Review of the South of Scotland Loan Scheme

Final Report

for

Scottish Enterprise Dumfries & Galloway
and
Scottish Enterprise Borders

Prepared by

EKOS Limited

economic development & regeneration

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EXECUTIVE SUMMARY

SOSLS BACKGROUND

The South of Scotland Loan Scheme (SoSLS) was formally established in February 2004, and is managed by SEBSED Ltd, a company jointly administered by Scottish Enterprise Borders (SEB) and Scottish Enterprise Dumfries and Galloway (SEDG).

The objective of the Scheme is to deliver economic added value in the South of Scotland. This is achieved by offering soft loans as part of a wider package of funding support for businesses identified as having job creation and growth potential.

SEB and SEDG commissioned EKOS Economics and Regeneration, to undertake a review of the Scheme in December 2005. The purpose of the review is to identify the impact that the Scheme has made to date and to inform decision-making for its future role and shape.

During the course of the study it was established that Scottish Enterprise intended to wind-up all local level investment products and to create a national product loan facility – the Scottish Seed Fund. The SSF will be concentrated on growing businesses at the first round of fundraising and is therefore likely to invest at seed, start-up or the very early business formation stage. Investment under SSF will only be available to growing businesses that are formed as Limited companies. Investment will be up to £100,000 and the company will be required to secure private match funding to at least the same level as the SSF loan.

Recent discussion with SE has suggested that the two LECs should be ready to exit from SoSLS by 31 December 2008. Our study and examination of the future demand for loan funding has identified continued demand for loan financing in the South of Scotland that is unlikely to be met by the SSF due to company status, loan value, etc. We have therefore assumed that SoSLS funds will be sustained post December 2008, potentially by an arms length organisation. This opportunity will need to be investigated further with SE.

DEVELOPMENT AND APPRAISAL

The SoSLS is the result of an amalgamation of four pre-existing loan funds all operating under different terms and conditions. The Scheme has used recycled monies from these funds and has also attracted additional funding from the South of Scotland Objective 2 Programme to create a single overarching loan product with an initial budget of £3.9m in January 2004. Due to the European funding component there is a requirement to ensure that repaid loans and recycled funds are reinvested in the South of Scotland.

In establishing the Scheme, approval was required from the Boards of each LEC, Scottish Enterprise National, the Scottish Executive and the South of Scotland European Partnership. Criteria and performance targets were agreed by SE and SoSEP, encompassing job creation, private sector investment leverage and increases in business sales.

Delays occurred in the start-up of the SoSLS from the intended date of September 2003 to the actual date of February 2004, and this has impacted on performance in terms of the achievement of targets. Furthermore the take up of support, particularly in the early stages, was lower than forecast, with a total of 26 projects approved by the SEBSED panel up to March 2006, at a total investment value of £682,540.

Businesses that have been supported to date operate in a number of sectors across the South of Scotland and are detailed in the full report. The most common types of project supported to date have been working capital projects, purchase of new plant and property related projects. In terms of the size of projects supported, average project costs to date have been £182,513, with SoSLS support contributing as much as 50% and as low as 3%, but have provided an average loan of £26,250. Over the past 12 months, however, the value of projects has increased along with the average loan awarded at £31,200.

Start-up delays and lower than anticipated take-up of SoSLS loans has resulted in a higher than anticipated proportion of funds yet to be allocated. Financial data on the Scheme (end February 2006) highlights that the Scheme has some £2.44m funds available for investment.

MARKET REVIEW

The SoSLS operates a targeted approach and specifically excludes some types of sectors (e.g. primary agriculture). It does not generally support business areas that could be considered highly displacing and sets limits on maximum company size in line with EU guidelines.

Latest available data (September 2004) identifies a total of 9,819 businesses located in the South of Scotland. This number has increased slightly (0.7%) since 2000 but is forecast to decrease by around 300 businesses to 2016.

Currently SEDG/SEB have a portfolio of 538 businesses that are given some form of priority status for support. Based on this target market the SoSLS has so far penetrated approximately 4.8% of the total available market (i.e. 26 loans), equating to an average of 15 loans per annum and a hit rate of 2.8% per annum.

Looking at the number of projects approved in the last 12 months of the Scheme (19) provides an illustration of the recent annual performance as it excludes the initial slow up-take of loans. This identifies that a hit rate of 3.5% has been achieved by the SoSLS over the past 12 months.

If we assume that this penetration rate is reasonable and make predictions based on average loans awarded over the past 12 months, it implies that a total of 16 projects would have to be supported each year by the SoSLS, equating to an annual penetration rate of 3%. This assumption is based on an average loan awarded of £31,200 and that a sum of £500,000 would be allocated by the scheme each year.

PARTNER CONSULTATIONS

A strong participative approach was adopted in conducting the review of the SoSLS. Face to face consultations and workshops were undertaken with staff from SEDG, SEB, the South of Scotland European Partnership and Wigtown Rural Development Company (WRDC), the scheme administrator.

It is important to recognise that the consultation responses are based on views and perceptions, which while important and valid, are only one dimension of this review. It is important to relate these opinions and views to the actual performance of the scheme, as assessed through the formal evaluation.

Overall, there was a range of views as to the perceived successes of the scheme, with a generally more positive view in the Scottish Borders, partly reflected in their more intensive use of the scheme to date. In Dumfries and Galloway, the scheme was viewed as “one option” (and not always a favoured option) to support business expansion.

Views on the management of the SoSLS were varied. Consultees reported that WRDC effectively carry out their activities, however their overall level of responsibility is minimal and highly administrative. The organisational structure of SoSLS in general was viewed as too large and often confusing, creating uncertainty among business advisers and companies in particular as to where key decision-making responsibility lies.

Overall, the perception was that the number of different individuals involved in the process had the potential to create confusion. Our considered view however, is that given the nature and due diligence requirements of the scheme the current organisational structure it is not unduly burdensome when compared with other forms of financial interventions.

In performance terms, consultees were aware that the SoSLS had not achieved its targets with respect to the number of successful loans or economic impacts generated. Key selling features of the SoSLS were identified as favourable interest rates and the fact that it supports business start-ups and a range of sectors, which are often not viable in the eyes of commercial lenders.

There was a general consensus that if the scheme had never existed then some of the projects and their subsequent outcomes would not have occurred. As such it was identified as a useful business development “tool” for the LECs, but one that could be improved.

COMPANY SURVEY

The company telephone survey targeted those businesses that had been awarded SoSLS loans. From a possible sample of 17, 16 businesses were consulted which enabled the study team to capture the recipients views of the SoSLS and the impact that it had on their business.

The overall impression generated by the survey was that companies valued the SoSLS, with approximately 90% of the sample stating they would use the scheme again. The majority of companies consulted were made aware of the SoSLS through the LEC, with some receiving business gateway support and others already being account or client managed. The perceived remit of the Scheme was that of general business development support or for economic development purposes.

In terms of the impact of the SoSLS, the level of additionality attributable to support for businesses was low. Half of the businesses stated that they would have been able to seek loan support from other sources, suggesting that in real terms the Scheme was not always used as a lender of last resort.

Furthermore, when questioned on what the business would have done had SoSLS loans not been available, only two of the projects reported 100% additionality to the Scheme (i.e. they would not have gone ahead without SoSLS support). Indeed a third of respondents commented that they would have gone ahead with their project as planned i.e. no additionality at all.

Based on our evaluation experience, however, we would caution against over-emphasis on responses made by businesses in relation to additionality. It is common practice for businesses to attribute all successes to their own efforts and, where projects have been successful, to assert that they would definitely have undertaken them even without the public sector support.

The full report provides detailed EU target outputs and the proportion of these that have been achieved to date. Based on the number and value of loans given, SoSLS is almost on target for jobs created and above target in other output areas. However, it is recognised that to achieve these targets in full by the final EU claim deadline will require a major uplift in SoSLS activity over the next 30 months.

Our opinion, based on the interim review and our experience of evaluating other schemes, is that SoSLS will deliver net economic impacts at the local level but is unlikely to make a major impact at the national level. It plays a valuable role as a local initiative and fills a gap in the market for rural business support.

In terms of value for money, based on current spend and reported gross employment, a cost per job of around £10,000 would seem a reasonable estimate. However, once account has been taken of repayments using standard discount co-efficients, the actual gross cost per job will be negligible, making the scheme offer excellent value for money. In addition, there is also the need to understand the net impacts of the intervention, which will dilute the gross value, although that is outside the scope of this interim evaluation.

These estimates, however, do not take account of the financial and other resource costs to both LECs in the administration and management of the Scheme. We understand that the cost of the contracts with WRDC (the Scheme administrator) and Strategic Options Ltd (Financial Due Diligence) will be around £140,000 over the three year contract period.

SoSLS FUTURE OPERATIONS

Based on our analysis of the take-up of SoSLS loans to date particularly over the past six to twelve months, we have identified continued demand for a loan product in the South of Scotland for around £500,000 per annum to satisfy an estimated 16 projects. This level of demand however may exceed expectations as a result of the following:

- over the last 6 months the uptake of loans has risen steadily and this heightened demand may continue in the future;
- as LEC business advisers become more aware of the Scheme and how it operates, the level of applications may also increase; and
- given recent SE financial issues and LEC budgetary cuts, there is potential for reduced budgets in alternative business support mechanisms to result in increased demand for the SoSLS.

Future businesses that are likely to seek support are expected to come from 'priority' business sectors (as identified in the Market Review section) but based on past take-up it is clear that not all would be eligible for support under the proposed Scottish Seed Fund.

Given the rural nature of the South of Scotland the SoSLS could be re-branded as a rural loan product in order to differentiate it from the SSF. We understand that Scottish Enterprise is considering the requirement to develop a national Rural Loan Fund product. If this is created there is obvious potential to link SoSLS to this new product.

There is also the need to consider the European funding element and the requirement to reinvest SoSLS funds for SME development activity within the South of Scotland requiring re-circulation of repaid SoSLS loans. This requirement to recycle funds is not absolute and it is appropriate to agree an end date. Based on guidance from the South of Scotland European Partnership we have identified the 31st of December 2012 (i.e. the end of the auditable life of the Programme) as an appropriate date for protection of SoSLS funds.

We therefore recommend continuation of the SoSLS beyond December 2008 to meet both current and anticipated future demand for the Scheme and support business expansion and local economic growth. The continued loan scheme should be targeted on businesses that are not eligible for, or would not get best value from, the Scottish Seed Fund e.g. sole traders, partnerships and established businesses with a specific rural focus.

CONCLUSIONS

Our initial study conclusions are focused around the four study objectives:

1. Review the original purpose, progress and expectations for future use of SoSLS – the long term viability of SoSLS as a distinctive South of Scotland fund will be tested with SE.

   Current SE guidance suggests the wind-up of this local LEC product by December 2008, however, we have identified demand for a continued SoSLS product that is unlikely to be met by the proposed SSF. In order to meet this local demand there is therefore a need to continue with SoSLS beyond December 2008 (and also to meet ERDF requirements). If the two LECs are required to exit from SoSLS as a branded SE product, we recommend that funds should be transferred to a third party organisation to continue its operation in the long-term.

2. Establish a range of recommended future uses:

   We confirm that the SoSLS should be continued beyond December 2008, but the market focus will need to be reviewed, re-focused and extended to maximise the uptake of loan fund resources for South of Scotland businesses and ensure full drawdown of ERDF funds by August 2008 (expected final claim date for ERDF). Based on the take-up of loans to date we believe that there will be long-term annual demand from around 16 businesses for the SoSLS product equating to approximately £500,000 per annum, however given the recent uptake in loans over the last six months and expected reduction LEC business support activities demand could be much higher.

   Those businesses supported by the Scheme in the future should be focused in sectors and business types that are not eligible for SSF support to ensure the SoSLS brings in additional added value to the South of Scotland.

3. Market test potential future uses to identify demand:

   Given the recent uptake in loans over the last six months and the expectation that demand will continue to rise with an anticipated reduction in alternative LEC business support mechanisms, we believe that the fund should continue beyond December 2008. There is a need however for a further review of how the Scheme has performed in two years time to review activity, take-up and unallocated financial resources.

4. Recommend the optimal delivery body:

   The most appropriate delivery body for the continuation of the SoSLS is the current body SEBSED, at least over the next two years. Whilst the review identifies a number of potential improvements to the current management and delivery of the Scheme, overall we feel that SEBSED would be the optimal body to deliver these improvements and build upon the learning and experience they have already built up since the Scheme was developed.

In addition to these specific conclusions, there are also a number of more general conclusions that can be drawn from our review of SoSLS:

1. Changing operating environment:

   - with the launch of the SSF, there is an opportunity to maximise uptake of new loan fund resources and therefore retain “ring-fenced” local economic development funds, however, we understand that due to the level of resources that will be available to SSF and its application criteria that it is unlikely to have anything other than a minimal impact in the South of Scotland.

- the future budget allocations for both LECs are currently being prepared, however, indications are that there will be less discretionary budget available to the LECs for business investment and therefore potentially greater demand for SoSLS in the future. There is a need to ensure that this momentum is maintained to ensure that the SoSLS is able to draw down its full allocation of ERDF funds (by August 2006) and to meet the required targets. Thereafter there is a requirement to maintain an annual deal flow of £500,000 per annum (estimated at 16 loans of £31,000).

2. Future opportunities:

   - our review identified a slow start to the SoSLS but following concerted effort and a number of marketing initiatives, an increase in take-up of the fund over the past 12 months.

   - based on up-take figures since the Scheme was established, demand would appear to be low, however, consideration over the shorter term as the fund has become more established, identifies increased up-take. We would expect this to rise further in the future as business advisors become more aware of the Scheme.

   - in the longer term, if SE does develop a rural loan product, there is an opportunity to combine SoSLS funds into a Scotland-wide rural loan fund, with SoSLS funds protected for investment in the South of Scotland.

3. Strategic issues:

   - there is a requirement for an immediate short-term change to the SoSLS by extending its target market, increasing awareness of the product to the Business Advisors and increasing marketing activity to promote take-up for relevant products.

   - one of the key strategic issues considered at the workshop was whether to retain SoSLS as one over-arching South of Scotland product, or whether to split and allow each LEC to manage and invest funds in line with their own strategic priorities. The consensus is to retain SoSLS as a single South of Scotland product.

1. INTRODUCTION

1.1 BACKGROUND TO REVIEW

The South of Scotland Loan Scheme (SoSLS) was formally established in February 2004, however, due to management/operational arrangements, the first loan application was not approved until May 2004. The Scheme is managed by SEBSED Ltd, a company jointly administered by Scottish Enterprise Borders (SEB) and Scottish Enterprise Dumfries and Galloway (SEDG). Wigtown Rural Development Company (WRDC) is the scheme administrator and undertakes day-to-day management.

The objective of the Scheme is to deliver economic added value in the South of Scotland. This is achieved by offering soft loans as part of a wider package of funding support for businesses identified as having job creation and growth potential.

SEB and SEDG commissioned EKOS Economics and Regeneration, to undertake a review of the Scheme in December 2005. The purpose of the review was to identify the impact that the Scheme has had to date and to inform decision-making for its future role and shape. The review will also be used by SEBSED Ltd to establish an exit strategy for the Scheme post December 2008, to deliver a legacy is sustained in the South of Scotland.

1.2 OBJECTIVES AND ISSUES

The aim of the review was initially related to the condition within the April 2003 Scottish Enterprise funding approval i.e. to secure an exit strategy for the two Local Enterprise Companies (LECs) from direct control and responsibility for recycled funding schemes, within three years of its establishment. While the SoSLS has only been fully operational since early 2005, the three-year deadline for funding approval was technically reached in April 2006.

However discussions with Scottish Enterprise in February 2006, indicated that the SoSLS could continue to operate till December 2008. The Scheme will therefore operate across the South of Scotland in parallel with the new “Scottish Seed Fund” (SSF). The SSF will be the new SE Network wide product, providing loan and equity finance to Scottish companies. It will be concentrated on growing businesses at the first round of fundraising, therefore it will be likely to invest at the seed, start-up or very new stage within the business formation cycle.

The SSF is not yet a live product but is anticipated to become operational early in the 2006-07 financial year. A requirement of the SE Network’s extension of the SoSLS is that it should not compete with the new national SSF. This change in SE National policy has implications for the remit and potential diversification of the SoSLS. As such the broader aim of this review has changed and the requirement for the development of an exit strategy in 2006 diminished. The implications of the new national loan product will be a key issue therefore to be addressed within this report.

A further aim of the study is to consider a purpose for recycled funds to create a long-term benefit for South of Scotland businesses. In establishing the SoSLS it was agreed that the upfront financial resources would be ‘ring fenced’ for future re-use. The study partners are consequently seeking to identify a range of options that will deliver a legacy in the South of Scotland and retain funds in the local economy.

These aims have produced four study objectives:

– review the original purpose of the Scheme, its progress and the expectations of partners for future uses of the Scheme. One particular issue being to ensure sustainability and retention in the South of Scotland post December 2008;

– establish a range of recommended future uses (based on stakeholder consultation and good practice review) to support continuous Scheme recycling. This could either be in the current form of business growth loans, or could include new infrastructure or activities that would deliver a lasting economic benefit for the South of Scotland;

– market test the future potential uses of the Scheme to establish an accurate picture of market demand and to inform the preparation of a robust Business Plan including detailed cashflow forecasts; and

– recommend the optimal body or organisation to deliver the business plan along with the model, cost of its delivery and its detailed governance arrangements.

In addition to the above objectives, the outcomes from the study will also be used to provide clear recommendations on future activity, public sector input and opportunities to maximise economic benefits.

1.3 METHOD

The study was undertaken in six stages between November 2005 and May 2006, as detailed below:

– **Stage 1**: Inception and Set Up;

– **Stage 2**: Desk based review and analysis;

– **Stage 3**: Consultation programme;

– **Stage 4**: Company Survey;

– **Stage 5**: Learning workshop and option development; and

– **Stage 6**: Final Reporting.

1.4 STRUCTURE OF THE REPORT

The remainder of this report is structured as follows:

- **Chapter 2** discusses the development of the SoSLS and appraises Scheme activity targets and objectives;
- **Chapter 3** presents a market review of the Borders, Dumfries and Galloway and South of Scotland;
- **Chapter 4** contains the feedback from our consultation meetings with stakeholders and SE business advisors;
- **Chapter 5** presents the results of the beneficiary business interviews;
- **Chapter 6** outlines proposals for improving the SoSLS as well as future development options; and
- **Chapter 7** outlines our study conclusions and recommendations.

2 SOSLS DEVELOPMENT AND APPRAISAL

2.1 INTRODUCTION

This Chapter briefly addresses the origin of the SoSLS, its development to date and appraises the Scheme with respect to the quantitative targets set by Scottish Enterprise, the Scottish Executive and the South of Scotland European Partnership. This review is based on information provided by SEBSED Ltd and WRDC at the time of reporting and broadly examines the work of the Scheme from May 2004 to the end of February 2006[1].

2.2 DEVELOPMENT OF THE SOSLS

A detailed examination of the factors contributing to the development of the SoSLS is outwith the remit of this review, however for contextual purposes a broad overview of the loan products that preceded the SoSLS is outlined in **Figure 2.1** below.

Figure 2.1: Development of the SoSLS

DUMFRIES & GALLOWAY

Dumfries and Galloway Foot and Mouth Scheme

- Received £2.7m from the Scottish Executive
- Part ERDF funded (*money kept by SEDG*) a total of 48 loans
- Awarded a total of 573 loans

Business Development Loan Scheme

- Received recycled F&M loans
- ERDF match funded *(£1.4m money kept by SEDG*)
- Awarded a total of 48 loans
- Total Project Cost = £2.7m

BORDERS

Borders Foot and Mouth Scheme

- Received £420,000 from Scottish Executive
- Awarded a total of 62 loans

New Ways Loan Scheme

- ERDF match funded
- Awarded a total of 38 loans
- Received funds from SEB, SBC and EU.

[1] The latest financial data and project approval data covers the period up until the 3rd of Match 2006 (provided by SEBSED) and the latest EU monitoring data covers up until the 28th of February 2006.

Both LEC areas were given Foot and Mouth Disease (FMD) support from the Scottish Executive during the 2000 outbreak and loan support has continued to exist in the South of Scotland since that period. The SoSLS was therefore developed through the amalgamation of four pre-existing Schemes, which attracted Scottish Executive and ERDF support.

2.2.1 Progress Against Strategic Targets and Objectives

With a total budget of £3.9m in January 2004, there were a number of bodies that contributed directly[2] or indirectly to the SoSLS. In establishing the Scheme, approval was required from the Boards of each LEC, Scottish Enterprise National, the Scottish Executive and the South of Scotland European Partnership. The criteria and targets set by each organisation are outlined below.

Scottish Enterprise

Approval was sought from the LEC Boards in February 2003 and Scottish Enterprise Board in April 2003. The SoSLS establishment was justified as contributing to the "Growing Businesses" priority of Smart Successful Scotland. Over a 10-year period the following economic benefits of the Scheme were anticipated[3]:

- 1,814 gross jobs created;
- 1,360 net jobs created;
- £38.9 million private sector leverage;
- £61.2 million increased sales, based on net job increases and £45,000 of sales per job created;
- 300 medium and high impact businesses supported; and
- £20.4 million contribution to GDP.

Our experience of other business development interventions would suggest that these targets appear on the high side and are significantly greater than the comparable ERDF targets[4] and do not properly reflect the rural environment within which the scheme is operating.

In particular, the gross to net dilution of around 25% appears particularly low for a business support programme.

It is not clear how these targets were arrived at or agreed and this may be an appropriate opportunity to consider revising the targets in light of the actual scheme performance.

[2] The Scottish Executive and the South of Scotland European Partnership directly contributed to funds utilised by the SoSLS, whilst SEB and SEDG contributed indirectly via management of current and existing loan schemes.
[3] The economic benefits reported were taken from the SE Board Approval Paper (4th April 2003).
[4] The Scottish Enterprise targets set for the SoSLS are for a10-year period however, whilst the ERDF targets accrue to the period over which funds are claimed (i.e. June 2004 until August 2008).

The Scottish Executive

Approval was received in 2002 to retain receipts from Foot and Mouth Disease (FMD) loan repayments within the two regions. The Scottish Executive approval of the SoSLS was confirmed in April 2003 and subject to the following specific conditions:

- the Scheme will meet a perceived gap in the market through offering unsecured small loans for small businesses not catered for by the market at present and will not displace lending from other sources;

- there is justification for extension of the Scheme from the earlier loan funds aimed at exceptional assistance provided in a crisis (e.g. Foot and Mouth Disease loans) to aid the survival and recovery of small businesses to a new scheme based on funding for clear economic development purposes and targeted on companies with identified growth potential;

- lending will be provided on a commercial basis with unsecured loans being offered at the base rate;

- compliance with State Aids rules will be ensured by offering assistance within the ceiling of the “de minimis” rule; and

- the scheme will be fully reviewed in three years time with consideration being given to the justification for continuation of the scheme in some form or other, possible successor arrangements and an exit strategy for SE Borders and SE Dumfries and Galloway.

