

Agenda Item	20
Report No	RES/71/17

HIGHLAND COUNCIL

Committee: Resources Committee

Date: 15 November 2017

Report Title: Highland LEADER Programme – Cashflow Finance

Report By: Director of Development and Infrastructure

1. Purpose/Executive Summary

- 1.1 This paper requests an amendment to the previously agreed criteria for accessing support from The Highland Council through the loan finance funding to deliver the Highland LEADER Programme
- 1.2 The LEADER Programme supports bottom-up community development and therefore is central to the Council's commitment to empower communities and to support associated community, business and infrastructural developments.

2. Recommendations

- 2.1 Members are asked to:
 - i. note the take up of loan finance through the Highland Council support scheme to date; and
 - ii. agree to amend the criteria for accessing Highland Council loan finance support as described above.

3. Background

- 3.1 The Highland LEADER Programme 2014-2020 is part of the Scottish Rural Development Programme (SRDP), aimed at promoting economic and community development within rural areas. The Council is responsible for the administration of the Programme in Highland and its role as accountable body is defined in an SLA between Highland Council and the Scottish Government
- 3.2 The LEADER Programme requires grant recipients to claim retrospectively for any project spend incurred. As many LEADER grant recipients are community groups with limited financial resources, this requirement is challenging and makes project delivery difficult. During the 2007-2013 Highland LEADER Programme, Highland Council initiated the establishment of a project cashflow scheme. The Council made available £500k from Council balances and the services of a Qualified Accountant to invite, assess and manage requests for cashflow finance. This cashflow scheme worked separately but in parallel with the LEADER grant claims process and, due to the recycling nature of the scheme, provided approximately 96 projects with £3.1m total cashflow finance. When the Programme was externally evaluated, the cashflow scheme was recognised as a critical success factor.
- 3.3 First approvals within the 2014-2020 Programme period were made in November 2016 and there are currently 21 approved projects. In February 2017, The Highland Council Resources Committee agreed to make available £250,000 as cashflow finance for LEADER projects being delivered by community groups. To date there have been 4 groups that have accessed this support, amounting to just over £125,000 being provided in loans.

4. Proposed Amendment

- 4.1 Due to the amount of finance available to support projects and the risk to the council in recovering all funds, it is not expected that all applicants who require cashflow support will be successful in securing it from The Highland Council. As such the following criteria were agreed at the Resources committee in February:
- Applicants will have to make a case for why and when cashflow finance is required. This will be supported by project cashflow forecasts. It is envisaged that finance will be available for certain “crunch” points in the project rather than being used to cashflow a whole project from start to finish
 - Projects that apply for EMFF funds or the rural enterprise/farm diversification funds will not be eligible for cashflow support. EMFF Claims are not processed by Highland Council therefore the risk is considered to be too great to provide cashflow finance to these projects. Rural enterprise and farm diversification projects are likely to be deemed as state aid and therefore also not suitable for cashflow support.
 - Over and above the project cashflow forecast that applicants produce with the support of LEADER staff, an independent financial assessment will be undertaken by a qualified accountant (provided by Highland Council Finance Service) to determine whether an applicant will qualify for support
 - All cashflow finance will be subject to an applicant signing up to a formal loan agreement with the Council using templates developed in the 2007-13 Programme

- 4.2 Although originally it was envisaged that rural enterprise/farm diversification applicants would not be able to access cashflow finance through the Highland Council scheme, it has become apparent that there are a section of applicants who are potentially disadvantaged by this. Tenant farmers and tenant crofters are reporting difficulty in securing cashflow finance due to the nature of their tenancy agreement and the fact they don't own an asset to secure loan finance against. Discussion has taken place with Highland Opportunity Investments Ltd who have confirmed that although they may be able to offer loan finance to such applicants (and as such they would remain the first place the LEADER team would direct applicants to for support) there may be instances where the finance charges for such bridging loans would make the project unviable.
- 4.3 Resources Committee are therefore requested to extend the criteria for applying for Highland Council loan finance support to rural enterprise/farm diversification applicants, where they are a tenant farmer/crofter and can demonstrate that loans available through existing business support services would not meet the requirements of the project.

If a loan is awarded to an applicant in receipt of LEADER funding which has been classified as state aid then the loan will also be classed as state aid and the appropriate action taken

5. Implications

5.1 Resource and Risk

There is a financial risk to the Council in providing this finance to projects should any applicant default on the loan agreement. This could arise either through a mistake on the part of the applicant or through circumstances outwith the applicant's control should expenditure on the project be deemed ineligible during the course of project delivery. To mitigate this risk will require close working between the officer administering the scheme on behalf of the Council and the officers in the LEADER team who support the applicant groups. The eligibility of budget headings forms part of the technical assessment of the project by the Highland LEADER team prior to any approval being issued. Although this risk cannot be removed entirely it is felt that the actions outlined will reduce the likelihood of the risk occurring to "low".

5.2 Legal, Equality, Climate Change/Carbon Clever, and Gaelic

There are no legal, equality, climate change/carbon clever or Gaelic implications directly arising from this report.

5.3 Rural

The LEADER Programme is aimed at promoting economic and community development within rural areas. It is a bottom up method of delivering support for rural development aimed primarily at small and medium sized community driven projects that are pilots, and innovative in nature. All parts of the Highland area were included in the Programme with the exception of the City of Inverness, and the Badenoch and Strathspey area which was included within the Cairngorm National Park LEADER Programme.

Designation: Director of Development and Infrastructure

Date: 6 November 2017

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