd to cease lending to Small to Medium Enterprises, which would allow the Council to withdraw the remaining funds from BLS (£233,505) to use for local business development purposes as per the objects within Memorandum of Association of the organisation.

## **5. People Implications**

- 5.1 Business Loans Scotland Ltd currently employs 7 members of staff (6.4 FTE). The Business Loans Scotland Ltd Board have previously agreed that all jobs are secure until 31st March 2025 and confirmed that Business Loans Scotland Ltd is sufficiently well resourced to carry the employment costs for members of staff until that date.
- 5.2 If the fund does not recommence lending, other options may need to be considered for staff who are not directly required to deliver the realisation phase of the contract. This may include options such as redeployment, voluntary retirement, or voluntary severance. As Business Loans Scotland Ltd staff are located within East Ayrshire Council premises it is expected that they will use East Ayrshire Council's Early Departure Policy to implement any staff changes.
- 5.3 Business Loans Scotland Ltd are in the process of setting up a working group to establish staff requirements for the realisation phase of the contract and will look at progressing options for staff in consultation with East Ayrshire Council HR team.

## **6. Financial and Procurement Implications**

- 6.1 The withdrawal of funds will allow the Council to access and utilise additional financial resources which support costs associated with the creation, sustainability, and growth of local businesses within the area. This will contribute to the Council achieving its ambitions laid out in the Council's Economic Development Strategy 2022 - 2027.
- 6.2 The costs of any potential staff redundancy/pension liabilities are unknown at present. However, the Fund Manager has confirmed that there is currently £320,000 set aside in Business Loans Scotland Ltd to pay for any future

costs/liabilities and therefore it is unlikely there would be any financial implications for West Dunbartonshire Council.

**6.3** There are no procurement issues in relation to this paper.

## **7. Risk Analysis**

**7.1** Legal guidance has been provided to the Board on the future options for BLS Ltd and the Board will continue to be supported throughout the process by the company external lawyers.

## **8. Environmental Sustainability**

**8.1** An environmental sustainability assessment screening has been completed and indicated that no strategic environmental assessment is required.

## **9. Equalities Impact Assessment (EIA)**

**9.1** An Equalities Impact Assessment has been carried out and indicated potential positive impacts for the local economy. Disinvesting in Business Loans Scotland Ltd allows funds to be invested in local businesses. This is in line with our local business development activities and services are outlined in the Council's Economic Development Strategy, which has been the subject of an Equalities Impact Assessment and approved by Committee. This proposal represents a continuation of Council business development support.

## **10. Consultation**

**10.1** Business Loans Scotland Ltd Board are consulting with member local authorities to determine preferred option for moving forward. Discussions with other local authorities indicates that option 3 is likely to be the overall preferred option.

## **11. Strategic Assessment**

**11.1** The proposals contained within this report support the strategic priorities of the Council's Economic Development Strategy (2022-27).

- Stimulating economic investment and growing the business base;
- Establishing an inclusive economy by improving the skills of our people and supporting them into work;
- Creating a prosperous place where people choose to live, work, visit and invest;
- Addressing climate change and supporting a green recovery;
- Building stronger partnerships and new approaches to delivery.

**Alan Douglas**

**Chief Officer - Regulatory & Regeneration**

**6 November 2024**

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**Appendices:** Appendix One: EIA

**Background Papers:** None

**Wards Affected:** All Wards