The Scottish Executive did not issue any quantitative targets for the performance of the SoSLS, however, this review fulfils one of the outlined conditions for the scheme i.e. Scheme review to consider future operation and exist strategy for SEB/SEDG.

South of Scotland European Partnership

The Scottish Enterprise and Scottish Executive funding was supplemented by an ERDF grant which was matched against “clean funds”. The SoSLS directly supported Priority One: Competitive Enterprises; and Measure 1.2 “Encouraging Investment in SME’s” within the South of Scotland Objective 2 Programme.

The SoSLS was perceived as contributing directly to this Measure by “maintaining and enhancing the competitiveness of individual businesses through the financial support of a loan award”.

The original SoSLS ERDF was submitted in 2003, however, it was resubmitted in September 2004, as the amount of clean funds available was less than anticipated. The total ERDF revenue support applied for reduced from £1,127,500 to £796,251.

The proposed targets that the Scheme was expected to achieve during its lifetime[5] were also revised in response to this reduction in ERDF funding.

Tables 2.1 and **2.2** report the original and revised ERDF targets, along with current progress towards them.

TABLE 2.1: EUROPEAN PROJECT OUTPUT MONITORING				
Physical Output	**Original Approved target**	**Revised Approved target**	**Total Achievement so far**	**% of Revised Target Achieved**
Financial assistance to existing businesses	122	86	14	16.3%
Financial assistance to new businesses	28	20	7	35%
Assisted businesses owned/ managed by women	19	14	7	50%
Assisted businesses owned/ managed by ethnic minorities	2	2	0	0%
Assisted businesses owned /managed by people with disabilities	1	1	0	0%

Source: SOSLS ERDF Applications and SEBSED Monitoring Report as of 28th of Feb 2006.

Based on information obtained from the latest SoSLS ERDF monitoring report[6] progress had been made with respect to three out of five physical output targets. The most significant achievement to date was the number of businesses owned or managed by women that had received assistance from the SoSLS (50%).

To date, no progress had been made towards the number of businesses assisted that were owned/managed by either ethnic minorities or people with disabilities.

[5] Estimated timescale reported on revised ERDF application was a physical start date of 1st of September 2003, physical completion (30th of November 2007) and financial completion (31st March 2008).
[6] SEBSED monitoring report highlighting all activity and achievements till 28th of Feb 2006.

TABLE 2.2: EUROPEAN MONITORING - INTERMEDIATE RESULTS				
Intermediate Results	**Original Approved target**	**Revised Approved target**	**Total Achievement so far**	**% of Revised Target Achieved**
Total no. of gross new jobs created	495	347	72	20.7%
No. of gross new jobs created for women	198	139	51	36.7%
No. of gross new jobs created for ethnic minorities	3	2	0	0.0%
No. of gross new jobs created for disabled people	3	2	0	0.0%
No. of gross new jobs created in areas defined as most in need	123	86	7	8.1%
No. of gross new jobs directly related to environmental activity	0	2	7	350%
Total number of gross jobs safeguarded	295	207	106	51.2%
Number of new exporters/entering new markets	47	33	4	12.1%
Private sector leverage (£million)	12.48	9	1.02	11.3%
Number of self employed jobs created	14	10	4	40.0%
Increase in sales in existing businesses (£million)	22.19	12.52	0.54	4.3%
Increase in sales in new businesses (£million)	4.43	3.1	0.57	18.4%
No. new businesses surviving after 36 months	19	14	0	0.0%

Source: SOSLS ERDF Applications and SEBSED Monitoring Report as of 28th of Feb 2006..

Progress towards intermediate results has also been varied. The Scheme has successfully met the target of gross jobs related to environmental activity and achieved 40% of the target with respect to the number of self employed jobs created. Once again no progress has been made in terms of gross jobs created for ethnic minorities or disabled people.

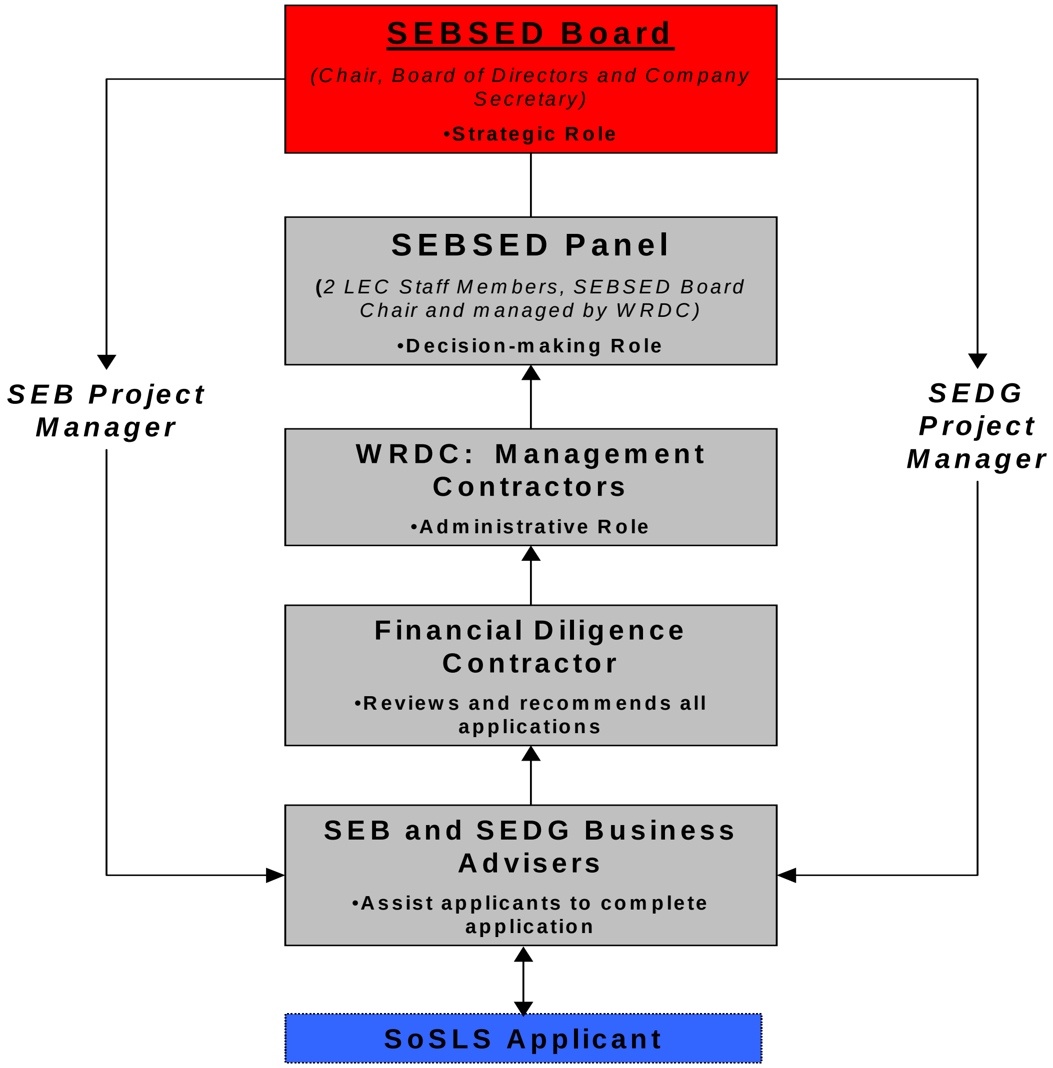
Notably, due to delays in the start-up of the SoSLS from the intended date of September 2003 to February 2004, the Scheme will have difficulties in reaching even the revised ERDF targets set. In particular the ability of the Scheme to support 14 new businesses surviving after 36 months will prove difficult, given the start-up delays and initial low take-up of loans.

2.3 ORGANISATIONAL STRUCTURE

The range of funding organisations supporting the SoSLS led to a mixed organisational structure of the Scheme. There are also a number of bodies and personnel within each LEC that contribute to the overall management and operation of the SoSLS.

An organisation chart highlighting the appraisal stages within the SoSLS is shown in **Figure 2.2.**

Figure 2.2: SOSLS Organisation Chart / Appraisal Process



2.3.1 SEBSED Board

The Board of SEBSED consists of six representatives from SEB and SEDG and carries all the duties and responsibilities of a Board of Directors. These duties include holding regular Board meetings including an AGM, making policy and strategic decisions about the running of the company and ensuring that the Scheme is managed in a fair and reasonable manner. Any business not successfully supported by the SoSLS can bring their rejected application to the attention of the SEBSED Board.

The Board has a Chairman who holds the casting vote for SEBSED Ltd. The Chair is also a member of the SEBSED panel, ensuring a direct link is maintained between the panel and the Board. In addition, the Board has a company secretary who is an SE Borders LEC Director and is responsible for all the legal responsibilities, which the post requires.

Whilst it was initially agreed that the SEBSED Board would meet quarterly, there have been 13 subsequent Board meetings since January 2004[7]. The agreed purpose of these meetings is to update both LECs on a number of key issues arising from project management and monitoring. These include:

- tax issues;
- marketing;
- bad debts;
- EU Applications and claims;
- current financial position; and
- loan update/applications out of date.

2.3.2 SEBSED Panel

The SEBSED panel consists of one staff member from each LEC plus the SEBSED Board Chair. The panel is managed by WRDC and meets fortnightly if required to review any submitted project applications and make formal decisions with regards to support. As of the 3rd of March 2006, 26 applications had been issued to companies and only one rejected.

Where necessary the panel have reviewed project applications electronically and discussed applications via a virtual panel as opposed to holding a formal meeting. This approach has been useful in instances where quick decisions are required by businesses or where the number of applications submitted over a two week period has been minimal and a formal panel meeting unjustified.

2.3.3 LEC Project Partners

A project manager from both SEB and SEDG exist to offer operational support to LEC business advisers. Whilst the role of these project managers has changed with the development of the Scheme, key duties include:

- management of the WRDC contract (SEB);
- maintaining financial records of all transactions in each LEC bank account (SEB);
- maintaining SEBSED files (SEB);
- working with accountants, auditors and tax advisers in the relation to the Scheme (SEB); and
- providing information on the operation of the Scheme at Board meetings and to business advisers (SEB/SEDG).

[7] The latest/13th Board Meeting referred to being that held on 31st of January 2006.

2.3.4 Management Service Contractors - WRDC

From a shortlist of four companies[8], Wigtown Rural Development Company (WRDC) were appointed by SEBSED Ltd in February 2004 to undertake management services in the delivery of the SoSLS. The range of services provided by WRDC include:

- promotion of the scheme to LEC staff, intermediaries and other interested parties;
- initial point of contact for scheme information and providing support to LEC staff through the application process;
- ensuring that all applications are complete following financial diligence by LEC staff and before submission to the decision panel;
- submission of applications to the decision panel, providing admin support and conveying any decisions made by the panel to applications and LEC advisers;
- ensuring satisfactory completion of security or conditions of sanction before payment of loan proceeds;
- ensuring that the repayment Direct Debit is in place for each successful applicant;
- monitoring repayments on existing and new SEBSED Ltd investments and reporting these monthly to SEBSED Board;
- alert adviser and Board to non payers and send out credit control correspondence;
- completing quarterly ERDF claims;
- following up the instructions of SEBSED Ltd Board in recovery situations;
- providing administrative back up to the SEBSED Ltd Board; and
- working with SEBSED Ltd advisors and other relevant bodies undertaking annual reviews.

The contract between SEBSED Ltd and WRDC runs from the 1st of January 2004 to the 31st of December 2006 and is subject to an additional annual bonus payment of up to £14,471 (exclusive of VAT) over the three years of the contract.

The total cost of the contract is £110,947 (excluding VAT) with a formal legal agreement between SEB and SEDG regards payment. SEB agreed to pay 33% of total costs and SEDG the remaining 67%, reflecting the fact that a larger share of the total SoSLS budget is allocated to the SEDG area.

[8] Alba Smart Thinking, Crossbow and Jocobite were the three other companies short-listed.

A number of measurable performance criteria were identified by SEBSED Ltd to be used in awarding the contractors annual bonus. In January 2005, EKOS were asked to prepare the annual contractor review, which was then used by the SEBSED Board to inform their decision-making regards payment of the annual bonus.

Table 2.3 summaries the annual measurable criteria set and WRDC's level of achievement.

TABLE 2.3: CONTRACTOR: MEASURABLE CRITERIA

Action	Measure	Achievement in 2005[9]
12 Awareness raising sessions in the South Of Scotland per annum	Events undertaken and positive feedback from attendees	10 events undertaken
Quality of loan applications and speed of service	80% of applications to panel approved	100%
	Offer/decline letter sent within 5 working days of panel meeting	Yes - fully carried out
Submission of EU claims quarterly	Claims successfully completed	Claims submitted on time.
Monthly reports to SEBSED Board	Positive Feedback from Board	Yes - successfully carried out
Collation of annual accounts and management information	Annual evaluation from Board and panel	Completed
Customer satisfaction	Positive feedback from advisors and clients; Annual evaluation	Yes – confirmed by EKOS business survey

Source: Data obtained from SEBSED Ltd

Only one of the seven measures outlined was not fully completed during 2005. WRDC conducted 10 awareness raising events during the year as opposed to a target of 12, resulting in 83% of the target number of events being achieved. This appears to reflect the SE restrictions on marketing outwith relevant organisations as opposed to the completion of direct marketing with businesses.

Evidently the performance of the contractor for all other measures has been satisfactory during 2005, with EU claims successfully completed and all offer or decline letters issued within the 5 working day timescale. Monthly reports to the SEBSED Board as well as the collation of annual accounts and management information were also carried out to the required level. The number of applications to the panel that are approved has exceeded the 80% target and indeed during 2005 every application issued to the panel was approved.

To ensure customer satisfaction, one of the measurable criteria set for the contractor was "positive feedback from advisers and clients". From consultations carried out as part of this review we can report that it is widely perceived by LEC business advisers as well as the SEBSED panel and Board members that WRDC have met customers' needs and expectations. The administrative tasks carried out by the contractor such as the dispatch of application forms and offer/decline letters was felt to be efficiently carried out, as was their ability to respond quickly to any queries or issues raised by clients or LEC/SEBSED personnel.

[9] All information was provided to EKOS by WRDC in January 2006 and verified by the SE Borders SoSLS Project Manager.

In terms of feedback from clients, all of the business advisors consulted as part of this review were happy with the experience their client had with WRDC. In addition each of the 16 businesses consulted as part of the company survey (presented in Chapter 5) unanimously agreed that they had received appropriate aftercare from SoSLS, which incorporates the work carried out by WRDC.

Overall therefore, **Table 3.2** shows that WRDC as scheme administrator, have performed on or above the target, with one exception.

2.3.5 Financial Due Diligence Contractor – Strategic Options Ltd

The financial diligence contract was awarded to an external accountant of Strategic Options Ltd. The contractors' role is to undertake a review of the financial information provided by businesses as part of their application submission and to provide a written report on the findings, including a recommendation for application approval or rejection. This report is then given to the SEBSED panel as part of the application submission.

Recently the contractor has tried to improve the efficiency of the financial diligence component of the SoSLS process and, where appropriate, meets face to face with businesses or their financial representatives to clarify financial matters in relation to their application. This has helped to speed up this particular stage of the application process and has also improved the accuracy of financial assessments.

2.4 PERFORMANCE TO DATE

This section of the report examines all of the projects supported under the SoSLS during the review study period (*February 2004 to March 2006*). This analysis will help to illustrate the performance of the SoSLS to date and be used to identify potential opportunities for developing the scheme in the future.

As of the 3rd of March 2006, 26 SoSLS applications were approved by the SEBSED panel, five of which were awaiting further conditions to be met before funds were finally drawn down. Of those loans paid out by SEBSED Ltd, two of the applicants have since gone into liquidation[10] and a further two companies have repaid their loans in full[11].

Each of the businesses supported through SoSLS that were still in operation at the time of the company fieldwork stage[12] were contacted by EKOS and their comments are reported in **Chapter 5**. The quantitative details however for each of the 26 projects supported as of the 3rd of March 2006 are examined in this section of the report.

Table 2.4 highlights the sectors and types of projects supported to date by the SoSLS. Looking firstly at the range of sectors supported, the largest proportion of applications supported to date has been within the manufacturing sector (27%), which included textile and food manufacturing businesses.

[10] Cally Seafoods (awarded £5,750) and Beblu Ltd (awarded £20,000) went into liquidation after receiving SoSLS support.
[11] Cobweb Designs (awarded £15,000) and Starfish Fair Trade (awarded £6,790) repaid the SoSLS loans awarded to them.
[12] A total sample of 17 companies was contacted during January and February 2006.

In terms of project type, three of the projects incorporated a mix of project types[13]. From **Table 2.4** it is evident that a high proportion of projects approved to date have been working capital or property related.

TABLE 2.4: SOSLS SUPPORTED PROJECT CHARACTERISTICS

Business Sector	No.	%	Type of Project	No.	%
Business Services	3	12	Working Capital	9	31
Child Care	3	12	Property Related	8	28
Construction	1	4	Purchase of New Plant	5	17
Engineering	1	4	R&D Product Development	3	10
Environmental Services	2	8	Marketing Related	2	7
IT - Computer Games	1	4	ICT Related	1	3
Manufacturing	7	27	Major Expansion	1	3
Manufacturing & Distribution IT	1	4			
Printing	1	4			
Recycling	1	4			
Social Services	1	4			
Suppliers and distributors	1	4			
Tourism	3	12			
Total No. Businesses	26	100	Total. No Responses	29	100

Source: Information provided by SEBSED and WRDC, based on the 26 projects approved as of the 3rd of March 2006.

2.4.3 Application process

The application process that businesses go through to secure SoSLS support is examined in **Table 2.5**[14]**.** It outlines the period of time taken to complete each key stage in the application process for the projects funded to date by the Scheme. This process is the subject of further discussion within future chapters of this report.

TABLE 2.5: SOSLS APPLICATION PROCESS[15]

	Average Period	Shortest Period	Longest Period
Stage 1) Date application sent - date received by WRDC	71 days	9 days	330 days
Stage 2) Receiving application - approval by panel	11 days	4 days	63 days
Stage 3) Approval by panel - date of loan offer	21 days	Same day	121 days
Stage 4) Loan offer date - loan take-up date	41 days	5 days	245 days
Complete application process	133 days	33 days	411 days

Source: WRDC Monitoring Information, based on the 19 projects funded as of the 31st of January

Our analysis shows that it takes an average of 133 days from the date an application form is issued by WRDC until an approved loan is taken-up by the applicant. This time period varies substantially among the projects supported from just 33 days to 411 days and depends largely on specific applicant issues.

[13] Consequently the total number of responses analysed is 29 as opposed to 26, as three of the projects incorporated more than one project type.
[14] Table 2.5 examines the first 19 projects funded by the SoSLS as of the 31st of January 2006 and not the other 7 projects that followed on up until March 2003 as full details for these projects was not available at the time of writing.
[15] The number of days referred to include weekends and does not denote therefore "working days".

The SEBSED panel has a fixed agreement that a decision will be made within 15 working days of a fully completed application being submitted to them. On average this specific stage of the application process (Stage 2) is completed within 11 days and in one instance was completed on the same day of receipt.

The longest stage in the SoSLS application process is identified as the point an application form is sent out to a business and then received by WRDC. These timescales vary from 9 to 330 days and are clearly dependent on the responsiveness of the applicant. The average length of time taken to undertake this stage however (71 days), does suggest that the SoSLS is not used by businesses as a quick means of access to financial support.

Delays within the SoSLS process are also apparent at stages 3 and 4. Possible reasons include the SEBSED panel approving projects which are then subject to confirmation of an issue(s) from the applicant or where difficulties occur in terms of the applicant raising appropriate security for their loan application.

2.4.2 Project Costs

SoSLS support will only match 50% of total project costs, to a maximum of £50,000 and a minimum of £5,000. The remaining 50% of project costs must the met by the business either through private commercial borrowing or individual business means.

Table 2.6 shows the range of average total project costs and SoSLS Loans awarded by the Scheme to date. Total project costs varied from £11,500 to £1.48m, with the average being £182,513. In terms of the level of SoSLS loans awarded, the smallest loan was £5,750 ranging to £50,000 and the average loan equated to £26,252.

TABLE 2.6: APPROVED PROJECT COSTS & SOSLS LOANS AWARDED

	Overall Project Costs	SoSLS Loan Awarded
Average Project Costs/Loan	£182,513	£26,252
Smallest Project Cost/Loan	£11,500	£5,750
Largest Project Cost/Loan	£1.48m	£50,000
Total	£4,745,348	£682,540

Source: SEBSED & WRDC Monitoring Information as of 3rd March 2006.

Table 2.7 looks at the composition of total project funding and establishes the proportion of total costs attributable to SoSLS support.

TABLE 2.7: COMPOSITION OF PROJECT COSTS

	Average Proportion Total Costs	Smallest Proportion	Highest Proportion
SOSLS	14.4%	3%	50%
Business/Owner	19.5%	9%	50%
Bank Overdraft	4.8%	5%	60%
Bank Loan	35.2%	13%	71%
Hire Purchase Lease	5.1%	4%	42%
External Equity	6.8%	8%	38%
Other	13.7%	2%	67%

Source: SEBSED & WRDC Monitoring Information as of 3rd March 2006.

On average the SoSLS award contributed up to 14.4% of total projects costs, however this did vary significantly between a maximum of 50% and a minimum of 3%. Commercial bank loan funding (35.2%) and business/owner finance (19.5%) typically accounted for a higher proportion of total project costs.

It is therefore evident that the Scheme was successful in attracting private sector investment.

2.4.3 Allocation of financial resources

Start-up delays and lower than anticipated take-up of SoSLS loans has resulted in a higher than anticipated proportion of funds yet to be allocated. Latest financial data on the SoSLS has been reviewed in **Table 2.8.**

TABLE 4.8: ALLOCATION OF FINANCIAL RESOURCES TO DATE

	SEDG	SEB	COMBINED
Total Funds Available at the start of the Scheme (1st Jan 2004)	£1,957,917	£737,661	£2,695,578
Current Funds Available (28th Feb 2006)	£1,828,313	£611,405	£2,439,718
Proportion of total Funds Allocated	6.6%	17.1%	9.5%

Source: Financial information re SEBSED status as of 28th Feb 2006.

SoSLS has a pot of £2.4m of funds to draw from to make business loans. This figure includes ERDF eligible and ineligible funds and whist **Table 4.8** identifies 9.5% of funds have been allocated, due to previous repayments the actual proportion of loans awarded will be higher. The current balance shows that the 90.5% of funds are currently available for allocation.

