

**The Highland Council**

**Resources Committee**

**8 February 2017**

Agenda Item	<b>17</b>
Report No	<b>RES/16/18</b>

**Highland LEADER Programme – Cashflow Finance**

**Report by Director of Development and Infrastructure**

**Summary**

This paper requests support from The Highland Council to deliver the Highland LEADER Programme through the provision of funds to be used for project cashflow.

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.

**1. Background**

- 1.1 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
- 1.2 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.
- 1.3 First approvals within the 2014-2020 Programme period were made in November 2016 and there are currently 5 live projects. Potential applicants and members of the Programme's decision making bodies have consistently raised the need for support for applicants to cashflow LEADER projects; however, due to uncertainties arising from Brexit implications this could not have been progressed at an earlier date. As there is now formal notification from the Scottish Government that applications can be progressed it is appropriate to bring this request before Highland Council for formal consideration.

## **2. Loan Finance**

- 2.1 The Highland Council is asked to provide £250k as finance for project cashflow from council balances. Given the smaller nature of the overall Highland LEADER Programme Fund (£8.8m as opposed to £16.5m) and the proposal that smaller but more cashflow loans are issued to individual projects, it is believed that this sum can be reduced from the £500k previously provided. It is requested that The Highland Council make £250k available but that the Council reviews at least annually subsequent demand and, at its own discretion, increases/decreases the cashflow finance available. The Finance Team in Highland Council have confirmed in principle that £250k can be made available for this.
- 2.2 While the LEADER grant application process will include an assessment of financial capability and management, any Cashflow Finance Project will require a more detailed and robust assessment process to be put in place to give the Council the confidence that the cashflow finance provided will be returned to the Council once LEADER grant is received.

The Highland Leader Action Group (LAG) recognise that demand for the cashflow facility will be oversubscribed and a core consideration is to determine whether the cashflow finance is desirable or critically essential to enable the project to proceed/fully deliver. An understanding of project finances is required together with an assessment of the organisations financial status, capability and management before cashflow finance can be offered. Thereafter close liaison is required with the LEADER Programme staff on project progression and grant claims. Experience with the 2007-2013 cashflow scheme suggests that close and regular contact with cashflow recipients is critical to ensure finance does not unduly rest with project sponsors when it could otherwise be recycled for other projects.

The Highland LAG recognise that the success of the Cashflow Project and its ability to correctly assess, issue and manage the cashflow finance, is subject to having a dedicated and suitably qualified and experienced project officer. The costs of this can be met 100% from the Highland LEADER administration budget. The Finance Service have confirmed that they can provide 5 hours per week of dedicated accountancy time, the costs of which would be met by the Highland LEADER Programme administration budget. The officer would also be supported by Highland LEADER administrative staff.

## **3. Criteria & Operation**

- 3.1 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 this fund. As such the following criteria are suggested:
- 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. Implications**

### **4.1 Resource and Risk**

An officer has been identified within the Finance Service in Highland Council who can dedicate 5 hours per week to work on the Highland LEADER Cashflow scheme. Costs of the officer will be met from the funds already earmarked for Programme Administration.

The Council is asked to provide an initial amount of £250k from balances to be used as loan finance.

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".

### **4.2 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.

### **4.3 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.

**Recommendation**

The Members are asked to:

- Agree to make £250k available in cashflow finance to support delivery of projects through the programme
- Agree the criteria outlined above

Designation: Director of Development and Infrastructure

Date: 30 January 2017

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