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Gordon Lindhurst MSP
Convener
Economy, Energy and Fair Work Committee
The Scottish Parliament
EDINBURGH
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19 October 2018

Pre Budget Scrutiny

Dear Gordon,

During my session with the Committee on 2 October 2018, I agreed to write on the projections used to calculate the drop-off rate of participants in the Fair Start Scotland programme and the resulting budget allocation for completion of the programme, and to clarify the financial products and performance figures for the £500 million Scottish Growth Scheme (SGS). In addition, you sought the latest performance figures on the take-up of the SME Holding Fund.

Fair Start Scotland Programme - Based on analysis of previous employment programmes and other data, we undertook modelling as part of the design and development of Fair Start Scotland, to project likely drop-off rates. This modelling informed our budget for the programme that will support at least 38,000 people to start on the service over its 3 year referral period. Our budget projections have been shared with the Scottish Fiscal Commission (SFC), and these were set out in their Economic and Fiscal Forecasts published on 31st May 2018.

The **SME Holding Fund** is a Fund-of-Funds managed by a small team in Scottish Government. Its aim is to address market failure in the supply of finance available to Scottish SMEs, by providing £40 million European Regional Development Fund (ERDF) grant to a range of public and private sector delivery agents who provide match funding and then seek to secure private sector leverage when investing in SMEs. The delivery agents are appointed as part of a public procurement process, and deliver microfinance, debt and equity support to SMEs to address evidence based market failure. Companies apply directly to the respective delivery agents for support. The allocated resources under the Fund are due to be spent by December 2018.

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The appointed delivery agents are:

- **DSL** (www.dsl-businessfinance.co.uk) which provides loans of up to £25,000 to businesses with less than 10 staff;
- **Business Loans Scotland** www.bls.scot is a consortium of Scotland's local authorities which provides loans in the range £25,000 - £100,000 to SMEs;
- **Scottish Enterprise** (www.scottish-enterprise.com/about-us/what-we-do/investment/sib) which provides equity finance of up to £2 million in deals of up to £10 million in young, innovative SMEs;

The SME Holding Fund also provides grant support to LINC Scotland, the Trade Body for Scotland's business angels, in order to increase the number of active business angels and syndicates in Scotland who will invest in young, innovative Scottish companies. Whilst Scotland has a strong business angel base, it is important to continue to develop the capabilities and number of active investors in this area to increase the scale of investment available to young, innovative technology based SMEs with growth ambitions.

The latest published performance report from the delivery agents covered the period to December 2017 indicated that the Fund had supported 330 companies who secured £230 million public and private investment. These figures had been adjusted downward to account for potential duplication of reporting in instances where two or more delivery agents are investing in the same company. Work is currently ongoing to complete a full audit of the data, and the final published performance report to 31st December 2018 will be available in the Spring 2019.

The **Scottish Growth Scheme** is replacing the SME Holding Fund, extending its scope and the reach, although in adopting best practice it utilises the same approach: procuring fund managers to deliver individual financial products from public and private sector. The Scheme is an overarching brand for new and additional resources, funding a range of financial interventions aimed at helping SMEs realise their growth and export ambitions. As I indicated in evidence, Scottish Government is confident that it is on the right trajectory to unlock up to £500 million investment, as planned, to support growth businesses over the 3 year period to June 2020.

The first substantive equity element put in place under the Scottish Growth Scheme - the £200 million **Scottish-European Growth Co-investment Programme** (SEGCP) - opened for business in June 2017. The Scottish Government, through Scottish Enterprise, is co-investing £50 million alongside £50 million from the European Investment Fund (EIF) which in turn will be invested alongside a minimum of £100 million from EIF accredited fund managers. The aim of the Programme is to provide access to equity funding in the range £2 million and above, normally up to £10 million. The Programme is delivered by the EIF under an agreement with Scottish Enterprise. Given the scale and nature of potential funding it inevitably takes time for discussions and investors to conclude deals of this scale. I can confirm that to date, the Programme has provided co-investment to one company, a total investment of £2 million (£0.5 million from Scottish Enterprise, £0.5 million from the EIF and £1 million from the EIF accredited Fund Manager). I am advised that Scottish Enterprise's work continues on deal flow stimulation alongside the EIF, including introducing 'investor ready' companies to potential EIF fund managers.

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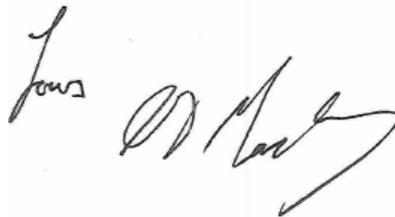
The Scottish Growth Scheme's second equity element of £25 million, supports equity investment below £2 million per company. This £25 million has now been fully invested. This was new and additional funding, announced in Programme for Government in 2017, and was an extension of a product being delivered by Scottish Enterprise, under the SME Holding Fund. It was separately counted under the Scottish Growth Scheme as additional resource beyond the original SME Holding Fund funding contract. The additional funds were fully invested by end of August 2018, however, due to demand, and early closure of this element, we have provided more Scottish Growth Scheme dedicated resources to meet that continued demand and in doing so, to date, £102.3 million has now been invested (both private and public) in 80 companies.

I am also pleased to be able to say that following a rigorous procurement process, I plan to announce publicly next month - once formal legal agreements are signed - further activity under the Scottish Growth Scheme to deliver more choice and a wider range of products (including microfinance and debt) for Scotland's SMEs. We will be appointing a number of fund managers to delivery this additional activity. Some will be new to the Scottish marketplace so we are extending the range and depth of financial support available (as well as increasing the number of active fund managers) in the marketplace, giving SMEs greater choice in the funding options open to them.

In addition, officials will also be procuring further Fund Manager(s) to enhance the range of loan finance available, specifically focusing on loans in the range £100k-£1m. This procurement work will begin this month with new fund managers open for business in Spring 2019.

The support is there, and the Scottish Government through its enterprise agencies, Business Gateway and private sector advisers will be working even harder to promote and stimulate demand for the range of initiatives under the Scottish Growth Scheme "umbrella" so we can support our business community to fully achieve its growth and exporting ambitions. We will be regularly and frequently assessing performance, reviewing circumstances, and seeking to adapt the package of measures to respond to any new evidence based changes in market failure.

I would welcome support from Committee members to align closely to our economic strategy, and work positively and proactively with us on a cross-party collegiate basis to help promote the different component parts available under the Scheme, so that we can unlock future investment for Scottish businesses.



DEREK MACKAY

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