2.5 GOOD PRACTICE REVIEW

To set the SoSLS review in context a good practice review was conducted to understand how other loan and equity schemes operate elsewhere, focusing on key innovative approaches or areas of success. This assessment was also felt to be informative for later stages in the review such as identifying options for the future development of the SoSLS.

Good practice examples were identified through:

– an extensive web-based search, which focused on loan and equity schemes that had addressed the market failure faced by SMEs in relation to access to commercial financial support; and

– feedback from consultees and companies surveyed during the fieldwork stage of the review on the schemes that were regarded as good practice compared with the SoSLS.

A range of loan or equity funds that are currently/have previously operated across the UK including the West of Scotland, the Highlands and Islands, London, Ireland and Wales are included as case studies in **Appendix 1**. Relevant examples selected as part of the review included:

- Strathclyde Investment Fund;
- Clann Credo: Social Invest Fund;
- Highland Opportunities;
- One London Business Loan Scheme; and
- Finance Wales.

The different approaches and practice that have been adopted by these examples are summarised below.

<u>Rewarding assisted companies</u>

The concept of offering an interest rate rebate for assisted companies that adhere to the payment and monitoring requirements of either loan or equity funding schemes was identified within the good practice review. Finance Wales for example, provided a 5% interest rate reduction for companies that met payment and monitoring requirements.

This approach rewards those companies that meet post-payment loan terms and could be a vital tool in ensuring that relevant monitoring data required by funding organisations such as European Programmes, is collated. In effect the interest rate reduction could be seen as financially compensating businesses for their monitoring input.

<u>Community Enterprise</u>

The importance of finance for social capital/community enterprise projects was identified in the examination of the Clan Credo organisation. Supporting these types of projects was recognised as assisting “third sector” organisations to become less dependant upon grants and allowing them to become self-sustaining.

<u>Value of the loan/equity discipline</u>

Regarding the loan/equity application process, the value of the discipline, which applicants must go through, was identified within the Strathclyde Investment Fund case study. The value of the experience and discipline instilled businesses seeking investment often for the first time, is a factor that should not be underestimated. This can be highlighted as a further qualitative benefit of any loan or equity scheme.

Targeting loans for employment purposes

Tailoring loan schemes towards supporting employment, was a further way in which the case studies tried to support businesses. The Employment Loan Scheme managed by Highland Opportunities was a good example of how loan funding can be used to specifically generate local employment. This scheme provided interest free finance up to the value of £50,000 and ensured that those businesses wishing to employ additional staff were given assistance.

At present, the SoSLS supports working capital projects and consequently also supports employment growth, however the interest rates applicable are not varied for projects where employment generation is a key outcome.

Targeting Key Sectors

The incidence of loan schemes targeting support towards particular sectors was further identified within the good practice review. Finance Wales targeted a number of key sectors and types of project including creative industries, renewable energy, community loans and university spin-off projects.

This method of targeting particular business sectors or types of projects may also prove effective for SoSLS. Sectors such as textiles and tourism could be key to such an approach in the South of Scotland.

Involving applicants within the decision making process

A number of the schemes reviewed encouraged business applicants to be more actively involved in the loan or equity decision-making process. Highland Opportunities, One London and Finance Wales each required businesses to present their proposals to decision-making panels. This approach ensures approval decisions are perhaps shortened and that projects are supported based on a wider case by case basis. It could also ensure that businesses give much more detailed consideration to the application rather than rely on their business advisor.

Shortening Approval Processes

Delegation of decision-making responsibilities to smaller groups/individuals in the case of minimal loan/equity amounts was a further approach identified. Highland Opportunities for example delegated the responsibility of making decisions on loans under £5,000 to their Chairman. This could reduce not only the time taken for an applicant to receive confirmation or otherwise of the success of their application, but also reduce the unit cost of smaller loans.

Summary

These alternative approaches are presented for information. We have identified a number of lessons in our conclusions that could be appropriate for the SoSLS.

3. MARKET REVIEW

3.1 INTRODUCTION

The purpose of this Chapter is to assess the current and forecast business base (the target market) within Dumfries and Galloway and the Borders. The information is useful to illustrate changes that have occurred and are forecast for South of Scotland businesses. The market review will help to identify growing business as well as highlight those business sectors likely to experience decline.

This information will assist in determining future targeting priorities.

3.2 DUMFRIES AND GALLOWAY MARKET REVIEW

3.2.1 Existing Market

Latest Annual Business Inquiry (ABI) data shows that 5,330 businesses were located in Dumfries and Galloway in 2004. This represents a 3.7% increase in the business base since 2000 as outlined in **Table 3.1**.

TABLE 3.1: DUMFRIES AND GALLOWAY BUSINESS BASE (2000/04)		
Year	**Number of Businesses**	**Annual Change**
2000	5,141	-
2001	5,189	0.93%
2002	5,179	-0.19%
2003	5,265	1.66%
2004	5,330	1.23%

Source: NOMIS - ABI Workplace Analysis 2000 - 2004

The Dumfries and Galloway business base can be further broken down into broad industrial sectors, as shown **Table 3.2.**

TABLE 3.2: DUMFRIES AND GALLOWAY BUSINESS BASE BY INDUSTRIALGROUP						
	2000		**2004**		**Change**	**% Change**
Industry	**Number**	**%**	**Number**	**%**	**(2000-04)**	**(2000-04)**
Agriculture and fishing	228	4.4	208	3.9	-20	-8.8%
Energy and water	73	1.4	48	0.9	-25	-34.2%
Manufacturing	369	7.2	331	6.2	-38	-10.3%
Construction	509	9.9	555	10.4	46	9.0%
Distribution, hotels & restaurants	1,870	36.4	1,860	34.9	-10	-0.5%
Transport and communications	312	6.1	357	6.7	45	14.4%
Banking, finance and insurance, etc	670	13.0	773	14.5	103	15.4%
Public administration, education & health	608	11.8	702	13.2	94	15.5%
Other services	502	9.8	496	9.3	-6	-1.2%
Total	5,141	100.0	5,330	100.0	189	3.7%

Source: NOMIS - ABI Workplace Analysis 2000 - 2004

The three most important sectors within Dumfries and Galloway in terms of business stock in 2004 were:

- distribution, hotels and restaurants (34.9% of business stock);
- banking, finance and insurance etc (14.5%); and
- public administration, education and health (13.2%).

Table 3.2 shows that when the construction sector is included, these four sectors account for almost three quarters of the Dumfries and Galloway business base in 2004.

A summary of the employment base within Dumfries and Galloway by sector is presented in **Table 3.3** to help identify any key differences between the business and employment base.

TABLE 3.3: DUMFRIES & GALLOWAY EMPLOYEE BASE BY INDUSTRIAL GROUP

	2000		2004		Change (2000-2004)	
Industry	**No.**	**%**	**No.**	**%**	**No.**	**%**
Agriculture and fishing	967	1.8	827	1.6	-140	-14.5
Energy and water	479	0.9	829	1.6	350	73.1
Manufacturing	10,332	19.2	7,454	14.1	-2,878	-27.9
Construction	2,595	4.8	2,617	4.9	22	0.8
Distribution, hotels and restaurants	13,945	25.9	15,089	28.5	1,144	8.2
Transport and communications	3,262	6.1	3,014	5.7	-248	-7.6
Banking, finance and insurance, etc	3,911	7.3	4,332	8.2	421	10.8
Public administration, education & health	15,730	29.2	16,385	30.9	655	4.2
Other services	2,644	4.9	2,479	4.7	-165	-6.2
Total	53,864	100	53,025	100	-839	-1.6

Source: NOMIS - ABI Employee Analysis 2000 - 2004

The total number of employees has fallen by 1.6% since 2000, due to losses within the manufacturing (-27.9%), agriculture and fishing (-14.5%) and “other services” (-6.2%) sectors. The top three employment sectors in 2004 included Public administration, education and health (30.9%), distribution, hotels and restaurants (28.5%) and manufacturing (14.1%).

Consequently the banking, finance and insurance sector is one of the top three business base sectors in Dumfries and Galloway but accounts for only 8.2% of employees and the manufacturing sector which accounted for 6.2% of businesses, is one of the top three employment sectors in the region. Clearly it is important to note therefore that due to labour intensity, smaller business sectors within Dumfries and Galloway can account for a larger proportion of regional employment.

Table 3.4 shows these different employment size bands by their relevant sector for 2004.

The majority of the Dumfries and Galloway business base is made up of ‘micro’ businesses employing 1-10 people. These businesses account for 82% of all businesses in the area compared with a Scottish average of 79%.

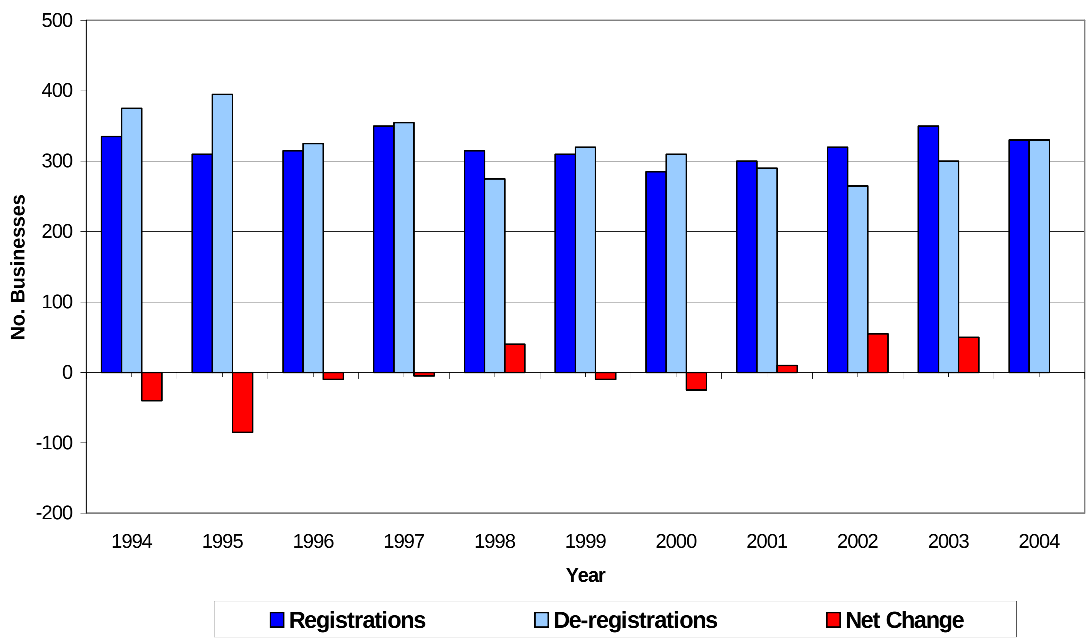
The concentration of micro businesses within the top employment sectors is highlighted in **Table 3.4**. Distribution, hotels and restaurants; banking and finance and the construction sector exceed the local average of micro businesses, accounting for 83%, 90% and 92% of businesses within each sector respectively.

TABLE 3.4: INDUSTRY BREAKDOWN BY NUMBER OF EMPLOYEES (D&G 2004)					
Industry	**1-10 employees**	**11-49 employees**	**50-199 employees**	**200+ employees**	**Total**
Agriculture and fishing	195	12	1	0	208
Energy and water	39	6	2	1	48
Manufacturing	241	56	26	8	331
Construction	512	38	4	1	555
Distribution, hotels and restaurants	1,546	283	27	4	1,860
Transport and communications	315	36	3	3	357
Banking, finance and insurance, etc	696	73	3	1	773
Public administration, education & health	350	288	59	5	702
Other services	457	34	5	0	496
Total	4,351	826	130	23	5,330

Source: NOMIS - ABI Workplace Analysis ABI 2004

Statistics from the Department of Trade and Industry on VAT registrations and de-registrations is used to examine the level of business start-ups and closures. It is important to note that small businesses, which are below the VAT threshold, are not captured within this analysis. As **Figure 3.1** shows, VAT registrations within Dumfries and Galloway have remained relatively stable, averaging around 320 registrations per year since 1994.

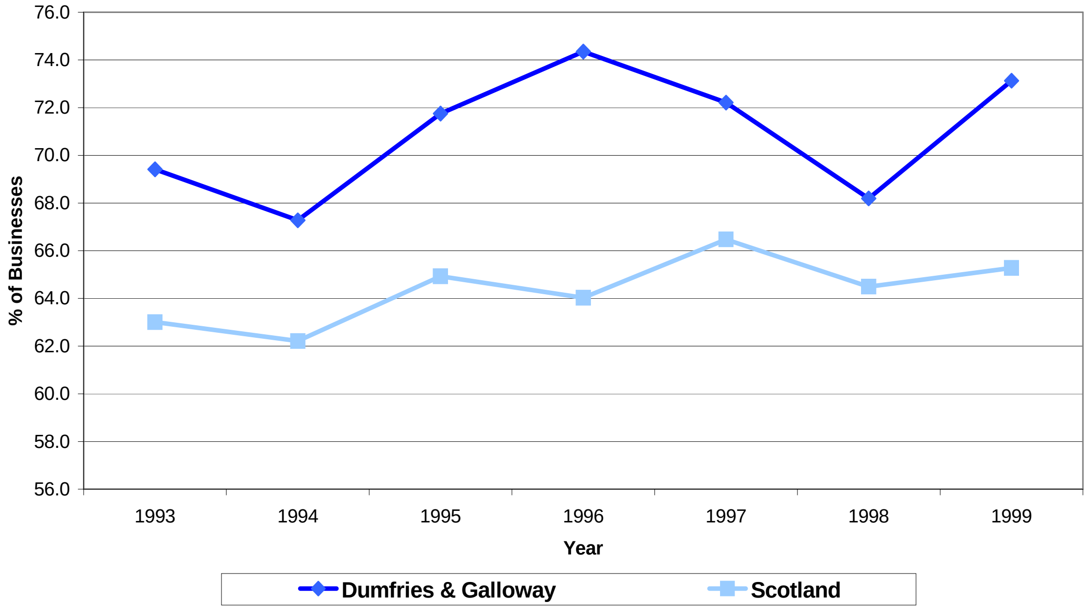
Figure 3.1: Registrations and De-Registrations in Dumfries and Galloway



Source: NOMIS: VAT registrations and deregistrations from the Department of Trade and Industry.

Over the 1994-2004, a fall in the number of business de-registrations has been evident. Deregistrations have fallen from 375 per annum in 1994 to 330 per annum in 2004. There were also dips in 1998 (275 deregistrations) and 2002 (265 deregistrations). This would suggest that business survival rates within the Dumfries and Galloway area are improving.

Figure 3.2: Three Year Business Survival Rates in Dumfries and Galloway



Source: Small Business Service

A breakdown of survival rates by year is reported in **Figure 3.2** and confirms the view of improving business performance in Dumfries and Galloway. While national survival rates have risen by 2.3% between 1993-1999, rates for Dumfries and Galloway have risen by 3.7% over the same period, highlighting that Dumfries and Galloway has consistently outperformed the national average.

3.2.2 Market Projections

Employment forecasts can be used to gain an insight into potential future growth sectors. Employment forecasts are produced by BSL/Experian and are available for most Scottish Enterprise LEC areas. Projections available for Dumfries and Galloway are available up to 2016 as summarised in **Table 3.5**.

A steady decline in the number of Full Time Equivalent (FTE) jobs is expected between 2004-2016. The only sector expected to record an increase in employment is the “other (mainly public) services” sector. Worryingly, Dumfries and Galloway’s key sectors in terms of business stock such as distribution, hotels and catering and financial and business services, are projected to experience a steady decline in employment up to 2016 of 19% and 6% respectively.

TABLE 3.5: BSL EMPLOYMENT FORECASTS FOR DUMFRIES AND GALLOWAY AS % OF 2004 EMPLOYMENT FIGURES (FTE'S)			
	2008	**2012**	**2016**
Agriculture, Forestry and Fishing	-0.5%	-6.5%	-12.9%
Mining & Utilities	-1.3%	-13.1%	-22.3%
Metals, Minerals & Chemicals	-10.2%	-29.1%	-38.8%
Engineering	-9.1%	-25.7%	-41.4%
Other Manufacturing	-1.5%	-3.9%	-4.9%
Construction	-4.2%	-7.3%	-9.1%
Distribution, Hotels & Catering	-7.3%	-13.2%	-18.9%
Transport & Communications	-9.7%	-19.4%	-26.5%
Financial & Business Services	-3.7%	-5.0%	-6.0%
Other (mainly public) Services	4.1%	8.1%	12.2%
Total	-1.9%	-4.4%	-6.1%

Source: BSL/Experian

3.2.3 SEDG Targeted Companies

As of March 2006, there were a total of 296 businesses within Dumfries and Galloway that were targeted or given some level of support by SEDG. A breakdown of this SEDG business portfolio includes:

- 72 growth companies (24%);
- 20 companies identified as "Important to the economy" (7%);
- 192 business gateway clients (65%); and
- 12 high growth start-ups (4%).

3.3 SCOTTISH BORDERS MARKET REVIEW

3.3.1 Existing Market

Latest ABI data shows that 4,489 businesses were located in the SE Borders area in 2004. This represents a 2.5% drop in business base since 2000 and indeed a decline in the business base each year as highlighted in **Table 3.7**.

TABLE 3.6: SE BORDERS BUSINESS BASE (2000/04)		
Year	**Number of Businesses**	**Annual Change**
2000	4,605	-
2001	4,571	-0.74%
2002	4,565	-0.13%
2003	4,555	-0.22%
2004	4,489	-1.45%

Source: ABI - Workplace Analysis 2000 - 2004

The business base can be further broken down by broad industrial sectors, as shown in **Table 3.7.**

TABLE 3.7: SE BORDERS BUSINESS BASE BY INDUSTRIALGROUP						
	2000		**2004**		**Change**	**% Change**
Industry	**Number**	**%**	**Number**	**%**	**2000-04**	**2000-04**
Agriculture and fishing	186	4.0	164	3.7	-22	-11.8
Energy and water	30	0.7	15	0.3	-15	-50.0
Manufacturing	351	7.6	314	7.0	-37	-10.5
Construction	505	11.0	531	11.8	26	5.1
Distribution, hotels and restaurants	1,438	31.2	1,418	31.6	-20	-1.4
Transport and communications	209	4.5	196	4.4	-13	-6.2
Banking, finance and insurance, etc	841	18.3	879	19.6	38	4.5
Public administration, education & health	556	12.1	546	12.2	-10	-1.8
Other services	489	10.6	426	9.5	-63	-12.9
Total	4,605	100.0	4,489	100.0	-116	-2.5

Source: ABI - Workplace Analysis 2000 - 2004

Almost a third (31.6%) of all businesses in the Borders LEC area are in the distribution, hotels & restaurants sector. Along with banking, finance & insurance and public administration, education & health, which make up to 19.6% and 12.2% of the business base respectively, these three industry groupings account for 63.4% of all businesses within the Borders.

A summary of the employment base within the Borders by sector is given in **Table 3.8** to help identify any key differences between the regions business and employment base.

TABLE 3.8: BORDERS BUSINESS EMPLOYEE BASE BY INDUSTRIAL GROUP						
	2000		**2004**		**Change**	
Industry	**No.**	**%**	**No.**	**%**	**No.**	**%**
Agriculture and fishing	647	1.6	700	1.8	53	8.2
Energy and water	293	0.7	159	0.4	-134	-45.7
Manufacturing	7,899	19.8	7,211	18.2	-688	-8.7
Construction	2,106	5.3	2,559	6.4	453	21.5
Distribution, hotels and restaurants	9,549	23.9	8,558	21.5	-991	-10.4
Transport and communications	1,213	3.0	1,287	3.2	74	6.1
Banking, finance and insurance, etc	5,507	13.8	3,804	9.6	-1,703	-30.9
Public administration, education & health	10,969	27.5	12,977	32.7	2,008	18.3
Other services	1,740	4.4	2,475	6.2	735	42.2
Total	39,922	100	39,730	100	-192	-0.5

Source: ABI - Employee Analysis 2000 - 2004

The number of employees within the Borders has fallen by 0.5% since 2000 as a result of decline within energy and water (-45.7%), banking, finance and insurance (-30.9%) and distribution, hotels and restaurants (-10.4%). The top three employment sectors in 2004 were identical to those within Dumfries and Galloway: Public administration, education and health (32.7%), distribution, hotels and restaurants (21.5%) and manufacturing (18.2%).

Also similar to Dumfries and Galloway, the banking, finance and insurance sector identified as one of the top three business sectors within the Borders accounts for only 9.6% of employees and the manufacturing sector which accounted for 7% of businesses, is one of the top three employment sectors in the region.

Table 3.9 further examines the Borders business base by size of business in 2004. The business base is predominantly made up of small companies employing between 1-10 employees. These micro businesses account for 84% of all businesses, higher than the Scottish average of 79%.

TABLE 3.9: INDUSTRY BREAKDOWN BY NUMBER OF EMPLOYEES (2004)

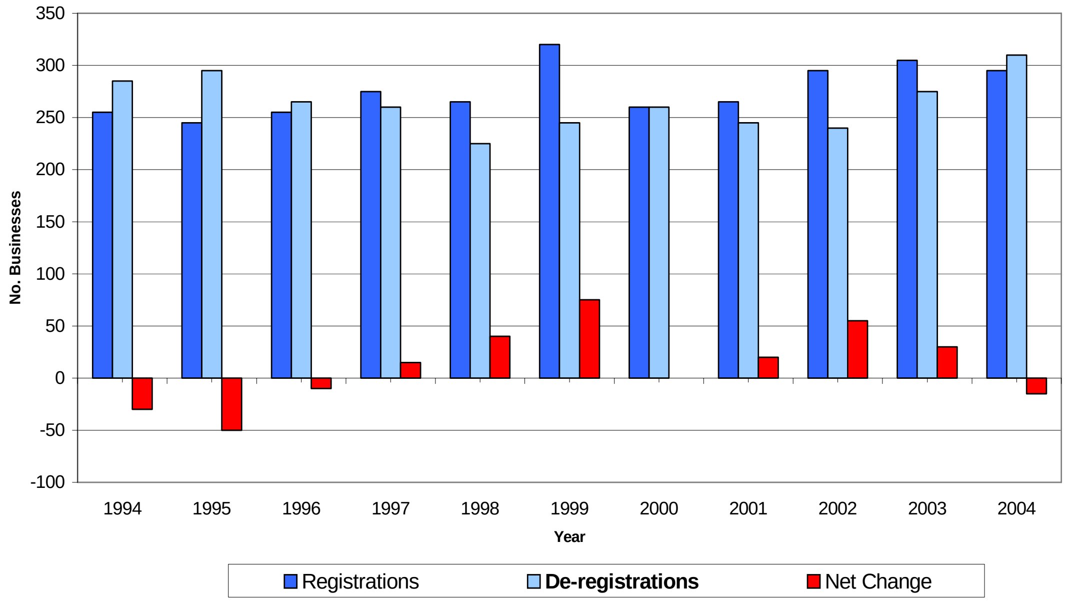
Industry	**1-10 employees**	**11-49 employees**	**50-199 employees**	**200+ employees**	**Total**
Agriculture and fishing	151	11	2	0	164
Energy and water	11	3	1	0	15
Manufacturing	224	60	21	9	314
Construction	478	48	5	0	531
Distribution, hotels & restaurants	1,247	152	18	1	1,418
Transport and communications	173	20	3	0	196
Banking, finance & insurance, etc	815	58	5	1	879
Public administration, education & health	297	194	49	6	546
Other services	391	30	5	0	426
Total	3,787	576	109	17	4,489

Source: ABI – Workplace Analysis 2004

Distribution, hotels and restaurants, banking and finance and the construction sectors all exceed the local average of micro businesses, accounting for 88%, 93% and 90% of businesses within each sector respectively.

As with our previous analysis, statistics on VAT registrations and de-registrations have been used to analyse the level of start-ups and closures within the Borders and the results are reported in **Figure 3.3**.

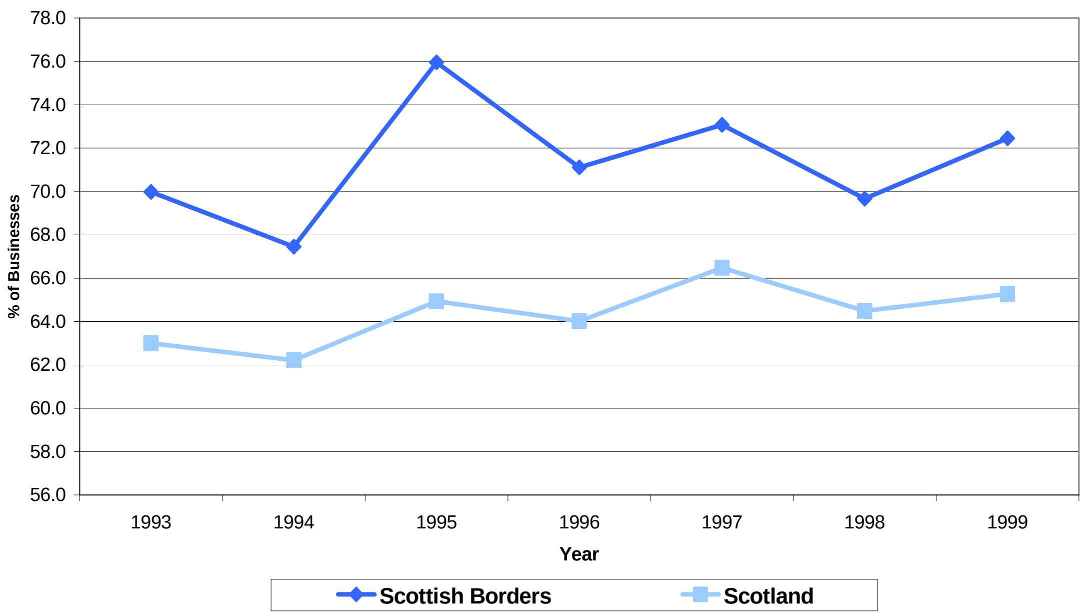
Figure 3.3: Registrations and De-Registrations in Scottish Borders



Source: NOMIS: VAT registrations and deregistrations from the Department of Trade and Industry.

VAT registrations within the Borders have increased since 1994, peaking in 1999 at 320 registrations. The number of deregistrations over the same time period has been variable. Latest 2004 data shows 310 deregistrations, which is greater than the number in 1994 (285 deregistrations) and substantially higher than the drop in deregistrations reported in 1998 (225).

Figure 3.4: Three Year Business Survival Rate in the Scottish Borders



Source: Small Business Service

A breakdown of survival rates by year is reported in **Figure 3.4**. The graph illustrates the variance in business survival rates within the Borders over the period 1993 to 1999. While national survival rates have risen by 2.3% over the period, rates for the Borders have risen by 2.5%, but there have been evident peaks in 1996 (76% survival rate) and troughs in 1994 (67.5% survival rate).

3.3.2 Market Projections

Employment projections up to 2016 for the Borders area are reported in **Table 3.10**.

TABLE 3.10: BSL EMPLOYMENT FORECASTS FOR SCOTTISH BORDERS AS % OF 2004 EMPLOYMENT FIGURES (FTE's)

	2008	2012	2016
Agriculture, Forestry and Fishing	3.6%	1.0%	-2.5%
Mining & Utilities	-8.0%	-22.6%	-32.7%
Metals, Minerals & Chemicals	-0.5%	1.1%	8.0%
Engineering	-9.3%	-6.0%	4.3%
Other Manufacturing	-7.8%	-12.3%	-12.4%
Construction	1.7%	4.5%	7.7%
Distribution, Hotels & Catering	-4.5%	-8.2%	-12.1%
Transport & Communications	-5.2%	-9.0%	-11.6%
Financial & Business Services	-3.7%	-5.8%	-8.1%
Other (mainly public) Services	6.6%	12.3%	18.0%
Total	-0.4%	-0.5%	0.3%

Source: BSL/Experian

A slight decline in total Full Time Equivalent (FTE) jobs is expected in the short to medium term across the Borders area with only the public services (6.6%) and construction (1.7%) sectors forecast to have any growth by 2008.

Looking towards the longer-term, however, by 2016 a slight increase in total employment is estimated. The area's key sectors in terms of business stock, distribution, hotels and catering and financial and business services, are expected to experience a steady decline in employment of 12% and 8% respectively. These are concerning statistics as over half of the area's business stock is located in sectors anticipated to decline.

3.3.3 SEB Targeted Companies

As of March 2006, there were a total of 242 businesses within the Borders that were targeted or given some level of support by SEB. A breakdown of this business portfolio includes:

- 58 growth companies (24%);
- 44 companies identified as "Important to the economy" (18%);
- 97 business gateway clients (40%);
- 36 high growth start-ups (15%); and
- 7 watching brief companies (3%).

3.4 OVERVIEW - SOUTH OF SCOTLAND

3.4.1 Existing Market

As shown in the previous two sections, the South of Scotland has a current business base of 9,819 businesses. This is a slight increase on the corresponding figure for 2000, with the increase in Dumfries and Galloway's business stock outweighing the decline experienced in the Scottish Borders over the same time period.

The three most important sectors in the South of Scotland are: distribution, hotels & restaurants, banking, finance & insurance, and public administration, education & health. Together these three sectors accounted for 63% of the South of Scotland's business base in 2004.

Small companies further dominate South of Scotland's business base with 83% employing less than 10 employees. This is greater than the Scottish average of 79%.

3.4.2 Market Projections

BSL/ Experian employment forecasts for Dumfries and Galloway predict employment decline in all sectors apart from public services. Employment within the Scottish Borders is expected to follow the same trend in the short to medium term before experiencing a slight increase by 2016. In both areas, the key sectors of distribution, hotels & catering and financial and business services are expected to experience falling employment levels.

3.5 MARKET IMPLICATIONS FOR THE SOSLS

The SoSLS operates a targeted approach and specifically excludes some types of sectors (e.g. primary agriculture). It does not generally support business areas that could be considered highly displacing and sets limits on maximum company size in line with EU guidelines (e.g. fewer than 250 employees).

Currently both LEC's have a portfolio of 538 businesses that are given some form of priority support[16] however it is important to note that not all of these businesses would be eligible for support as some for instance would not be SMEs[17]. This current target market represents 5.5% of all businesses in the South of Scotland. Based on a total of 26 loans that have been approved by SEBSED as of March 2006, this creates a penetration rate of 4.8% of the total SEDG/SEB business portfolio. This further equates to an average of 15 loans per annum and an average annual hit rate of 2.8% per annum.

Looking further at the number of projects approved in the last 12 months of the Scheme (19) provides an illustration of the recent annual performance of the SoSLS as it excludes the early slow up-take of loans. This identifies that a hit rate of 3.5% has been achieved by the Scheme over the past 12 months.

[16] Account/Client Managed, Business Gateway Growth Clients, High Growth Start-Ups and Watching Brief Companies.

[17] Currently approximately 30% of all businesses contained within the SEB business portfolio are not SMEs and would therefore be ineligible for support through the SoSLS. Assuming this level is representative of the wider South of Scotland area then the sample of 538 businesses would be vastly reduced to 377, raising the penetration rate of the scheme.

If we assume that this penetration rate (3.5%) is reasonable and make predictions based on average loans awarded over the past 12 months, it implies that a total of 16 projects would have to supported each year by the SoSLS, equating to an annual penetration rate of 3%.

This assumption is based on an average loan awarded of £31,184[18] and that a sum of £500,000 would be allocated to businesses by the scheme each year. We do, however, believe that there is an opportunity to increase this penetration rate, and return to this issue later in the report.

[18] Average value of 19 loans approved by SEBSED over the 12 months to March 2006.

4. PARTNER CONSULTATIONS

4.1 INTRODUCTION

A strong consultative approach was undertaken in conducting the review of the SoSLS. Face to face consultations and workshops were conducted with staff from SEDG, SEB, South of Scotland European Partnership and Wigtown Rural Development Company (WRDC).

The consultations were undertaken using a semi-structured approach with an agreed proforma, incorporated into **Appendix 2**. A wide range of issues were covered including:

- background to the initial set up of the SoSLS;
- management of the Scheme;
- strategic rationale for the Scheme;
- performance to date;
- improvements or changes to the Scheme;
- likely future demand; and
- best approach to developing a legacy in the South of Scotland.

Not all of these issues were relevant to each of the organisations and/or position of employees consulted, however the consultations were tailored to take account of these differences. Consequently we have been able to report the output from the consultations in aggregate form to reflect the general consensus of consultees. To ensure the confidentially of those consulted, no reference or attribution is made to any specific organisation or individual.

It is important to recognise that the consultation responses reported in this Chapter are based on views and perceptions, which while important and valid, are only one dimension of the review. It is important therefore to relate these views and opinions of the actual performance of the SoSLS, as assessed through the formal evaluation.

We have provided some notes for guidance in certain sections of this chapter but it should be noted that this section represents the views and opinions of the consultees rather than of the consultant/client team.

4.2 CREATION OF THE SOSLS

The SoSLS was developed against a desire for retention of funds that had been allocated by the Scottish Executive during the Foot and Mouth Disease (FMD) outbreak, to remain within the South of Scotland to generate a long-term economic benefit to the region.

Each LEC area had similar FMD loan schemes, which supported those businesses most severely affected by the outbreak. Recycled payments from FMD loans were then developed by SEDG to offer loan-funding support to growth businesses through Business Development Loan Scheme (BDLS) and SEB also established the New Ways Loans Fund, not from FMD repayments but monies from SEB, Scottish Borders Council and EU (*refer to **Figure 2.1***).

It was the demand for, and progress made by, these previous loan funds that consultees cited as the key force that led to the development of the SoSLS.

The opportunity to attract available EU funding under the South of Scotland Objective 2 Programme was a further incentive for a broader South of Scotland loan scheme to be developed which could address the entire Programme area.

A further reason explaining the development of the SoSLS is that of market failure, identified in the form of available loan funding for SMEs in the South of Scotland. Whilst most of the consultees were not involved in the initial development of the loan scheme or the market failure research that would have been carried out to justify the Scheme to SE and the Scottish Executive, they unanimously agreed that businesses in the South of Scotland required some form of public sector intervention to support business growth.

The level of market failure and perceived demand for the SoSLS was deemed by consultees to be greater within the Borders than Dumfries and Galloway. This was a result of SEB being unable at that period to provide any discretionary funding to businesses and due to the existence of other products, which SEDG could provide such as the Business Growth Grant Scheme. This is illustrated by the fact that a higher number of applications from businesses within the Borders area have been received and approved to date[19].

With respect to the rationale adopted in establishing the eligibility and targeting criteria of the SOSLS, those individuals involved in the early development of Scheme were no longer involved in its current operation. What we do know however is that both SE and Scottish Executive approval had been sought to set up the SoSLS and that EU criteria be met to secure ERDF match funding. Consequently these three key bodies have heavily influenced and shaped the Scheme’s eligibility and targeting criteria.

Some concerns were cited that due to the SoSLS being developed from a desire to retain Foot and Mouth monies within the South of Scotland, the formation of the Scheme was rushed and fewer businesses than originally anticipated have been assisted. The low take-up rates of the Scheme to date are believed to demonstrate that the fund was not fully considered to meet market demand in the region. In essence, there was a perception that the SoSLS has not reached its full potential.

4.3 MANAGEMENT OF THE SOSLS

The various roles and responsibilities of those individuals and parties involved in the management and approval process of the SoSLS has been discussed in **Section 2.3**. Views on the performance and effectiveness of these various parties were however a key discussion area within our consultation programme.

[19] As of 3rd of March 2006, 16 from a total of 26 projects were supported by SoSLS in the Borders.

4.3.1 External Contractors

Two external contractors are involved in the management of the SoSLS: WRDC who provide administration and management services; and Strategic Options Ltd who carry out the financial due diligence for all applications[20].

Positive views were reported on the performance and quality of the management contractors, WRDC. They were felt to be highly responsive to the needs of applicants, businesses advisers and the SEBSED Board and delivered their management support in an effective and organised manner. Their overall level of responsibility however, was perceived to be minimal and highly administrative.

In relation to the financial due diligence carried out by Strategic Options Ltd, there appeared to be a divergence in the opinion among business advisers and consultees involved within either SEBSED panel or Board.

Some of the business advisers viewed the financial due diligence stage as a pre-emptive barrier to an application being submitted and indeed approved by the panel. They also feared that the economic development case for supporting a project was not given as equal a weighting in the panels decision-making as the financial case. Such comments are not to be unexpected given that many of the business advisers had a strong working relationship with their clients and wanted to support them as far as possible. On a more positive note, recent changes in the application process, whereby the external contractor can now visit clients on-site to address more complex SoSLS applications was deemed valuable and effective in speeding up the overall application process.

Consultees involved in the panel and Board stages of the SoSLS process rated the work carried out by Strategic Options Ltd to be of high quality. The need for an external consultancy to carry out the financial due diligence stage was deemed vital due to the inherent bias of LEC business advisers and to ensure that funds would be allocated to viable financial projects.

4.3.2 Internal Management and Processes

The organisational structure of SoSLS in general was felt to be too large and often confusing, creating uncertainty among business advisers and companies in particular as to who were the key decision-makers.

Our considered view however is that given the nature and due diligence requirements of the scheme it is not unduly burdensome when compared with other forms of financial interventions. It may be the case that previous work by SEBSED to reiterate the organisational structure and decision making process for the Scheme needs to be repeated to ensure all parties are fully informed of their own and each others roles and responsibilities.

[20] Strategic Options Ltd also provide accountancy services throughout Edinburgh and the Borders, in the case that a SoSLS applicant had a previous/current relationship with the company, an alternative contractor is appointed by SEBSED to carry out the financial due diligence stage of their application.

The application processes and subsequent monitoring arrangements were cited by many of the business advisers as being over bureaucratic, not only from an internal perspective but also from the point of view of engaging with companies. Many felt that the level of information sought by SEBSED was much higher than that required from commercial lenders. Indeed the level of information sought by a SoSLS application for loan funding was cited as more arduous than that for grant funding.

It is important to note here, however, that our experience shows both project executive staff and applicant companies frequently highlight this is an issue – everyone wants an easy life with minimal form filling or paper work. Our view would be that the processes are no more demanding than other similar schemes.

It should be noted that the objectives of commercial lenders are different to those of an economic development agency. As identified in **Section 2.5** (Good Practice Review, Value of the loan/equity discipline) a key qualitative benefit that can be attributed to public sector loan schemes is the discipline that can be instilled in businesses (particularly new and small companies) as a result of the process can be very valuable in developing their overall management style and approach.

4.3.3 SoSLS Marketing

As part of their management services contract, as reported in **Section 2.3.4**, WRDC have responsibility for the promotion of the SoSLS to LEC staff, intermediaries and other interested parties. WRDC have largely met their annual targets and undertook ten awareness-raising sessions in the South of Scotland during 2005.

The quality and added value of previous marketing activities carried out by SEBSED, including a mail shot to businesses that had previously received Foot and Mouth Loans and the production of a SoSLS project Case Study, was however felt to be of limited value.

The mail shot carried out in April 2005 was cited as generating between 20-30 notes of interest among businesses however many did not meet SoSLS support criteria. Consultees believed that this process only raised false expectations among local businesses and may have had a further detrimental effect by preventing those businesses approaching and working with either LEC in the future for relevant support. The SoSLS case study was cited as poorly written and made the application process appear much easier than in practice.

Consultees highlighted the key role of LEC business advisors in effectively marketing the SoSLS, as they inform businesses of the Scheme and advise them whether their business sector/project type could be suitable for support. Presently, a number of business advisors do not rate the SoSLS highly and indeed feel that encouraging their account/client managed businesses to submit an application could damage their long-term relationship with that company given their concerns about some aspects of the scheme, for example the length and requirements of the SoSLS application.

This is an issue that needs to be addressed by SEBSED in the future to ensure buy-in and promotion of the scheme by the business advisors. The value of the Scheme needs to be reiterated to those front-line staff members that are involved in supporting applications.

4.4 STRATEGIC RATIONALE

Consultees' views regarding the need for a South of Scotland specific loan scheme were unanimous. The fact that local judgement can be applied to support local companies was raised as a crucial component of the SoSLS and whilst initial take up was slow, there were signs that the Scheme was now gaining momentum.

In terms of how the SoSLS fits with the priorities and other products available within SEB and SEDG, consultees broadly felt that nothing really existed in the Network that was similar to the SoSLS. It must be mentioned that at the time of the consultation process, consultees were not aware of the new Scottish Seed Fund.

Generally the SoSLS was viewed as a niche product, enabling businesses in the South of Scotland to compete more effectively with other businesses across the SE Network. Furthermore some considered the Scheme to be a source of competitive advantage, as it was a locally delivered Scheme.

The SoSLS "fit" with existing commercial financial products was another area discussed with consultees. The Scheme was not felt to be duplicative and indeed cited as addressing key market failure issues as a result of:

- commercial lenders being generally uninterested in supporting start-up businesses and SME's within particular sectors which the SoSLS will support;
- applicants exhausting commercial borrowing routes; and
- applicants requiring SoSLS support to lever in additional commercial borrowing.

SoSLS applicants must demonstrate that they have tried to attain alternative sources of commercial borrowing. This helps to ensure the Scheme is used as a lender of last resort and limits the possibly of the SoSLS displacing existing commercial activity. Consultees were confident that the Scheme was being used by applicants for the purposes it was set up for – a lender of last resort, and that it was indeed complementing existing commercial borrowing activity within the South of Scotland.

We would, however, advise that based on our business interviews this belief does not appear to be entirely correct. As will be discussed in **Section 5.5,** half the businesses surveyed stated that they would have been able to find alternative sources of funding had SoSLS support not been available.

4.5 PERFORMANCE

Overall, there was a range of views as to the perceived success of the SoSLS, with a generally more positive view generated by consultees in the Borders. This is partly reflected in their more intensive use of the scheme[21]. In Dumfries and Galloway, the scheme was seen as being "one option" (and not always a favoured option) to support business expansion.

[21] 16 of the 26 SoSLS applications approved as of 3rd March 2006 were for companies located within the Borders region.

In performance terms, consultees were aware that the SoSLS had not achieved its targets with respect to the number of successful applications or economic impact generated. However they were aware of slow take-up issues having affected performance and did not believe that the SoSLS was any less efficient in performance terms than other existing Network products.

Aspects of the SoSLS that were identified as having worked well to date include:

- favourable interest rates and holiday periods offered by SoSLS loans;
- the range of business sectors and types of businesses supported (e.g. start-up businesses), which are often not viable in the eyes of commercial lenders; and
- commitment to ensure recycled Foot and Mouth loan payments are used to the benefit South of Scotland businesses in the longer term.

4.5.1 Reasons for Current Performance

Consultees identified a number of possible reasons, based on their own perception and client feedback, to account for the poorer than initially anticipated performance of the Scheme:

- loan terms and requirements being greater than commercial bank loans. The amount of effort required by the applicant does not make the SoSLS attractive to businesses;
- the application process was viewed as too lengthy and the level of supplementary financial documentation required is too expensive in both time and monetary terms for potential applicants, particularly very small businesses with limited expertise or capacity;
- opportunity of supporting applications by very small businesses is being missed as only projects requiring a minimum of £5,000 loan funding are currently eligible for support;
- businesses within the South of Scotland and particularly in Dumfries and Galloway are used to a public sector grant culture and perhaps unappreciative of the value of loan funding support; and
- the criteria set by the Scheme in terms of the types of project supported, sectors assisted and the fact that only a maximum of 50% of total project costs are supported makes the SoSLS unattractive or impractical to some businesses seeking support. A key point to note however is that this is a criticism of the maximum intervention rate permitted for all public sector schemes.

4.5.2 Actions Taken to Improve Performance

SEBSED and the two LEC Project managers have taken a number of steps to try and remedy issues currently affecting SoSLS performance. Recent actions have included:

- enabling the financial due diligence contractor to meet businesses directly when completing the financial stage of the SoSLS application. This has been used in cases where applications have been complex and where speedy decisions have been necessary to support business projects and has been viewed positively by those business advisors involved;

- introduction of a shorter application process for loans under £10,000. We understand that this has recently been addressed by SEBSED, however, at the time of our consultations some of the business advisors were unaware of the change;

- development of a "Project Outline Form" to assist business advisors when making decisions on project eligibility. This form should be able to be completed quickly and emailed to SEBSED, thereby providing a speedy reply to businesses advisors regarding the eligibility of particular projects; and

- developing a range of training and awareness courses with business advisors in addition to the publication of a range of supplementary documents on the LEC's 'F drive' to support, inform and reiterate SoSLS management and approval procedures.

In short, there was a general consensus that if the SoSLS had never existed then some of the projects and their subsequent outcomes would not have occurred – i.e. some degree of additionality. As such the Scheme was felt to be a useful business development "tool" for the LECs to have available, but that it could be further improved.

4.6 KEY IMPROVEMENTS OR CHANGES

As is often the case when carrying out consultations as part of a project evaluation, a wide range of key measures that could be made to improve the current performance of the SoSLS were suggested by the consultees.

The ideas provided are summarised under key themes below, however it is important to recognise that any major change to the SoSLS will need to be made in tandem with the Scottish Executive, Scottish Enterprise and EU criteria in which the Scheme was developed and funded.

Marketing

Generally there was a perceived requirement for improved marketing effort to try and heighten the profile of the SoSLS and ensure that the recent improvement in take-up is sustained. A shift in focus was suggested, whereby SEBSED should try to be more pro-active as opposed to its current re-active stance and in stimulating demand for loans within the South of Scotland for appropriate businesses.

Application and Approval Process

A number of suggestions were made by business advisers and those involved in the SEBSED Panel and Board to improve the current SoSLS application and approval process:

- ensuring that applicants are clearly aware upfront of all the financial and monitoring information required to apply for and secure a SoSLS loan. This should help to speed up the application process and prevent any successful applicants from repaying funds early due to onerous monitoring requirements;

- in order to limit the number of questions raised by the SEBSED panel regarding a particular application and reduce the overall application process, additional parties such as Strategic Options Ltd, the relevant business advisor or indeed a representative of the company should be invited to the panel decision meeting. This will ensure that all queries are dealt with quickly and efficiently;

- the minimum £5,000 loan threshold should be revised. Consultees felt this restriction was probably put in place to prevent a floodgate of applications being made, however given the eligibility criteria, the interest rate payable and the fact it is a loan as opposed to grant product, then oversubscription was not believed to be a likely threat;

- one current gap in public sector business development support cited by consultees was that of supporting business start-ups for those aged over 31 years (i.e. who were ineligible for Princes Trust Support). The SoSLS could perhaps be used to support this particular sector; and

- in terms of the types of sectors supported, consultees agreed that the Scheme should be growth focused and not about supporting a failing business. Given this stance they felt that supporting retail/hospitality type businesses should be more actively encouraged.

Monitoring

Business advisors raised the need for changes to the current level of SoSLS project monitoring. At present, those businesses that successfully receive SoSLS support are monitored quarterly for the first year and then every six months during year two and then annually until the loan is repaid.

Some of the advisors felt that the monitoring of projects after only three months was too soon, particularly as some businesses are not able to spend all their project funds within this timeframe.

As opposed to monitoring on a quarterly or six-monthly basis it was suggested that it would be more effectively completed if it were undertaken at pre-agreed key project milestone points (e.g. once a new member of staff had successfully completed their training or once new machinery had been fully purchased and become operational).

A further aspect with regards to project monitoring was the need to take into account business seasonality. A number of the businesses awarded SoSLS loans fall within sectors affected by seasonality (e.g. tourism and the textiles industry), which make production of quarterly monitoring and accounts difficult. One particular business supported by the SoSLS was reported to have repaid their loan in full as a direct result of this issue.

4.7 FUTURE DEMAND

Future demand for the SoSLS was a further area discussed, and the general consensus among consultees was that changes are required otherwise demand for loans would diminish as all the “obvious” target companies were supported. Key changes and improvements to the Scheme included:

- allow the Scheme to support property construction and expansion projects which are currently not highlighted as a priority. Although property projects can and are supported it would help to give a stronger profile to addressing this aspect where there is clear market failure;

- target the Scheme specifically to and at key growth sectors in the region. While most sectors are already eligible perhaps a greater marketing focus on sectors such as textiles, tourism or knowledge intensive industries could improve its level of interest and subsequent take up by businesses in these growth sectors;

- award loans of less than £10,000 to enable smaller businesses to fund projects and help tackle small rural business growth. While loans have always been available from £5,000, this lower level of intervention is not fully appreciated by the Business Advisors, many of whom continue to believe that the limit is £10,000;

- increase the general marketing and awareness raising activity of the Scheme; and

- improve the application process with respect to timescales and the level of financial documentation required. Steps have already been taken to simplify the process for loans under £10k although interestingly, as yet there have not been any reported cases using this new process.

4.8 LEGACY OF THE SOSLS

The last discussion area with consultees focused on potential legacy options for funds after 2008. A range of potential options were identified, however, in general consultees viewed that a legacy project should seek to make significant changes to the current SoSLS or indeed support a project that would create something inventive and unique for the South of Scotland.

Various new schemes or projects that could be developed as part of a legacy project focused on the following areas:

- an industrial property scheme: support the building of industrial property where there is evidence of market failure in the South of Scotland, particularly for smaller businesses;

- R&D, innovation and product process development scheme: encourage and invest in the diversification and collaborative working amongst businesses in the South of Scotland;

- community/social enterprise initiative: specifically providing financial support for the set-up or growth of community/social enterprises across the South of Scotland;

- South of Scotland Business Centre: development of a business centre to house the local business base, potentially targeting business start-ups or one particular sector (i.e. knowledge industries);

- South of Scotland Trust: creation of an arms length organisation that could set their own criteria to support businesses in the area; and

- supporting modern apprenticeships: funds could be used to establish a new scheme that provides finance for businesses seeking to take on an employee through a modern apprenticeship in the South of Scotland.

However, following the consultations events have overtaken the above and a longer term approach for SoSLS is discussed later in the report.

5. COMPANY SURVEY

5.1 INTRODUCTION

This Chapter focuses on the results of the telephone survey carried out with companies that had been awarded SoSLS loan funds. A total of **16** businesses were consulted from a total sample[22] of 17, resulting in a 94% response rate.

A copy of the questionnaire used for the business consultation stage is provided at **Appendix 3**, however the key areas discussed with businesses included:

- general company information: including primary business sector, current sales, employee numbers and current markets;
- company awareness of the SoSLS: including appreciation of the objectives of the Scheme and conditions of support;
- perceptions of the SoSLS application process: any difficulties experienced and how it could be improved;
- impact of SoSLS support: company project outcomes and consideration of the level of additionality attributable to this support; and
- perceptions of the Scheme: strengths, weaknesses and areas for improvement.

This stage of the review was vital to understand how those businesses that received SoSLS support valued the Scheme and what improvements, if any, they could identify.

5.2 COMPANY SAMPLE CHARACTERISTICS

The sample of SoSLS businesses surveyed captured the views of six companies from Dumfries and Galloway and 10 companies from the Borders, reflecting the higher take-up of loans by businesses in the Borders. The companies surveyed represented a number of sectors, 75% of which were in the following sectors:

1. manufacturing (44%) including: food, textiles and IT related manufacturing;
2. childcare (19%); and
3. business services (12%).

[22] At the time of the business consultation stage (Dec05/Jan06) there had been a total of 19 companies awarded loans by the SoSLS. Two of these companies had gone into liquidation, leaving a total sample of 17 companies that could take part in this stage of the SoSLS Review.

Turnover and Customer Base

The businesses provided details of their current gross annual turnover, how levels had changed in recent years and their expectations for the future. This information was useful to gain an insight into the performance of businesses supported by the SoSLS and to try and identify if support has, or will improve, business performance.

The current turnover levels of those businesses surveyed were split between the following categories:

- the smallest annual turnover category among the sample was £50,000 - £99,999 and only **one company** fell into this category;
- **two companies** had turnover between £100,000 - £249,999;
- the most common turnover level, between £250,000 - £499,999, was reported by **six companies**;
- **four companies** fell into the £500,000 - £999,999 category; and
- **three companies** reported turnover within the largest £1m - £4,999,999 range.

The sample of businesses supported by the SoSLS therefore represented a broad range of businesses from SME's, to medium and larger sized businesses.

TABLE 5.1: SALES AND PROFIT LEVELS

	Sales		Profits	
	Last 3 yrs	Next 3 yrs	Last 3 yrs	Next 3 yrs
Increased	14	16	13	16
Decreased	2	-	2	-
Stayed the Same	-	-	1	-

Based on a total sample of 16 businesses.

Businesses were also asked how their sales and profit levels had changed over the last 3 years and the results are summarised in **Table 5.1**. Five of the 16 businesses consulted were business start-ups therefore the current sales and profit levels for these businesses had grown from zero in the recent year/18 months. For the remainder of the sample, only two of the companies had experienced a decrease in sales and profits over the past 3 years, highlighting the high proportion of growing businesses given SoSLS support.

In terms of future business sales and profits, the outlook for the sample was positive with each company anticipating an increase in sales and profits over the next three years. Growth predictions provided by some respondents regarding turnover ranged from marginal business growth over the next three years to a 25% increase, due to businesses predicting to be awarded new contracts or as a result of expanding internal operations.

Generally, businesses were optimistic about their business sector, with 75% of the sample stating that markets for their products were growing and a further 19% stating that they were growing strongly. This suggests that SoSLS support has been awarded to businesses with market growth potential, which are most likely to contribute to generating real economic improvement within the South of Scotland.

The geographical distribution of current business sales within the sample included:

- three companies had a **concentrated turnover base within the South of Scotland** (e.g. between 90%-100% of sales) and these were all local childcare type businesses;

- the two textile manufacturing businesses within the sample reported the **highest proportion of overseas turnover** (between 65%-90%); and

- **Scottish sales varied between 3% and 67%** of total company sales; and

- **UK sales ranged from 10% to 95%**.

<u>Employees</u>

The telephone survey identified current employment levels across the business sample and examined any changes that had occurred over the last three years, as well as future expectations. Alongside turnover and profit data, this information is a good indication of business performance.

A total of 219 staff were employed by the 16 businesses within our sample, representing 187 full-time and 32 part-time positions, equating to 203 FTE's. The gender split was 49% male and 51% female and no ethnic minority or disabled employees were reported.

In terms of how this current employment level has changed over the past three years, the majority of companies (63%) reported that employment had increased, only one business had reduced the number of staff and the remainder had stayed the same.

Future employment predictions were promising with 14 of the 16 businesses stating that they would expect employment to rise over the next three years and the remainder expecting levels to remain static. Consequently, based on turnover, profit and employment factors the businesses within our sample that have been awarded SoSLS loans appear to be growing and will be likely to generate positive economic returns for the South of Scotland in the future.

5.3 AWARENESS OF SOSLS

The following section discusses how businesses were first made aware of the SoSLS and summarises what respondents cited in terms of their understanding of the objectives and remit of the Scheme. This will help to establish the current perceptions held by local businesses in relation to the SoSLS.

Three quarters of the survey sample first became aware of the SoSLS through direct contact with their LEC as they were either Account or Client managed businesses. Other ways in which businesses became aware of the Scheme included through existing contact with their LEC or through the financial due diligence contractor.

The level of understanding in terms of the objectives and remit of SoSLS among supported businesses surveyed was varied. Four companies had no real knowledge of the objectives and remit of the Scheme, whilst others generally commented on the following aspects:

- the SoSLS was recycling funds or indeed following on from Foot and Mouth support previously available to businesses in the area; and
- generally the Scheme supported local economic development – for example business start-up or business growth purposes.

The very general responses provided by the business sample are to be expected given the range of loan schemes that have existed within the South of Scotland over recent years and also because the fund is marketed predominately by local business advisors therefore is it viewed as one of range of SE Network business development products.

The majority of businesses consulted (*14 out of 16*) felt that they had received adequate information by their LEC business advisor to judge whether the SoSLS was an appropriate source of finance for their specific project. The only contradictory issues raised by the two remaining respondents was that they were not made fully aware of the level of financial information they would be required to provide or indeed the extent of public information disclosure surrounding their business.

Similarly, in relation to business awareness of the full obligations and conditions of SoSLS support, the majority of companies felt they had been fully informed. Two businesses again however, stated they had not been fully aware of the requirement for quarterly monitoring and this led to one company subsequently re-paying their loan.

It is important to note that it was the same two businesses that reported concerns in both of these areas. This would therefore indicate a particular issue regarding the application process or expectations of these businesses, rather than a general issue for the scheme overall.

5.4 APPLICATION AND APPROVAL PROCESS

The SoSLS application process was a subject identified as requiring improvement and change by a number of business advisors during the consultation stage. The application process is also one of the key stages that must to be efficiently managed in any business development product as it has a large influence on the perception of the value of the product and the supporting organisation.

The sample was asked how they found the SoSLS application and again views were mixed, with six of the businesses stating the application was "easy" to complete whilst a further six businesses said it was either "difficult or very difficult". Notably, none of the respondents commented that it was "very easy" to complete.

Particular complications or factors leading to difficulties in completing the SoSLS application included:

- applicants were unable to contact the SEBSED panel directly whilst preparing their application;
- the level of information required to support an application, particularly financial information, was felt to be vast and sometimes resulted in extra professional fees that were not anticipated by the business at the outset;
- the application was lengthy and too much detail was required; and
- the information sought by SoSLS differed to that required by commercial lenders, resulting in duplication of effort and increased costs to the business.

Companies wishing to apply for SoSLS support typically have access to a LEC business adviser. To assess whether this level of support was sufficient and effective, respondents were asked about the level of guidance they had received whilst completing their application. Only one of the respondents stated they had not received appropriate guidance from their Business Advisor.

The business sample were less supportive however of the SoSLS decision-making process. Nearly half of the companies interviewed (44%) commented that the decision making process was not clear, fair or appropriate. Reasons for this poor perception included:

- confusion and mix up in communication between the LEC business advisor and the applicant business, resulting in the client not being kept up to date with SEBSED panel information requests or their project approval status;
- a difference of opinion arising between the applicant and the due diligence contractor;
- the repeated round of questions made by SEBSED panel to the business, slowing the overall approval process; and
- one business in particular was awarded only half of the loan they had applied for and were required to re-justify their requirement for the remainder of the loan at a later stage.

After successfully being awarded SoSLS support, a further key aspect of the application and approval process is the level and quality of aftercare offered to businesses by both the SoSLS and LEC business adviser. Only one business felt that they had not received appropriate aftercare from the SoSLS. This business viewed SoSLS/SEBSED as faceless as a result of no feedback being given to them on returning monitoring information.

In terms of the level of aftercare offered by LEC business advisers, again most of the business sample was happy with the support that they had received. Only two companies identified discontent and this was in relation to poor feedback from their business advisor.

The business sample identified a number of potential improvements to the current SoSLS application/approval process. Business advisors have already identified many of the suggestions presented below, however it is important to re-iterate areas for improvement sought by clients:

- allow businesses to present their application directly to the SEBSED panel, particularly in the case of complex applications or where a prompt decision is required;
- reduce the level of financial and supporting documentation required by businesses in submitting a SoSLS application;
- improve connections and speed between the SoSLS and commercial lenders;
- improve the content of the application form to try and minimise the number of questions sought by the SEBSED panel after an application has been submitted; and
- generally improve the speed of the application and approval process and widen the eligibility criteria in terms of the types of projects and sectors supported, where appropriate.

5.5 IMPACT OF SOSLS SUPPORT

One of the most important aspects of any project review is to try and identify where possible, the impact that the support has had on its beneficiaries. Given that this is an interim review of the SoSLS it will not be possible to demonstrate the overall impact of the Scheme. It will, however, provide a snapshot of the impact that the SoSLS has had on business performance from the initial sample of businesses supported to date. It also allows for some assumptions to be made regarding future likely impacts of the Scheme.

The SoSLS was developed due to a perceived need and identified market failure in terms of access to commercial loan funding by businesses in the South of Scotland. The following analysis will identify the extent of market failure of those 16 businesses interviewed and highlight where the Scheme is creating real additional economic benefit in business performance terms.

Looking firstly at the difficulties faced by businesses within the South of Scotland in terms of access to commercial borrowing, half of the sample stated that they had been unable to obtain sufficient funding from other sources. The Scheme had therefore met a commercial borrowing gap in the following cases:

- where the businesses had reached their maximum bank overdraft/loan level;
- where directors loans to the business had reached their maximum point;
- as a result of banks being risk averse to supporting start-up businesses; and
- when banks required public sector funds to be levered in to support a commercial borrowing application.

Not all of the business sample, however, confirmed that the SoSLS was a lender of last resort with eight businesses confirming that they would have been able to obtain funding from other sources. Cases where businesses used SoSLS support when other avenues would have been available to them included:

- where SoSLS support was for a large piece of equipment and the businesses did not want to use commercial borrowing for such a purpose as it would be more expensive;
- the business had benefited from other SE support previously and preferred dealing with the LEC as opposed to a commercial lender;
- the business was aware of the SoSLS, that their project was likely to be eligible for support and was attracted by the low interest payments; and
- where the business was advised by their business advisor that this form of support was available and they decided to apply in the first instance.

Consequently not all respondents advised that the SoSLS was a lender of last resort, particularly where their business advisor had marketed the scheme to them. However, what these results do not show is where the experience of the business advisor directed the business toward SoSLS because they were aware that other funding sources would be limited or unobtainable for that particular business or project.

The main outcomes reported from the sample of businesses supported by the SoSLS included:

- an increase in sales (62%);
- an increase in exports (13%);
- an increase in customers (31%);
- productivity improvement (13%);
- new product/process development (19%);
- improved staff skills (6%); and
- other business related outcomes (62%).

“Other business related outcomes” included an increase in the number of jobs and modern apprenticeship places, completing physical premises work which enabled the business to begin trading, assisting the business to carry out their own manufacturing and/or expanding their product range.

To understand the extent to which the identified range of project outcomes would have occurred as a consequence of SoSLS support, a range of questions were asked in the telephone survey. These questions[23] helped to establish the level of additionality that the SoSLS intervention created for those supported businesses surveyed. The results were as follows:

- fourteen companies (87% of the sample) would still have undertaken their project had SoSLS support not been available. Of these businesses partial additionality was identified however with:

    - ten companies stated that the project would have been carried out **later**
    - six companies commented their project would have been carried out on a **smaller scale**
    - two companies felt that their projects would have been completed to a **lower quality**;

- two of the businesses within the sample (13%) stated that their project would not have gone ahead without SoSLS support, therefore the Scheme created absolute additionality; and

- lastly, four of the companies reported that not only would the project have gone ahead without SoSLS support, but that factors such as the timescale, quality or scale would not have been affected and therefore the scheme created no additionality in these instances.

Similar to the responses made by the sample regarding the availability of alternative funding sources had the SoSLS not been available, it appears to be the case that for four of the businesses, the impact of public sector support was negligible. We would caution, however, against over-reliance on this response. It is common in business development evaluations, for some businesses to report that their project would have proceeded in any case, particularly after the event when the positive impacts can be identified by the business.

Therefore we would caution that the extent to which the SoSLS did not generate any additionality in a quarter (4) of its businesses is highly unlikely.

5.6 COMPANY PERCEPTIONS OF SOSLS

The last section of this Chapter reviews the perceptions of businesses that have been awarded loans, in terms how the Scheme has met their expectations and to identify its key strengths.

A key feature of the SoSLS loan is the low interest rate payable, which is lower than that offered by commercial lenders. Businesses were asked if they were drawn by the interest rate payable and nearly all of the respondents stated that it was a factor in attracted them to the scheme. Not only did respondents state the competitive interest rates as a good incentive but also the optional six-month payment holiday was also important for many businesses, particularly the new business start-ups.

[23] Questions used to measure additionality included questions 30a and 30b within **Appendix 3**.

The SoSLS is not a Scheme that has been offered throughout the Scottish Enterprise Network. We therefore asked the business sample if they valued the fact that it was a fund for local businesses. Only a quarter of the respondents stated that they valued the local nature of the fund because they felt it ensured local businesses received adequate public sector support.

The majority (12 out of 16) of respondents did not perceive the fund being exclusive to the South of Scotland as an important factor to their business. This was a result of some of the businesses really viewing the SoSLS as another LEC product or simply because obtaining financial support from any source was a key priority of the business and the fact it was a local fund was an arbitrary issue.

Overall, the majority of businesses interviewed (69%) either agreed or strongly agreed that the level of support they had received from the SoSLS had met their company needs.

Those respondents that considered the level of support to be inadequate, specifically identified the cost of the application and approval process both in time and monetary terms. They considered that this factor made applying for SoSLS support not worthwhile in the long run. Another factor identified was that one business did not receive the full amount of loan funding sought, and therefore the level of support had not been sufficient for them to complete their project in full.

Table 5.2 below summarises what the business sample identified as the strengths and weaknesses of the SoSLS.

TABLE 5.2: STRENGTHS & WEAKNESSES OF THE SOSLS
Strengths
- The competitive interest rates payable
- The six-month payment holiday option
- The support provided to applicants by LEC business advisers
- The scheme prioritises support to South of Scotland businesses
Weaknesses
- The application/approval process is too lengthy and complicated
- The level of monitoring information required, particularly in the first year of support
- Applicants are unable to speak with the decision-making body, but in a commercial setting they would be able to speak with the decision-maker directly
- Security is required for loans over £20,000
- Only 50% of total project costs can be supported
- SoSLS is not well marketed, particularly for businesses not engaged with their LEC
- The eligibility criteria: some key South of Scotland business sectors are not supported such as retail

Based on these strengths and weaknesses of the SoSLS, respondents provided some insight into how the Scheme could be improved:

- increase the level of marketing activity and try to target those businesses not actively engaged with their LEC;

- review the SoSLS application process and try to ensure that it is compatible with that of commercial lenders to speed up the overall process for applicants;

- reduce where possible the level of financial documentation required to make an application;

- improve the current facelessness of the SEBSED panel – potentially allowing some form of applicant representation at panel meetings etc;

- target currently unsupported sectors such as retail; and

- try and improve loan terms: cover up to 75% of project costs, widen the minimum and maximum borrowing range i.e. allow applications of more than £50,000 and less than £5,000.

The last issue discussed with the business sample was their likelihood of applying for SoSLS loans in the future. A high number of respondents (14 out of 16) said that they would like to take out further SoSLS loans in the future, which is a real illustration of the true value placed by businesses on the Scheme.

6. FUTURE IMPROVEMENT AND OPTIONS FOR THE SOSLS

6.1 INTRODUCTION

One of the key drivers of the study was to consider how the future sustainability and retention of the SoSLS could be ensured. This review of future options for the scheme has been undertaken based on the following criteria:

1. the SoSLS should continue after its proposed closing date of December 2008, however, improvements must be made to maximise efficiency, uptake of loans and overall value for money;
2. there should be key changes to the management and delivery structure of the Scheme, however, improvements should be incorporated within the existing rather than a new structure; and
3. demand in relation to the take-up of loans must be reviewed again in two years to re-establish whether there is a need to make major changes to the Scheme or if indeed it is continuing to address a key area of market failure. If demand for loans will not result in the full uptake of the scheme it is identified at this stage that other opportunities such as a legacy project should be considered.

This Chapter outlines the improvements that should be addressed with respect to SoSLS operations, management and delivery to ensure its future efficiency. It also identifies a range of potential legacy options for the Scheme in the future, should it become apparent that demand for the current type of support would not fully exhaust available resources.

6.2 SCHEME OPERATIONS

In order to increase the current levels of SoSLS loan take-up and ensure that the Scheme does reach its full potential there are a number of operational improvements that could be made. These improvements have been identified by consultation with SoSLS employees, project partners, assisted businesses and importantly on our professional experience of changes that could improve current SoSLS operations.

1. Extend and prioritise the <u>types of sectors</u> the SoSLS currently supports.

   As shown in **Table 2.4** (page 21) the types of sectors supported by the scheme to date have been quite varied, however, there are a number of key growth sectors that are not represented such as retail and hospitality. Traditionally highly displacing sectors have not been a priority for SE support, however it is appropriate that growing sectors within the South of Scotland should be considered as eligible for support. The SoSLS is a loan and not grant based Scheme, therefore if a business can identify growth potential and an inability to find alternative sources of finance then it should be considered for support.

2. Extend and prioritise the <u>types of businesses</u> the SoSLS currently supports.

   The SoSLS has the opportunity to support a wider range of business types such as social economy or voluntary organisations as well as start-up businesses belonging to those over 31years (who are not eligible for Princes' Trust Support). While these business types are currently eligible, explicitly marketing support to these types of businesses would ensure the SoSLS was meeting a further gap or market failure not only in the form of available borrowings but in public sector support.

3. Extend the <u>range of projects</u> suitable for SoSLS support.

   As also identified in **Table 2.4** – the SoSLS supported a number of project types from working capital to marketing and ICT related projects. One key area however, that both business advisers and companies themselves identified was the need for soft loans to support property construction/development projects. Previously only property re-fit projects have been supported and given the well documented property related market failure in the South of Scotland, particularly for SMEs, we feel this is something the SoSLS could also help to address through explicit marketing activity.

6.3 SCHEME MANAGEMENT AND DELIVERY

We believe that there should be no structural change in the management and delivery of the SoSLS.

SEBSED have developed considerable expertise in running the Scheme to date and we feel that it would be inappropriate to replace the current structure just as the Scheme is beginning to gain momentum. There is also the issue of the current level of confusion identified by LEC business advisers and companies as to the management arrangements of the SoSLS. Any further changes would be likely to further augment the situation.

There are, however, a number of improvements that could be made to improve the current management and delivery of the SoSLS as outlined below.

1. Step up both the level and type of marketing activity for the Scheme.

   The need to address both the current level and type of SoSLS marketing was an issue raised repeatedly during both the consultation and business survey stages of the review. Whilst the SE marketing guidelines must be adhered to there is a requirement for SEBSED to focus on this issue and to take more of a pro-active as opposed to the current re-active stance. Sector driven marketing campaigns, as well as targeting businesses currently not in dialogue with the LECs, were some of the suggestions made, however, what is clear is that increased marketing activity could help to heighten the profile of the scheme.

2. Re-iterate current management and approval stages.

   Despite various training and awareness raising events with business advisors and the publication of a range of resources to try and educate and simplify the organisational structure of the SoSLS and its approval process, this work needs to be repeated carried on until all frontline staff are fully informed. This is likely to require an ongoing awareness raising programme with business advisors.

3. Improve the SoSLS Application Form.

   Changes to the SoSLS application form should be made to help address two criticisms identified within this review. Making applicants fully aware of the level of information necessary to make an application as well at the monitoring requirements if they successfully receive support should be included as a very clear requirement on the SoSLS application. We understand this is a feature of the application form at present, however the business survey continued to highlight this as an issue. Secondly, improvements to the application form in terms of how it compares with that of commercial lenders and where possible ensure the information sought from the SoSLS is similar to that of the banks, would help businesses in submitting applications.

4. Address the potential to reduce the "facelessness" of the SEBSED Panel.

   The potential for a representative of the applicant or indeed the relevant business adviser to be included in the panel decision meeting is something that should be considered by SEBSED. This would help to improve the perceived "facelessness" of the panel by businesses and further align the Scheme to the commercial setting – where a business would be able to discuss their application with the lender directly. This change may also help to reduce the time taken for decision making, where the panel require to question some aspect of the application.

6.4 LEGACY PROJECT OPTIONS

While we do not recommend it as appropriate at this stage, if demand for the SoSLS does lessen over the next two years and there is a possibility that not all of the available funds will be utilised then there is the potential for the development of some type of legacy project using unallocated SoSLS resources.

Over the course of the study we considered a range of options that could be aligned to future SoSLS investment. These options are outlined in **Appendix 4** and include:

1. Business Centre Development;
2. Small Workshop Development;
3. R&D / Innovation Grant;
4. Community Enterprise Support Scheme;
5. Training & Employment Grant / Fund / Endowment;

6. Key Sector Industry Support – Tourism / Food & Drink / Forestry / Textiles;
7. Agricultural / Rural Diversification;
8. Tourist Attraction Development;
9. Bespoke Property Support Grant Scheme;
10. STI / Town Centre Challenge Fund;
11. Marketing & Events Programme;
12. Transport Initiative; and
13. Site Infrastructure Investment.

Based on our analysis and experience we believe that the best option for investment of SoSLS funds into a future legacy project would be to develop a series of serviced business centres across the South of Scotland that would meet a perceived demand from SMEs for serviced business space. There is a strong argument to support the view that the most appropriate location for the initial project is within the Dumfries and Galloway area as it accounts for two third of SoSLS funds.

This project would meet a number of needs as it:

1. addresses market failure and meets a perceived demand from businesses for this type of accommodation;
2. meets the European requirement for investment of recycled funds into SME development activity;
3. presents an opportunity to lever private sector property market investment into the South of Scotland and therefore present a viable demonstration project; and
4. creates a self-sustaining project that, if developed to a sufficient scale, will be self-financing and viable in the long term negating the need for public sector revenue support.

It is important that the public sector retain control of the project to ensure that it is developed to meet economic development criteria. This will maximise the economic impact of the project for the local, regional and national economy by maximising additionality and minimising levels of displacement.

If the need for a legacy project investment is identified in the future, there are a number of options that should be considered for the investment of public sector resources into any legacy project.

Options include a grant to private sector developer, loan to a private sector developer or direct build by the public sector. Based on our experience of similar projects, however, we would recommend that the funds be invested into a joint venture organisation (public/private) that will promote private sector property investment, but will also ensure that projects are created to address economic development need rather than profit maximisation.

If an appropriate opportunity can be identified SEBSED should work with a private sector partner that is prepared to commit to a public/private joint venture company to develop the serviced business centre(s). However, if a private sector partner cannot be identified there is an opportunity for SEBSED to proceed with this proposal as a public sector sponsored development.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

Our conclusions are based on the original study objectives, as outlined in Chapter 1. We have further included a number of general conclusions relating to the changing operating environment, future opportunities and strategic issues facing the SoSLS.

The Recommendations outlined at the end of this section follow on from the improvements outlined in Chapter 6.

7.2 REVIEW OF THE ORIGINAL PURPOSE, PROGRESS AND EXPECTATIONS OF THE SOSLS

The key objective of the SoSLS was to deliver economic added value in the South of Scotland by offering soft loans as part of a wider package of funding support for businesses identified as having job creation and growth potential.

To date, 26 applications for loans have been approved by the scheme:

- at the time of reporting five businesses were awaiting further conditions to be met before funds could be released;

- two of the supported companies had gone into liquidation; and

- a further two successful applicants had repaid their loans in full.

The economic benefits derived from the Scheme to date are outlined in the **Table 2.2** (page 15) and show that the SoSLS is unlikely to reach its revised targets based on current performance to date. This lag in performance has been identified as a result of the delay in the set-up of the Scheme and a lower than anticipated take-up of loans in the first 12 months of operation.

Demand for SoSLS support has, however, been increasing over the past six months. On the basis that this level of demand is sustained or increased, on the basis of implementing this reports recommendations, the SoSLS would considerably improve its performance in economic and business growth terms. Recent reductions in financial resources available for alternative LEC business development support alongside an increased take-up of loans create an opportunity for demand and performance to improve significantly.

We are aware that current SE guidance suggests the wind-up of the SoSLS by December 2008 and therefore continuation of the Scheme after this deadline may be difficult. If the two LECs are required to exit from the SoSLS as a branded SE product we recommend that funds should be transferred to a third party organisation to continue its operation in the long-term. This is a key issue that requires to be addressed, as there is a requirement for SoSLS funds to be retained in the South of Scotland due to the EU funding element. EU funds will continue to be drawn down for the fund till August 2006 and a deadline date for “protection” of these funds in the South of Scotland will need to be agreed with SoSEP. We believe that a deadline date of 2012, being four years after the N+2 closure date for the Programme is a prudent choice.

7.3 RECOMMENDED FUTURE USES

As identified previously, we believe that the SoSLS should be continued beyond December 2008. We do, however, believe that the market focus should be reviewed, re-focused and extended to maximise the uptake of loan fund resources for South of Scotland businesses and ensure full drawdown of ERDF funds by August 2006 (expected final claim date for ERDF). The range of improvements suggested in **Sections 6.2 and 6.3** would help to achieve this outcome.

Based on the take-up of loans to date we believe that there will at least be long-term annual demand from 16 businesses for the SoSLS product, equating to approximately £500,000 per annum. However given the recent uptake in loans over the last six months and the expected reduction in alternative LEC business support activities, demand could be significantly higher.

Those businesses supported by the Scheme in the future should be focused in sectors and business types that are not eligible for Scottish Seed Fund support to ensure the SoSLS delivers additional added value to the South of Scotland.

7.4 MARKET TEST FUTURE USES

Given the recent uptake in loans over the last six months and the expectation that demand continue to rise with an anticipated reduction in alternative sources, we believe that the fund should continue beyond December 2008. There is a therefore need for a further review of performance in two years, to test whether there is a requirement for a legacy project.

The possibility of creating a legacy project with available SoSLS funds in the future should be viewed by the LEC's as a real opportunity given the area's lack of prominence in any of the Metropolitan strategies.

Such a move by SEBSED would require consideration and agreement with regard to the level of financial resources that should be retained within the SoSLS and therefore the resources that can be redirected for the legacy investment. Based on the previous up-take of loans we believe that there could be an opportunity to remove between £1m and £1.5m from the fund and retain a sustainable fund able to offer loans to the value of £500,000 per annum (assumed as 16 loans at £31,000).

The availability of financial resources for any legacy project will be entirely dependent upon the uptake of SoSLS loans by businesses over the next two years. While we believe that there is an opportunity for increased loan uptake (as a result of recent increased demand, better marketing and a reduced source of alternative LEC business support funds) it is not possible to identify whether this increased uptake will fully utilise fund resources. There is therefore a need for a further review of the scheme in two years to consider fund resource issues.

The format for withdrawing funds from SEBSED for the legacy project in the future is a further issue that have to be carefully considered to ensure that funds are retained for their required purpose and are not 'clawed back' by SE into their central financial budget.

7.5 OPTIMAL DELIVERY BODY

The most appropriate delivery body for the continuation of the SoSLS is the current body SEBSED. Whilst the review has identified a number of potential improvements to the current management and delivery of the Scheme, overall we feel that SEBSED is the optimal body to deliver these improvements and build upon the learning and experience they have already gained since the Scheme was developed.

In the future, should the SoSLS have available funds to deliver a legacy project then re-consideration of the optimum delivery structure would be required at that stage. We believe that the preferred structure to take forward a legacy project would be a joint venture initiative with a private sector partner. This will maximise private sector leverage whilst also retaining its economic development aims and objectives, however this is an issue that would be determined after a further review of the Scheme.

7.6 GENERAL CONCLUSIONS

In addition to these specific conclusions, there are also a number of more general conclusions that can be drawn from our review of SoSLS:

Changing operating environment:

- with the launch of the SSF, there is an opportunity to maximise uptake of new loan fund resources and therefore retain “ring-fenced” local economic development funds, however, we understand that due to the level of resources that will be available to SSF and its application criteria that it is unlikely to have anything other than a minimal impact in the South of Scotland.

- the future budget allocations for both LECs are currently being prepared, however, indications are that there will be less discretionary budget available to the LECs for business investment and therefore potentially greater demand for SoSLS in the future. There is a need to ensure that this momentum is maintained to ensure that the SoSLS is able to draw down its full allocation of ERDF funds (by August 2006) and to meet the required targets. Thereafter there is a requirement to maintain a minimum annual deal flow of £500,000 per annum (estimated at 16 loans of £31,000).

Future opportunities:

- our review identified a slow start to the SoSLS but following concerted effort and a number of marketing initiatives, an increase in take-up of the fund over the past 12 months.

- based on up take figures since the Scheme was established, demand for would appear to be low, however consideration over the shorter term as the fund has become more established, identifies increased up-take. We would expect this to further rise in the future as business advisors become more aware of the Scheme.

- in the longer term, if SE does develop a rural loan product, there is an opportunity to combine SoSLS funds into a Scotland-wide rural loan fund, with SoSLS funds protected for investment in the South of Scotland.

Strategic issues:

- there is a requirement for an immediate short-term change to the SoSLS by extending its target market, increasing awareness of the product to the business advisors and increasing marketing activity to promote take-up for relevant products.

- one of the key strategic issues considered at the workshop was whether to retain SoSLS as one over-arching South of Scotland product, or whether to split it now and allow each LEC to manage and invest funds in line with their own strategic priorities. The consensus is to retain SoSLS as a single product.

Overall we would conclude that while the SoSLS had a slow start, recent performance has improved and taken with an anticipated further uptake in demand, we believe that there is an opportunity for significant future improvements in performance and impact.

7.7 RECOMMENDATIONS

Based on our analysis of the SoSLS to date, assumptions about changes to the current operating environment and our experience of evaluating similar loan schemes we would make the following overarching recommendations:

- SEBSED should **take on board the suggested improvements to the operation, delivery and management of the SoSLS** (outlined in Sections 6.2 and 6.3) to ensure the Scheme does fulfil its potential in terms of delivering real economic added value in the South of Scotland. In summary these are:

    - extend and prioritise the types of sectors the SoSLS currently supports
    - extend and prioritise the types of businesses currently supported
    - extend the range of projects suitable for SoSLS support
    - step up both the level and type of marketing activity for the Scheme
    - re-iterate current management and approval stages
    - improve the SoSLS application form
    - address the potential to reduce the “facelessness” of the SEBSED panel

- the **Scheme should be continued after December 2008** due to the indications of increased demand for SoSLS loans together with the requirement for the protection of EU funds in the South of Scotland;

- the Scheme should be **reviewed again in two years** to assess the take up of loans over the longer period and allow a more informed assessment of the real demand for soft loans within the South of Scotland. This will also allow an assessment of how funds such as the SSF and LEC budgetary cuts will affect SoSLS demand;

- based on the outcome of this future review – if it becomes apparent that not all available SoSLS funds will be effectively allocated for loan purposes, then a **decision regarding the need for a potential investment or legacy project** should be made together with consideration of the range of proposed projects outlined in Section 6.4;

- at this point in the ERDF application (i.e. application was recently extended and an extension granted until June 2008 with a final claim to be made in August 2008) there is **no point in reviewing the EU targets**, however there is an opportunity to review the Scottish Enterprise targets for the SoSLS; and

- even allowing for the anticipated uptake in demand, we believe that the original forecast economic benefits as (outlined in Section 2.2.1) cannot be realistically achieved. **More realistic but still challenging <u>annual</u> targets** for the SoSLS are:

    - 30 gross jobs created
    - 10 net jobs created
    - £1m private sector leverage
    - £1m increased sales
    - 25 businesses supported
    - £0.4m contribution to GDP based on net employment impacts.

Appendix 1: Good Practice Case Studies

Strathclyde Investment Fund
Clann Credo: Social Investment Fund
Highland Opportunities
One London Business Loan Fund
Finance Wales

STRATHCLYDE INVESTMENT FUND	
PARTNERS	Five West of Scotland LECs (Scottish Enterprise Ayrshire, Dunbartonshire, Glasgow, Lanarkshire and Renfrewshire) and the Royal Bank of Scotland.
HISTORY	The Strathclyde Investment Fund (SIP) was a £7m venture capital fund set up in February 2000 to provide risk finance to growing SMEs in the Strathclyde European Partnership area. The rationale for SIF was based on an independent study called "The Provision of Loan and Equity Funding to SMEs in Central Scotland[24]". This identified a clear market failure in the availability of affordable investment finance to SMEs in the Objective 2 areas, which was the result of weaknesses in both the demand and supply sides. On the supply side it was felt that the prevailing attitude to risk by potential investors, the prohibitive cost to the private sector of making smaller scale investments and a preference for short term exit routes were all factors contributing to a market gap particularly for investment in the range of £10,000 - £250,000. On the demand side the inability of companies to present themselves in a positive and transparent manner to potential investors was identified as a barrier to accessing funding.
SOURCES OF FUNDING	The LECs provided £1,050,000 and the Royal Bank of Scotland a further £3,850,000. This was supplemented by £2.1m from the European Regional Development Fund.
LOAN DETAILS	SIF provided support firstly in the form of loans and equity from as little as £10,000 to £250,000. In addition SIF operated a system for introducing companies to fund managers and ensuring they presented a coherent and acceptable business plan for future project appraisal.
ELIGIBILITY	SIF was targeted at business start-ups and early stage companies with clear growth potential. It was intended to focus on high growth sectors and companies demonstrating both growth and job creation potential. Key investment sectors identified included software, biotechnology, electronics, telecoms, IT, distribution and advanced materials technology.
ADDITIONALITY & IMPACT	The SIF evaluation highlighted that 70% of businesses examined would not have been able to access similar finance from elsewhere.
IDENTIFED WEAKNESSES	Due to the different objectives of the LEC's (to support employment and growth) and the SIF (to maximise returns from the investments) some tensions resulted and it was felt improved communication would assist this issue.
SUCCESS	Those businesses that had used the SIF and had experiences of equity beforehand, felt that SIF procedures were simpler and more clearly explained than had been the case with other venture capital providers. The evaluation commented that companies welcomed the discipline that SIF's involvement had brought at various stages of the investment, including the discipline required by the SIF due diligence and monitoring requirements.

[24] Study undertaken by Grant Thornton Scotland and Firn Crichton Roberts

CLANN CREDO: SOCIAL INVESTMENT FUND	
HISTORY	Clann Credo is an Irish not for profit organisation who operate a Social Investment Fund that was set up in 1996 to help empower communities by making finance available to community-focused enterprises. Clann Credo's mission is to "design and promote Social Finance products and services; contributing to inclusive prosperity and developing social capital in a way that benefits the whole community". An important priority for Clann Credo is to ensure that social finance plays its part in creating a fair, just society for all. Overall the Clann Credo philosophy encompasses: caring; responding; empowering; developing and opportunity.
DESCRIPTION	Clann Credo mobilises Investment Capital as a means of positive social change, broadening the traditional scope of investment by highlighting social projects and opportunities that may not traditionally be supported. Social investors, as a consequence to their commitment to Social Justice provide the capital, which is then distributed by the organisation to test innovative solutions to inherent problems. Capital is made available to projects and enterprises that yield a social as well as a financial return. These can be as simple as a job creation venture in an area of low employment or as ambitious as a social housing model for a community. Clann credo offer financial support to community enterprises in the form of loans and equity.
WEBSITE	www.clanncredo.ie
ELIGIBILITY	All projects need to demonstrate that they will provide both a social dividend (i.e. the creation of opportunities for individuals in communities, strengthening the social fabric of society) and a financial dividend (i.e. the return of capital invested or lent in the form of interest payments, or the appreciation in the value of the equity held in a business).
APPLICATION PROCESS	Unlike other funding bodies, there is no set application form for Clann Credo support, instead all applications are assessed on their own merits. Applicants are asked to submit a proposal detailing the social benefit for the locality, community or interest group along with an overview of the market, details of all funding sought and received so far and three-year financial projections. Before applying, potential applicants are encouraged to speak to a member of the Clann Credo team to receive guidance and advice that would benefit their application.
ACHIEVEMENTS TO DATE	Since 1996, Clann Credo has invested more than 8.8 million Euros in over 120 projects worldwide.

HIGHLAND OPPORTUNITIES	
PARTNERS	Highland Opportunity Limited operates Highland Opportunities, which is a Local Authority Company limited by guarantee. The board is made up of elected representatives from each of the Council areas in the Highlands of Scotland.
HISTORY	The company, which has been providing financial assistance to Highland businesses since 1986, is the Enterprise Trust for the Highlands. They provide discretionary financial assistance, professional business support, youth enterprise services and European consultancy to small and medium-sized enterprises.
WEBSITE	www.highland-opportunity.com
AIMS AND OBJECTIVES	The Company has three main objectives: • to stimulate economic activity in the Highlands by helping to protect and expand existing employment and to create new employment within the region; • to identify prospective industrial entrepreneurs and community groups to develop business ventures; and • to provide or assist in the provision of finance to persons carrying on or interested to carry out venture and small business projects located or intended to locate in the Highlands. Through meeting these objectives, Highland Opportunity Ltd hope to encourage employment in the Highlands by fostering businesses and community enterprises and in particular: • encouraging local business start-up, growth and development; • supporting young entrepreneurs; • making effective connections with the European Community; • promoting community enterprise; and • operating projects, which assist employers and job seekers.
ELIGIBILITY	Applications are welcomed from most sectors. The exception to this is when the funding is to be used to build additional residence for the tourist accommodation sector or traditional farming activities. Schemes investing in amenities for tourists, excluding accommodation, and also farm or croft diversification schemes will be considered. Start up assistance will be reviewed before being awarded to ensure any new business supported will not displace the activity of businesses already in the area or sector.

LOAN DETAILS	Highland Opportunity Ltd offers a number of funding schemes to local businesses. <u>The Opportunity Scheme</u> This Scheme provides low interest loans to new and growing businesses located in the Highland Council area. Loans from £1,000 to £10,000 are unsecured, loans of £10,000 to £20,000 may require security and loans of £20,000 to £30,000 will require security. Any security will normally take the form of a business asset rather than the applicant's home. Interest rates are set by the Board and lower than commercial bank rates (current rate is 5%). <u>The Caithness Scheme</u> This Scheme is similar to the Opportunity Scheme detailed above. The only restriction is that applicant's businesses must be located or plan to locate within the Caithness Area. <u>The Prospect Scheme</u> This Scheme, aimed mainly at the manufacturing, processing and service sectors, provides secured loans or private equity between £30,000 and £300,000. The interest rate is set on an individual case basis but will normally be more competitive than commercial bank rates. The aim of this Scheme is to progress projects that otherwise might not have gone ahead. <u>The Employment Loan Scheme</u> Unlike the other three loan schemes available, the Employment Loan Scheme is an interest free form of finance. Loan awards can be up to the value of £50,000. However, all businesses applying for financial assistance from this Loan scheme must have additional private sector investment to qualify. This Scheme is now fully invested and closed for further applications.
REPAYMENT	Repayment of loans is over a period of up to 7 years depending on the size of loan awarded. Repayment of the Prospect Scheme can be extended to 10 years.
APPLICATION PROCESS	To gain access to funding from Highland Opportunities Ltd, prospective applicants must contact the company directly. A business advisor will then be assigned and conduct a confidential discussion of the project with the business to make sure it fits relevant criteria. A formal application will then be made with an accompanying 3-year project plan and a further meeting held to review any possible difficulties. The business advisor will then produce a report based on all the information gathered and this will be submitted to the Board for approval. The Board's decision is final. If the amount applied for is less than £5,000 the decision power is delegated solely to the Chairman. In the case of the Prospect Scheme, applicants will be required to attend the Board meeting in person to present their project case.
SUCCESS	Company accounts show that during the year 2004-05 Highland Opportunities awarded loans to 54 Highland businesses totalling £645,500 and supporting 120 full time jobs.

ONE LONDON BUSINESS LOAN FUND	
PARTNERS	One London, Business Link London and a range of commercial financial institutions and agencies.
WEBSITE	http://www.one-london.com/
HISTORY	This is a £4 million fund that was set up in March 2002 to provide Funding to small businesses across London who had previously been refused loans from mainstream lenders. Almost 400 start up loans have subsequently been provided, resulting in the creation of over 500 new jobs. Two thirds of these loans have been for ethnic minorities.
SOURCES OF FUNDING	The Scheme is a partnership programme involving One London, the Business Link for London and a number of major financial institutions including HSBC Bank, HBOS, Lloyds TSB, the Corporation of London and the London Development Agency's SRB. A number of other agencies are also active participants, such as the Peabody Trust, Black Training and Enterprise group (BTEG) and the London Borough of Hounslow.
LOAN DETAILS	Funding can be provided in two ways: • start up loans: for business less than 18 months old; and • growth loans for businesses over 12 months old with certified trading accounts.
START UP LOANS	These unsecured loans can be for up to £7,500 and are interest free. Loans must be paid back via Direct Debit over three years. The only charge is a monthly management fee. The start-up loans are available to all businesses throughout London. Those receiving a start up loan are required to become members of the "Up and Running Mentoring Scheme" at their own cost. To apply for a start-up loan the company must be registered with a local Business Link Enterprise Agency who will help them complete the relevant application pack. Once completed the business adviser then forwards the application with their recommendation to the *Onelondon* loan fund team. Arrangements are then made for the business to discuss their proposition at a panel meeting and loan take-up can occur between 3-4 weeks after a successful panel interview.
GROWTH LOANS	Business Growth Loans can be accessed up to the value of £20,000 and are repayable over a maximum of five years. Interest on such loans is at a fixed rate for the first three years at the European Hurdling Rate (currently 9.81%). An arrangement fee of 0.75% or £75 (whichever is greater) may be required along with match funding. Supported companies are required to join the "Business Mentoring Scheme" and once again this loan is available to all businesses throughout London. To apply for a growth loan the company must submit a business plan and application form to the fund manager. A loan manager will then visit the businesses to discuss all aspects of the application and if satisfied will recommend that the business presents their business plan to the loan panel. Approval for the growth loan is only given following the panel presentation and the panel meet on a monthly basis.

FINANCE WALES	
HISTORY	Finance Wales is a plc established by the Welsh Development Agency (WDA) and The Welsh National Assembly Government. The fund was established with resources supplied by the WDA and the European Regional Development Fund and tries to encourage small and medium sized businesses in Wales to realise their true potential for innovation and growth. Finance Wales understand that one of the main barriers to start-up and growth of SMEs is the availability of appropriate finance and management skills and their aim is to help companies grow and develop so that they can reach their potential.
WEBSITE	www.financewales.co.uk
GOALS	Finance Wales Goals include: - to invest £100m in Welsh businesses and social enterprises by 2008; - create access to £300m of private sector funding; - assist 4,000 businesses in Wales; - create or safeguard 10,000 jobs in Wales; and - develop self-sustaining funds.
ELIGIBILITY	Welsh companies can apply to Finance Wales if: - they are an SME with fewer than 250 employees; and - their annual turnover does not exceed £33.25m and balance sheet does not exceed £28.6m. In addition, the ability to demonstrate the following factors will improve application success: - clearly demonstrate the commitment of the business stakeholders; - have a well thought out business plan; - taken advice from independent business/financial advisors; - are clear on your need for funding and its benefits and are ready for an investor; - have the potential for growth and/or employment creation; - have considered additional investment as part of a wider funding package; and - considered equal opportunity, environmental, Information Communication Technology issues.
INVESTMENT PREFERENCES	All manufacturing and business-to-business sectors are eligible however under EU rules agriculture and coal and steel sectors are not eligible. With respect to the type of projects they will support, Finance Wales will consider a wide range of business opportunities including investing in new premises, equipping and relocating businesses to new premises and purchasing fixed assets.

<table>
<tr><td>PRODUCTS</td><td>
Finance Wales have a variety of flexible business loans from £1,000 to £100,000 that are available to a wide range of business types including micro-businesses, start-ups and expanding companies. They also provide sector specific loans to community based businesses, the renewable sector and the creative industries sector. Furthermore they have a special fast track application to provide micro loans of £1,000 to £10,000 with the minimum of red tape. Details of each loan fund are available on the Finance Wales website and summarised below:
Micro loans: (£1,000-£10,000)
- available to sole traders, partnerships, start-ups and expanding companies
- decision typically made within 5 working days of receiving an completed application
Mezzanine Finance : established to fill the gap between traditional debt and equity funding, responds to the needs of entrepreneurs wanting the growth investment provided by venture capital, but who are reluctant to relinquish a large equity stage of the company at an early stage. This finance is targeted at two specific sectors:
- Development of Technology: £10,000-£175,000; and
- Business Succession: £10,000-£100,000.
Further Finance Wales Support includes:
- Wales creative IP Fund;
- Community Loans;
- Renewable Energy Loans;
- Wales Spinout Programme; and
- Equity Investment
</td></tr>
<tr><td>LOAN DETAILS</td><td>
Interest rates on loans are fixed at 6% over Finance Wales cost of borrowing so companies always know how much the loan will cost and to protect them against market fluctuations. Rebates are available on interest payments of up to 5%, subject to specific criteria being met (e.g. the company meets it monthly repayments and provides Finance Wales with monitoring information).
No fees are charged for micro loans, however a 1% minimum charge is applicable for all other loans depending on the nature of the investment.
Security may be required for loans, however Finance Wales normally accept a secondary position behind the main lender.
</td></tr>
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APPENDIX 2: Pro-forma used for Consultation Stage

Issues for Consideration

A Initial Set Up

- how was the need for a SSLF established (a continuation of the previous 4 funds)
- what other loan funds existed at that time
- how was market failure identified
- what research was carried out to identify demand for a new fund
- how were the targeting and eligibility criteria established

B Management of Fund

- overarching view of contractors
- views on marketing – quality/ effectiveness/ restrictions
- strengths/weaknesses
- quality of contractor staff
- responsiveness to LEC
- responsiveness to companies
- internal management processes and procedures

C Strategic Rationale for Fund

- demand for loan fund(s)
- market failure/counterfactual
- fit with strategy
- fit with other Network products
- fit with other financial products

D <u>Performance of Fund</u>

- meet expectations
- what worked well/ not well
- level and source of demand
- reasons for performance
- any changes made to date

E <u>Improvements/Changes to Fund</u>

- marketing
- administration
- application
- approval process
- criteria (target sector; company; level of funding)

F <u>Future Demand</u>

- if no change to fund
- if change - company / sector targets
- type of project – eligibility
- role of other funds (SE)
- scale of demand – what would be achievable

G <u>Developing a Legacy</u>

- concept
- options / legacy projects
- short list for investigation
- options for delivery
- tactics/ politics

APPENDIX 3: SoSLS Business Questionnaire

SECTION 1: COMPANY DETAILS

Company Name	
Interview Contact	
Address	
Telephone No.	
Year the company was established?	

1. What is the nature of your main business activity?		
•	Food related activities	1
•	Tourism related activities	2
•	Construction	3
•	Textiles	4
•	Forestry	5
•	Education/training	6
•	Energy related activities	7
•	Engineering	8
•	Other Manufacturing	9
•	Science/technology	10
•	I.T/Telecommunications	11
•	Distribution	12
•	Service Sector	13
•	Other (*please specify*)	

2. What are the CURRENT sales levels within the company?		
•	Under £49,999	1
•	£50,000 - £99,999	2
•	£100,000 - £249,999	3
•	£250,000 - £499,999	4
•	£500,000 - £999,999	5
•	£1,000,000 - £4,999,999	6
•	£5,000,000 - £9,999,999	7
•	£10,000,000 - £49,999,999	8
•	£50m +	9
(Exact figure if provided)		£

3. In the LAST 3 years, have sales:	
Increased	1
Decreased	2
Stayed the same	3
By how much and why?	

4. In the NEXT 3 years, will sales:	
Increase	1
Decrease	2
Stay the same	3
By how much and why?	

5. What proportion of your business sales are in:	%
South of Scotland	
Scotland	
UK	
Overseas	
How has/will the market focus change?	

6. In the LAST 3 years, have profits:	
Increased	1
Decreased	2
Stayed the same	3
By how much and why?	

7. In the NEXT 3 years, will profits:	
Increase	1
Decrease	2
Stay the same	3
By how much and why?	

8. Are the markets for your products:	
Growing Strongly	1
Growing	2
Static	3
Declining	4
Declining Strongly	5
Don't Know	6

9. How many employees do you currently have:	No. Employees
Full-time	
Part-time	
Male	
Female	
Ethnic Minorities	
Disabled People	
TOTAL	

10. In the LAST 3 years, has employment:	
Increased	1
Decreased	2
Stayed the same	3
By how much and why?	

11. In the NEXT 3 years, will employment:	
Increase	1
Decrease	2
Stay the same	3
By how much and why?	

SECTION 2: AWARENESS OF SoSL

12. How did your company first become aware of the SoSL?	
• Brochure/leaflet	1
• Newspaper	2
• Web	3
• E-mail	4
• Word of mouth	5
• Direct contact from SEB/SEDG	6
• Business made direct contact with SEB/SEDG	7
• Another company	8
• Direct Mail	9
• Other (please specify)	10

13. What is your understanding of the objectives and remit of the SoSL?

14. Were you given enough information to judge if the SoSL was an appropriate source of finance for your particular project/activity?	
Yes	1
No	2
If no, please give details.	

15. Are you fully aware of the obligations and conditions of SoSL support?

16. Was the company unable to obtain sufficient funding from other sources?	
Yes	1
No	2
If yes, why?	

17. To what extend was the business attracted by the interest rate repayable under the SoSL?
Probe for details on how favourable businesses view the current interest rate and what interest rate they would have been prepared to go up to.

18. Does your business value the local nature of the fund?
Was the fact the scheme was targeted/operated in the South of Scotland important to the business?

SECTION 3: APPLICATION PROCESS

19. How easy did you find the SoSL application to complete?	
• Very Easy	1
• Easy	2
• Neither/nor	3
• Difficult	4
• Very Difficult	5

20. Did you come across any particular difficulties in completing the SoSL application?

21. Were you given sufficient guidance to complete the SoSL application?	
Yes	1
No	2
If no, please give details.	
22. Was the decision-making process clear, fair and appropriate?	
Yes	1
No	2
If no, please give details.	

23. How long did the SoSL take to be successfully completed?
Probe for details on the length of various stages (e.g. time take to complete application, time taken to get confirmation from SEBSED panel etc).

24. Is your company receiving appropriate aftercare from SoSL?	
Yes	1
No	2
If no, please give details.	

25. Is your company receiving appropriate aftercare from the LEC/Business Gateway Adviser?	
Yes	1
No	2
If no, please give details.	

26. How could the SoSL application process be improved? *(e.g. in terms of improved guidance, feedback from SEB/SEDG)*

SECTION 4: PROJECT DETAILS

27. What type of project/activity did the SoSL support within your company?	
• Purchase of new plant	1
• Hire additional staff	2
• ICT related projects	3
• R&D/Product development	4
• Marketing related projects	5
• Training/development	6
• Working capital	7
• Property related (e.g. fit out costs)	8
• Other (please specify)	

28. What were the total costs of the project/activity?	
	£
SoSL Loan Awarded	
Private Sector Investment	
Bank Funding	
Any other public sector support	
(*Any further details)*	

29. What were the main project outcomes stemming from the SoSL payment?	
• Increase sales	1
• Increase exports	2
• Reduce costs	3
• Increase customers	4
• Productivity improvement	5
• Product/process development	6
• Waste improvement	7
• Staff skills	8
Other (please specify)	

SECTION 5: IMPACT OF SoSLF SUPPORT

30. What would have happened if SoSL support had not been available?		
	YES	**NO**
a) Would have undertaken the project/activity **anyway**? (*If YES answer the following questions, if NO go to Qu.17e)*		
b) Would have carried out the project/activity **later**?		
(*If YES, how much later?)*		
c) The project/activity would have been carried out on a smaller **scale**?		
(*If YES, what scale?)*		
d) The project/activity would have been carried out at a lower **quality**?		
(If YES, what level of quality?)		
e) The project/activity would not have been undertaken at all?		
(*If YES, why?)*		

31. Has the SoSL payment had a positive impact on business performance? *(i.e. measure of impact)*	
Yes, substantial impact	1
Yes, moderate impact	2
Too early to say	3
No, no real impact on business performance	4
None whatsoever	5
Don't Know	6

32. If YES, please provide details *(e.g. quantitative impact on company sales, staff numbers etc or a qualitative impact)*

SECTION 6: COMPANY PERCEPTIONS OF SoSL

33. Has the level of support you have received from the SoSL met your company needs?*(i.e. measure of satisfaction)*	
Strongly agree	1
Agree	2
Neither/nor	3
Disagree	4
Strongly disagree	5
Don't know	6

34. What are the strengths and weaknesses of the SoSL?	
STRENGTHS	**WEAKNESSES**

35. How could the SoSLF be improved? *(e.g. in terms of eligibility, ease of applying for funds etc)*

36. If the option were available, would your company wish to take out a further SoSL loan? *(i.e. taking out a further SoSLF loan prior to financial completion of the first)*	
Yes	1
No	2
(*Probe for details, if Yes – for what purposes, and if NO – why)*	

37. Any further comments in relation to the SoSL?

APPENDIX 4

LEGACY PROJECT APPRAISAL PRO FORMAS

14. Business Centre Development
15. Small Workshop Development
16. R&D / Innovation Grant
17. Community Enterprise Support Scheme
18. Training & Employment Grant / Fund / Endowment
19. Key Sector Industry Support – Tourism / Food & Drink / Forestry / Textiles
20. Agricultural / Rural Diversification
21. Tourist Attraction Development
22. Bespoke Property Support Grant Scheme
23. STI / Town Centre Challenge Fund
24. Marketing & Events Programme
25. Transport Initiative
26. Site Infrastructure Investment

BUSINESS CENTRE DEVELOPMENT					
Description	Build serviced business centre in Stranraer, Dumfries or Galashiels with small office units and shared services.				
Objectives	Create good quality small office units to encourage business start-up and expansion				
Strategic Fit	Smart Successful Scotland – Global Connections Strategic Investment Plan – Place Development Regeneration Statement – People, Place, Partnership & Prosperity LEC – New Ways (More Jobs & More Prosperous Businesses) Economic Development Strategy (Enterprise Enablers) SoSEP Objective 2 Programme – Priority 2 Competitive Locations				
Resources	<u>Financial</u> £1m construction	<u>Other</u> CP staff time B. Gateway staff	<u>Internal</u> Yes	<u>External</u> Consultancy	
Timescale	Immediate, for completion by Summer 2007				
Outputs	<u>In Year</u> 2.5 annual construction FTEs 1 acre derelict land developed	<u>Long Term</u> 1,000 sq m new property 16 businesses accommodated 32 gross jobs accommodated 2 new f/t management staff			
Delivery Body	New organisation (potential for partnership with private sector)				
Partners	SEDG/SEB, Business Gateway (on-site business support), UA (planning) and potential private sector involvement				
Demand	Would require market demand analysis.				
Risks	<u>Risk</u> Displaced private sector Increased construction costs No/limited demand Running costs outstrip rental return	<u>Mitigation</u> Assess private dev. interest Design & build contract Market demand assessment Financial Appraisal	<u>Level</u> Medium Low Medium Low		
Funding Sources	SoSLS = Construction Cost Rental payments = Revenue Cost				
Legacy	Sustainable property development to provide long-term benefit to local businesses, but limited to only one development therefore competition from across South of Scotland and impact only in one local area.				
Fund Criteria	Project likely to meet the funding criteria of existing SoSLS partners.				
Comments	Potential to attract further ERDF support (if use 'clean' SoSLF funds). Could be delivered as partnership project with private sector developer (with allowance for profit participation).				

<table>
<tr><th colspan="5">SMALL WORKSHOP DEVELOPMENT</th></tr>
<tr><td>Description</td><td colspan="4">Build two developments of small workshop units for lease to small, expanding and new-start businesses</td></tr>
<tr><td>Objective</td><td colspan="4">Create good quality workshop units to encourage business start-up and expansion</td></tr>
<tr><td>Strategic Fit</td><td colspan="4">Smart Successful Scotland – Global Connections
Strategic Investment Plan – Place Development
Regeneration Statement – People, Place, Partnership & Prosperity
LEC – New Ways (More Jobs & More Prosperous Businesses)
Economic Development Strategy (Enterprise Enablers)
SoSEP Objective 2 Programme – Priority 2 Competitive Locations</td></tr>
<tr><td>Resources</td><td><u>Financial</u>
£1m construction</td><td><u>Other</u>
CP staff time
B. Gateway staff</td><td><u>Internal</u>
Yes</td><td><u>External</u>
Facilities Management?</td></tr>
<tr><td>Timescale</td><td colspan="4">Immediate, for completion by Summer 2007</td></tr>
<tr><td>Outputs</td><td colspan="2"><u>In Year</u>
2.5 annual construction FTEs
1 acre derelict land developed</td><td colspan="2"><u>Long Term</u>
1,800 sq m new property
12 businesses accommodated
24 gross jobs accommodated</td></tr>
<tr><td>Delivery Body</td><td colspan="4">New organisation (potential for partnership with private sector)</td></tr>
<tr><td>Partners</td><td colspan="4">SEDG/SEB, Business Gateway (on-site business support), UA (planning) and potential private sector involvement</td></tr>
<tr><td>Demand</td><td colspan="4">Would need to undertaken market demand analysis</td></tr>
<tr><td>Risks</td><td colspan="2"><u>Risk</u>
Displace private sector activity
Increased construction costs
No / limited demand
Running costs outstrip rental return</td><td><u>Mitigation</u>
Assess private dev. interest
Design & build contract
Market demand assessment
Financial appraisal</td><td><u>Level</u>
Medium
Low
Medium
Low</td></tr>
<tr><td>Funding Sources</td><td colspan="4">SoSLS = construction cost
Rental payments = revenue costs</td></tr>
<tr><td>Legacy</td><td colspan="4">Sustainable property development to provide long-term benefit to local businesses, but limited to one/two developments (at least in the short-term) therefore competition from across South of Scotland and impact only in one/ two areas. Could be potential for further developments in the longer-term, if demand, using rental payments to fund future mortgage costs</td></tr>
<tr><td>Fund Criteria</td><td colspan="4">Project likely to meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td colspan="4">Potential to attract further ERDF support (if use ‘clean’ SoSLF funds). Could be delivered as a partnership project with private sector developer (with allowance for profit participation).</td></tr>
</table>

<table>
<tr><td colspan="5">R&D / INNOVATION GRANT</td></tr>
<tr><td>Description</td><td colspan="4">Grant facility for South of Scotland companies undertaking product and process development projects. Grant available to 1. all companies in the R&D / Technology Sector, or all companies undertaking innovation projects.</td></tr>
<tr><td>Objective</td><td colspan="4">Increase the extent of Business Enterprise Research & Development in the South of Scotland. BERD in SEDG/SEB = 0.51%, but increased in absolute terms by almost 100% between 2000 and 2002 (60% increase in Scotland).</td></tr>
<tr><td>Strategic Fit</td><td colspan="4">Smart Successful Scotland – Growing Businesses
SEB New Ways – More Jobs & More Prosperous Businesses
SEDG Economic Development Strategy – Enterprise Enablers
SoSEP Objective 2 Programme – Priority 1 Competitive Enterprises</td></tr>
<tr><td>Resources</td><td><u>Financial</u>
£0.5m grant fund
£0.1m mgmt cost</td><td><u>Other</u>
SEDG/SEB staff time</td><td><u>Internal</u>
Yes</td><td><u>External</u>
Companies</td></tr>
<tr><td>Timescale</td><td colspan="4">Launch Summer 2006 till grant fund extinguished</td></tr>
<tr><td>Outputs</td><td colspan="2"><u>In Year</u>
Target – 20 business investments over 3 years</td><td colspan="2"><u>Long Term</u>
Increase in BERD
Increased jobs
Increased business prosperity</td></tr>
<tr><td>Delivery Body</td><td colspan="4">New organisation to be managed/funded by SoSLS</td></tr>
<tr><td>Partners</td><td colspan="4">SEDG/SEB, Business Gateway</td></tr>
<tr><td>Demand</td><td colspan="4">Would require market demand analysis</td></tr>
<tr><td>Risks</td><td><u>Risk</u>
SE approval?
High displacement
No/limited demand</td><td colspan="2"><u>Mitigation</u>
Early discussion
Target projects for high additionality
Market demand assessment</td><td><u>Level</u>
Medium
Medium
Medium</td></tr>
<tr><td>Funding Sources</td><td colspan="4">Grant fund = SoSLS
Management costs = SOSLS</td></tr>
<tr><td>Legacy</td><td colspan="4">Short-term project activity that runs till budget exhausted. No easily identifiable legacy, but changing culture of BERD and risk aversion in South of Scotland businesses.</td></tr>
<tr><td>Fund Criteria</td><td colspan="4">Project likely to meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td colspan="4">Would be high risk and long term project. Won’t deliver identifiable legacy from SoSLS. Would, however, be open to all businesses across South of Scotland, therefore benefits spread across region.</td></tr>
</table>

<table>
<tr><th colspan="5">COMMUNITY ENTERPRISE SUPPORT SCHEME</th></tr>
<tr><td>Description</td><td colspan="4">Grant scheme to support the creation or expansion of Community Enterprise organisations. Organisations would need to demonstrate demand for product/service and economic benefits (jobs, training outcomes, etc). Support will include business advice/assistance (including financial) and property upgrade/alteration works.</td></tr>
<tr><td>Objective</td><td colspan="4">Encourage the start-up and expansion of community enterprises that have potential to create economic benefits.</td></tr>
<tr><td>Strategic Fit</td><td colspan="4">Smart Successful Scotland – Growing Businesses
Regeneration Statement – People & Prosperity
SEB New Ways – Stronger Communities & More Jobs
SEDG Economic Development Strategy – Enterprise Enablers
SoSEP Objective 2 Programme – People & Communities
Social Justice – Closing the Gap</td></tr>
<tr><td>Resources</td><td><u>Financial</u>
£0.5m fund
£0.1m mgmt</td><td><u>Other</u>
SEDG/SEB staff time</td><td><u>Internal</u>
Yes</td><td><u>External</u>
Business Gateway, Comm. Scotland</td></tr>
<tr><td>Timescale</td><td colspan="4">Fund to be established by Summer 2006. Completion on exhaustion of fund.</td></tr>
<tr><td>Outputs</td><td colspan="2"><u>Short Term</u>
Assume 20 interventions over 3 years.</td><td colspan="2"><u>Long Term</u>
Increased community participation in enterprise activities.</td></tr>
<tr><td>Delivery Body</td><td colspan="4">SEDG/SEB. Potential for external contractor to manage fund</td></tr>
<tr><td>Partners</td><td colspan="4">SEDG/SEB, Business Gateway and Communities Scotland</td></tr>
<tr><td>Demand</td><td colspan="4">Likely to be demand at the fund level identified but will require detailed market appraisal to clarify. Could be potential to increase fund level.</td></tr>
<tr><td>Risks</td><td colspan="2"><u>Risk</u>
SE approval
Low additionality
Organisations' project management</td><td><u>Mitigation</u>
Early discussion
Rigorous project appraisal
Full business Plan</td><td><u>Level</u>
Medium
Medium
Low</td></tr>
<tr><td>Funding Sources</td><td colspan="4">SoSLS – Fund
SoSLS – Management
Potential for Communities Scotland additional funding</td></tr>
<tr><td>Legacy</td><td colspan="4">Will create a legacy through start-up and expansion of community enterprises, but not highly visible.</td></tr>
<tr><td>Fund Criteria</td><td colspan="4">Not clear whether project would meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td colspan="4">Potential to attract new project resources. Clear links with Future Builders Scotland Seedcorn Fund (currently on hold) – need to identify the additionality of any programme. Also links with D&G Community Regeneration Fund.</td></tr>
</table>

<table>
<tr><th colspan="5">TRAINING & EMPLOYMENT FUND</th></tr>
<tr><td>Description</td><td colspan="4">Employment and training grant fund available to all South of Scotland businesses for new recruits and existing staff in priority industries (construction & service sectors). Employees would require to gain nationally recognised qualifications.</td></tr>
<tr><td>Objective</td><td colspan="4">Increase the level of qualifications in the local workforce.</td></tr>
<tr><td>Strategic Fit</td><td colspan="4">Smart Successful Scotland – Skills and Learning
SEB New Ways – More Jobs & More Prosperous Businesses
SEDG Economic Development Strategy – Human Capital
SoSEP Objective 2 Programme – Measure 3 People & Communities</td></tr>
<tr><td>Resources</td><td><u>Financial</u>
£0.5m Fund
£0.1m Mgmt</td><td><u>Other</u>
SEDG/SEB staff time.</td><td><u>Internal</u>
Yes</td><td><u>External</u>
Companies</td></tr>
<tr><td>Timescale</td><td colspan="4">Launch Summer 2006. Completion on exhaustion of funds.</td></tr>
<tr><td>Outputs</td><td colspan="2"><u>In Year</u>
100 successful training outcomes over 3 years</td><td colspan="2"><u>Long Term</u>
Increased local skills base</td></tr>
<tr><td>Delivery Body</td><td colspan="4">New organisation to be managed/funded by SoSLS/SEBSED</td></tr>
<tr><td>Partners</td><td colspan="4">SEDG/SEB, Business Gateway and Training Providers</td></tr>
<tr><td>Demand</td><td colspan="4">Likely to be high demand from local employers</td></tr>
<tr><td>Risks</td><td><u>Risk</u>
SE approval
Demand outstrips supply
Low additionality</td><td colspan="2"><u>Mitigation</u>
Early discussion
Clear marketing/targeting
Rigorous appraisal</td><td><u>Level</u>
Medium
Medium
High</td></tr>
<tr><td>Funding Sources</td><td colspan="4">SoSLS = Grant fund
SoSLS = Management costs</td></tr>
<tr><td>Legacy</td><td colspan="4">Will be short-term grant facility to encourage training and employment of local people. Difficult to clearly identify legacy, but will increase the skills base of local residents.</td></tr>
<tr><td>Fund Criteria</td><td colspan="4">Project likely to meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td colspan="4">Would be high risk project. Won’t deliver identifiable legacy from SoSLS. Would, however, be open to all businesses across South of Scotland, therefore benefits spread across region.</td></tr>
</table>

<table>
<tr><td colspan="5">KEY SECTOR INDUSTRY SUPPORT</td></tr>
<tr><td>Description</td><td colspan="4">Grant fund for key sector industries (Food & Drink, Forestry, Tourism, Construction and Textiles) to implement business growth projects. Need to demonstrate increased employment and/or turnover.</td></tr>
<tr><td>Objective</td><td colspan="4">Support growth in the key industry sectors and start-up/location of support businesses in South of Scotland.</td></tr>
<tr><td>Strategic Fit</td><td colspan="4">Smart Successful Scotland – Growing Businesses
SEB New Ways – More Jobs & More Prosperous Businesses
SEDG Economic Development Strategy – Enterprise Enablers
SoSEP Objective 2 Programme – Competitive Enterprises</td></tr>
<tr><td>Resources</td><td><u>Financial</u>
£0.5m Fund
£0.1m Mgmt</td><td><u>Other</u>
SEDG/SEB & B. Gateway Staff Time</td><td><u>Internal</u>
Yes</td><td><u>External</u>
Companies</td></tr>
<tr><td>Timescale</td><td colspan="4">Launch Summer 2006. Completion on exhaustion of funds</td></tr>
<tr><td>Outputs</td><td colspan="2"><u>In Year</u>
20 business investments over 3 years</td><td colspan="2"><u>Long Term</u>
Increased employment in key sectors
More businesses in key sectors
Increased business prosperity</td></tr>
<tr><td>Delivery Body</td><td colspan="4">New organisation to be managed/funded by SoSLS/SEBSED</td></tr>
<tr><td>Partners</td><td colspan="4">SEDG/SEB, Business Gateway</td></tr>
<tr><td>Demand</td><td colspan="4">Need to undertake demand assessment</td></tr>
<tr><td>Risks</td><td><u>Risk</u>
SE approval
Demand outstrips supply
Low demand
Low additionality</td><td colspan="2"><u>Mitigation</u>
Early discussions
Clear marketing/targeting
Demand assessment
Rigorous appraisal</td><td><u>Level</u>
Medium
Low
Medium
High</td></tr>
<tr><td>Funding Sources</td><td colspan="4">SoSLS – fund
SoSLS – management costs</td></tr>
<tr><td>Legacy</td><td colspan="4">Temporary project to support key sectors in South of Scotland. No direct identifiable ongoing legacy, but increased prosperity of key sectors.</td></tr>
<tr><td>Fund Criteria</td><td colspan="4">Project likely to meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td colspan="4">Would be medium risk project. Won’t deliver identifiable legacy from SoSLS. Would, however, be open to all businesses across South of Scotland, therefore benefits spread across region.</td></tr>
</table>

<table>
<tr><th colspan="5">AGRICULTURAL DIVERSIFICATION</th></tr>
<tr><td>Description</td><td colspan="4">Grant fund to encourage diversification in agricultural businesses into new business areas.</td></tr>
<tr><td>Objective</td><td colspan="4">Reduce reliance on agriculture in the rural economy.</td></tr>
<tr><td>Strategic Fit</td><td colspan="4">Smart Successful Scotland – Business Growth
SEB New Ways – Create Stronger Communities
SEDG Economic Development Strategy – Enterprise Enablers</td></tr>
<tr><td>Resources</td><td><u>Financial</u>
£0.5m fund
£0.1m mgmt</td><td><u>Other</u>
SEDG/SEB/B. Gateway staff time</td><td><u>Internal</u>
Yes</td><td><u>External</u>
Businesses</td></tr>
<tr><td>Timescale</td><td colspan="4">Launch in Summer 2006, for completion on exhaustion of funds</td></tr>
<tr><td>Outputs</td><td colspan="2"><u>In Year</u>
30 business investments in 3 years</td><td colspan="2"><u>Long Term</u>
Increased sustainability of agricultural industry</td></tr>
<tr><td>Delivery Body</td><td colspan="4">New organisation to be funded/managed by SoSLF/SEBSED</td></tr>
<tr><td>Partners</td><td colspan="4">SEDG/SEB, Business Gateway & National Farmers Union</td></tr>
<tr><td>Demand</td><td colspan="4">Would require demand assessment</td></tr>
<tr><td>Risks</td><td><u>Risk</u>
SE approval
Low demand
Low additionality</td><td colspan="2"><u>Mitigation</u>
Early discussion
Pro-active marketing
Rigorous appraisal</td><td><u>Level</u>
Medium
Medium
High</td></tr>
<tr><td>Funding Sources</td><td colspan="4">Fund – SoSLS
Management – SoSLS

Potential for contribution from NFU, Scottish Exec</td></tr>
<tr><td>Legacy</td><td colspan="4">Temporary project to encourage diversification of agricultural industry in the South of Scotland. No direct identifiable ongoing legacy, but increased prosperity of sectors.</td></tr>
<tr><td>Fund Criteria</td><td colspan="4">Unsure whether project would meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td colspan="4">Would be medium/high risk project. Won’t deliver identifiable legacy from SoSLS. Would, however, be open to all agricultural businesses across South of Scotland, therefore benefits spread across region.</td></tr>
</table>

TOURIST ATTRACTION DEVELOPMENT				
Description	Development of major tourist attraction in one key location			
Objective	Increase tourist and visitor numbers to the South of Scotland			
Strategic Fit	Smart Successful Scotland – Global Connections Strategic Investment Plan – Support Principal Tourist Destinations SEB New Ways – Stronger Communities & More Prosperous Businesses SEDG Economic Development Strategy – Added Value SoSEP Objective 2 – Priority 2 Competitive Locations			
Resources	<u>Financial</u> £1m	<u>Other</u> SEDG/SEB/VS Staff Time	<u>Internal</u> Yes	<u>External</u> VS, UAs & Consultants
Timescale	Project identification, appraisal and approval by Autumn 2006. Tendering by Winter 2006. Project start Spring 2007.			
Outputs	<u>In Year</u> Create new visitor attraction		<u>Long Term</u> Attract additional 10,000 visitors pa	
Delivery Body	SEDG/SEB. May be requirement for tourist management company if project requires serviced facility.			
Partners	SEDG/SEB, Visit Scotland			
Demand	Need to undertake market appraisal to identify any gaps in current tourist/ visitor attraction provision within South of Scotland e.g. major marina.			
Risks	<u>Risk</u> Visitor targets not reached High revenue costs		<u>Mitigation</u> Market demand review Business plan appraisal	<u>Level</u> Medium Medium
Funding Sources	SoSLS – construction costs Requirement for revenue costs will depend on project type			
Legacy	Yes. Project will create long-term permanent and visible legacy for the South of Scotland. Impact, however, likely to be restricted to retail and tourist related businesses.			
Fund Criteria	Unsure whether project would meet the funding criteria of existing SoSLS partners.			
Comments	Will create permanent legacy and could be potential to attract further match-funding from ERDF and Visit Scotland. There is a real danger, however, of creating another 'white elephant' visitor attraction (particularly if fee paying attraction). Project will therefore require in-depth market appraisal and full Business Plan before proceeding.			

BESPOKE PROPERTY SUPPORT SCHEME					
Description	Property support grant scheme for South of Scotland businesses to accommodated growth potential.				
Objective	To meet the bespoke property needs of growing businesses and to accommodate increased turnover and employment.				
Strategic Fit	Smart Successful Scotland – Global Connections Strategic Investment Plan – Bespoke intervention for growth companies Regeneration Statement – Prosperity SEB New Ways – More prosperous businesses SEDG Economic Development Strategy – Enterprise enablers SoSEP Objective 2 – Priority 1 Competitive Enterprises				
Resources	<u>Financial</u> £1m	<u>Other</u> SEDG/SEB staff	<u>Internal</u> Yes	<u>External</u> Businesses	
Timescale	Launch for Summer 2006. Runs till exhaustion of funds				
Outputs	<u>In Year</u> 20 businesses supported over 3 years	<u>Long Term</u> Increased business prosperity and employment.			
Delivery Body	SEDG/SEB. Potential for scheme to be managed by external contractor.				
Partners	SEDG/SEB, Business Gateway, UA (Planning)				
Demand	Likely to be fairly high initial demand from businesses, but applicants will need to demonstrate growth potential, therefore could be high drop-out rate.				
Risks	<u>Risk</u> Low additionality Inappropriate applications Reputation (few companies supported)	<u>Mitigation</u> Project appraisal Clear marketing Transparent processes	<u>Level</u> Medium Low Low		
Funding Sources	SoSEP – construction costs SoSEP – scheme management costs (if appropriate) Potential for further ERDF support, if use clean SoSEP money.				
Legacy	Yes, but not highly visible. Will not create revolving fund and therefore only one-off initial impacts achieved.				
Fund Criteria	Project likely to meet the funding criteria of existing SoSLS partners.				
Comments	Could follow the example of the SEB Property Support Scheme. Would deliver lasting legacy, but not highly visible and will only benefit a small number of South of Scotland businesses.				

<table>
<tr><th colspan="2">STI / TOWN CENTRE CHALLENGE FUND</th></tr>
<tr><td>Description</td><td>Challenge fund to provide bespoke business support to town centre businesses that do not quality for Business Gateway support. Support delivered by specialist town centre business advisor(s) and will include advice, guidance and training. Support will not include physical property support.</td></tr>
<tr><td>Objective</td><td>Improve performance, sustainability and viability of town centres though more prosperous businesses.</td></tr>
<tr><td>Strategic Fit</td><td>Smart Successful Scotland – Global Connections
Regeneration Statement – Place & Prosperity
SEB New Ways – More Prosperous Businesses
SEDG Economic Development Strategy – Enterprise enablers
SoSEP Objective 2 – Priority 2 Competitive Locations</td></tr>
<tr><td>Resources</td><td><table><tr><td><u>Financial</u>
£0.5m fund
£0.1m mgmt</td><td><u>Other</u>
SEB/SEDG staff time</td><td><u>Internal</u>
Yes</td><td><u>External</u>
External business advisor(s)</td></tr></table></td></tr>
<tr><td>Timescale</td><td>Fund launched Summer 2006. Runs till exhaustion of funds.</td></tr>
<tr><td>Outputs</td><td><table><tr><td><u>In Year</u>
30 business interventions pa</td><td><u>Long Term</u>
Increased business prosperity</td></tr></table></td></tr>
<tr><td>Delivery Body</td><td>Managed by SEDG/SEB, but will require appointment of specialist external town centre business advisor(s). Number will depend on funding available.</td></tr>
<tr><td>Partners</td><td>SEDG/SEB, Town Centre Manager(s)</td></tr>
<tr><td>Demand</td><td>Difficult to predict demand, therefore requires market demand assessment.</td></tr>
<tr><td>Risks</td><td><table><tr><td><u>Risk</u></td><td><u>Mitigation</u></td><td><u>Level</u></td></tr><tr><td>SE approval</td><td>Early discussion</td><td>Medium</td></tr><tr><td>Low demand</td><td>Market demand assessment</td><td>Medium</td></tr><tr><td>Low additionality</td><td>Rigorous project appraisal</td><td>Medium</td></tr><tr><td>Limited impacts</td><td>Appointment of specialist advisor</td><td>Medium</td></tr></table></td></tr>
<tr><td>Funding Sources</td><td>SoSLS.</td></tr>
<tr><td>Legacy</td><td>Will create a number of one-off individual impacts, therefore no long-term identifiable legacy. Scheme, however, open to all town centre businesses across South of Scotland therefore benefits spread across the area.</td></tr>
<tr><td>Fund Criteria</td><td>Unsure whether project would meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td>Project will not create visible legacy but has the potential to support a high number of businesses that do not normally qualify for support.</td></tr>
</table>

<table>
<tr><td colspan="5">MARKETING & EVENTS PROGRAMME</td></tr>
<tr><td>Description</td><td colspan="4">Marketing and events programme for the South of Scotland to increase the number of visitors and tourists coming to the area. Programme will involve a small number of new events and support for key existing events. These will be supported by a targeted marketing campaign.</td></tr>
<tr><td>Objective</td><td colspan="4">To increase visitor numbers and tourist spend in the area. To encourage repeat visits and personal recommendations.</td></tr>
<tr><td>Strategic Fit</td><td colspan="4">Smart Successful Scotland – Global Connections
Regeneration Statement – Place & Prosperity
SEB New Ways – More Prosperous Businesses
SEDG Economic Development Strategy – Added Value</td></tr>
<tr><td>Resources</td><td><u>Financial</u>
£0.9m fund
£0.1m mgmt</td><td><u>Other</u>
SEDG/SEB staff time</td><td><u>Internal</u>
Yes</td><td><u>External</u>
Visit Scotland
UAs</td></tr>
<tr><td>Timescale</td><td colspan="4">Development of Events & Marketing Business Plan by Summer 2006.
Three year programme of activity (£300k pa).</td></tr>
<tr><td>Outputs</td><td colspan="2"><u>In Year</u>
Additional 10,000 visitors pa</td><td colspan="2"><u>Long Term</u>
Increased business prosperity</td></tr>
<tr><td>Delivery Body</td><td colspan="4">New organisation</td></tr>
<tr><td>Partners</td><td colspan="4">SEDG/SEB, VisitScotland, Tourism Businesses</td></tr>
<tr><td>Demand</td><td colspan="4">Likely to be high local demand to establish programme, but difficult to determine demand from visitors/tourists – will depend on size and type of events supported. Will require development of full business plan.</td></tr>
<tr><td>Risks</td><td colspan="2"><u>Risk</u>
SE approval
Visitor numbers not achieved
Low additionality
High displacement</td><td><u>Mitigation</u>
Early discussion
Market demand analysis
Full appraisal of potential events
Promote key linkages</td><td><u>Level</u>
Medium
Medium
Low
Medium</td></tr>
<tr><td>Funding Sources</td><td colspan="4">SoSEP – Programme fund
SoSEP – Management costs</td></tr>
<tr><td>Legacy</td><td colspan="4">Will create three year programme of events/marketing, therefore only short term legacy. By promoting tourist linkages will, however, create benefits across South of Scotland.</td></tr>
<tr><td>Fund Criteria</td><td colspan="4">Unsure whether project would meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td colspan="4">No long-term legacy and difficult for new events to become sustainable after only three years funding support. Will need to clearly identify the net impact of events before proceeding.</td></tr>
</table>

TRANSPORT INITIATIVE	
Description	Funding support for transport initiative e.g. priority bus route, cycle route, woodland footpath. Funds insufficient to support major transport project, but could create small-scale transport improvement.
Objective	To improve transport connections within the South of Scotland.
Strategic Fit	Smart Successful Scotland – Global Connections Regeneration Statement – People, Place & Prosperity SEB New Ways – Improved Environment & Social Inclusion SEDG Economic Development Strategy – Infrastructure SoSEP Objective 2 – Priority 2 Competitive Locations
Resources	Financial: £1m Other: SEDG/SEB staff time Internal: Yes External: Transport Authority, UAs
Timescale	Project identification and appraisal by Autumn 2006. Project approval by Winter 2006. Project start by Spring 2007.
Outputs	In Year: TBC – Transport upgrade Long Term: Improved transport connections
Delivery Body	SEDG/SEB
Partners	SEDG/SEB with transport authority and other relevant bodies.
Demand	TBC – will be dependant on final project. Will require options appraisal.
Risks	Risk / Mitigation / Level Low impact / Full project appraisal / Low High competition between options / Clear appraisal method / Low Increased construction costs / Construction management / Medium
Funding Sources	SoSLF – construction costs SoSLF – project fees
Legacy	Yes – will create permanent legacy for South of Scotland but will only create benefit in one area.
Fund Criteria	Unsure whether project would meet the funding criteria of existing SoSLS partners.
Comments	Potential to attract additional funding from Transport Authority and other transport related bodies – will depend on type of project delivered. Will require full project appraisal to identify the net impacts of project options.

<table>
<tr><th colspan="6">SITE INFRASTRUCTURE INVESTMENT</th></tr>
<tr><td>Description</td><td colspan="5">Create site infrastructure to provide self-build development plots to meet local demand on one site (circa 4 acres).</td></tr>
<tr><td>Objective</td><td colspan="5">Meet growing demand for owner occupied business premises. Increase sustainability of local businesses and safeguard local employment.</td></tr>
<tr><td>Strategic Fit</td><td colspan="5">Smart Successful Scotland – Business Growth
Strategic Investment Plan – Place Development
Regeneration Statement – Prosperity
SEB New Ways – More Prosperous Businesses
SEDG Economic Development Strategy – Enterprise Enablers
SoSEP Objective 2 Programme – Priority 1 Competitive Enterprises</td></tr>
<tr><td>Resources</td><td><u>Financial</u>
£1m</td><td><u>Other</u>
SEDG/SEB staff time</td><td><u>Internal</u>
Yes</td><td colspan="2"><u>External</u>
UA (Planning)</td></tr>
<tr><td>Timescale</td><td colspan="5">Option appraisal and site identification by Winter 2006. Construction works complete by Autumn 2007.</td></tr>
<tr><td>Outputs</td><td colspan="2"><u>In Year</u>
4 acre site prepared for development</td><td colspan="3"><u>Long Term</u>
Circa 60,000 sq ft new property developed</td></tr>
<tr><td>Delivery Body</td><td colspan="5">SEDG/SEB</td></tr>
<tr><td>Partners</td><td colspan="5">SEDG/SEB</td></tr>
<tr><td>Demand</td><td colspan="5">Will require demand assessment.</td></tr>
<tr><td>Risks</td><td colspan="2"><u>Risk</u>
Competition between SEDB/SEB
Increased construction costs
Displace private sector activity</td><td colspan="2"><u>Mitigation</u>
Joint project appraisal
Competitive tendering
Market appraisal</td><td><u>Level</u>
High
Medium
Low</td></tr>
<tr><td>Funding Sources</td><td colspan="5">SoSLS – Construction cost</td></tr>
<tr><td>Legacy</td><td colspan="5">Yes – but not highly visible and limited to one location. High level competition from across South of Scotland.</td></tr>
<tr><td>Fund Criteria</td><td colspan="5">Project likely to meet the funding criteria of existing SoSLS partners.</td></tr>
<tr><td>Comments</td><td colspan="5">Will be difficult to obtain agreement between SEDG/SEB over which location should benefit from the investment. Potential to secure additional LEC/UA funds, therefore could provide two locations.</td></tr>
</table>