

REPORT TO: East Lothian Council

MEETING DATE: 26 February 2013

BY: Executive Director (Support Services)

SUBJECT: Support for East Lothian Businesses – Loan to East Lothian Investments Ltd

1 PURPOSE

- 1.1 To approve a request to extend a loan facility currently made available to East Lothian Investments Ltd (ELI).

2 RECOMMENDATIONS

- 2.1 The Council is recommended to approve the extension of the existing loan facility to ELI originally approved by Council on 26 May 2009 and subsequently renewed in December 2011.
- 2.2 Authorise the Head of Council Resources to finalise the loan satisfying the requirements set out in sections 3.12 and 3.13.

3 BACKGROUND

- 3.1 On 26 May 2009, the Council approved that a loan of £300,000 should be made to ELI repayable over 3 years, which provided funds that they could lend to local business. ELI would repay these funds with interest through 36 equal monthly instalments. ELI would fund this from the repayments received from local business plus the 5% administration charge they make on each interest-free loan.
- 3.2 The original loan was subsequently renewed in December 2011 along similar lines by the then Head of Finance and a report was lodged in the Members Library Service.
- 3.3 ELI (formerly East Lothian Economic Development Company) is a company limited by guarantee formed through the splitting up of Lothian Enterprise Board (LEB) at the time of Local Government Re-

organisation in 1996 and the transfer of equity in 5 East Lothian companies to ELI.

3.4 ELI established an instrument for the development of the business base in East Lothian that took the form of providing interest free loans to any company based within the county of East Lothian. Initially this was funded from investment income inherited from LEB but was then continued through the loan facility made available by the Council.

3.5 The loans typically offered are unsecured funding up to a ceiling of £10,000 repayable over a maximum period of 36 months. The Board of ELI award loans based on due diligence of each application by the fund manager and subsequent detailed board debate. All companies applying for a loan must provide a detailed business plan, cash flow and at least 2 years of P&L accounts.

3.6 The ELC loans have supplemented the funds of ELI and the scheme has been highly successful and is regarded by many as innovative and award winning. Since April 2008 and the start of credit crisis:-

- Awarded £1,275,504 of loans to 138 companies
- Received 238 loan applications
- Created 180 jobs and protected 575
- Levered in private sector £5,481,214

In addition loan monitoring of 31 awarded companies provided the following evidence on the impacts to the economy of East Lothian:-

| Period 2011 | |
|--|------------|
| Number of companies monitored | 20 |
| Total NP of companies monitored | £480,855 |
| Variance on NP from application for loan | +£31,975 |
| Total turnover of companies provided | £5,275,170 |
| Variance on turnover from application for loan | +£647,045 |
| Jobs position taken from application at time of loan | 142 |
| Variance on jobs created/protected after loan award | +40 |

| Period 2012 | |
|--|------------|
| Number of companies monitored – to date | 11 |
| Total NP of companies monitored | £342,652 |
| Variance on NP from application for loan | +£39,460 |
| Total turnover of companies provided | £3,076,429 |
| Variance on turnover from application for loan | +£111,701 |
| Jobs position taken from application at time of loan | 68 |
| Variance on jobs created/protected after loan award | +12 |

- 3.7 Following award of the first loan tranche from ELC, and based on an increase in enquiries from local businesses for a higher loan amount, the Board of Directors of ELI Ltd agreed at the meeting held on 27 July 2009 to increase the ceiling to £25,000 repayable over 5 years to businesses that have been trading for a minimum of 2 years. (The £10,000 loan ceiling for start ups and businesses trading under the 2 year period remains in place.)
- 3.8 The Council appoints 2 of the 5 directors, with the other 3 being representatives of the local business community. Councillors McMillan and Innes are the current Council appointments. The Council's Economic Development Unit provides the Company Secretary and supports the activities of the company.
- 3.9 Both the original 2009 loan and subsequent renewal in 2011 have operated without any difficulties, with ELI meeting every monthly payment of combined principal and interest on time. The 2009 loan has been fully repaid; the 2011 loan has a scheduled principal balance outstanding at 28 February 2013 of £184,795.
- 3.10 At their meeting of 31 October 2012, the Directors of ELI decided to approach ELC for a further loan of £300,000 as their loan capital would soon be fully committed and further demand from local business that is evident would not be able to be met.
- 3.11 Noting that the 2011 loan is not due to be fully repaid until December 2014, but also recognising the continuing need to support local business, it is suggested that the amount of any additional loan should not exceed an overall facility of £300,000.
- 3.12 It is therefore proposed that in consultation with the Council's Law and Licensing Team, the Head of Council Resources provides an additional 3 year loan of a value that will ensure a maximum combined facility to ELI of £300,000. In addition to servicing the existing loan facility, ELI would require to make 36 monthly payments of incorporating an interest rate set at an appropriate level to ensure compliance with the State Aid rules. It is currently estimated that this monthly payment would be approximately £3,293.23.
- 3.13 In providing financial support to business the Council must be mindful of State Aid regulations designed to prevent the distortion of competition within the market. In effect the Council would be financing some business loans of £25,000 or less, which would be well below the current State Aid de minimis level of 200,000 Euros. Assessed cumulatively, the proposed loan to ELI is in excess of the de minimis level but, as long as a commercial rate of interest is applied by the Council to this loan, it will not constitute State Aid. The most recently issued guidance from the EU Commission provides that an interest rate of 1.19% or above will generally be considered to meet the test of commerciality. The relevant PWLB interest rate is currently 1.37%. However, in order to comply with

the rules relating to State Aid, the Council must carry out an assessment of the credit worthiness of the loan recipient, in this case ELI, and apply an interest rate that appropriately reflect the credit worthiness of the company and the nature of the facility offered.

4 POLICY IMPLICATIONS

- 4.1 The loan funding will directly link into the Economic Development Strategy 2012-22 and in particular the two key policies of job creation and increasing the level of business density in the county.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required

6 RESOURCE IMPLICATIONS

- 6.1 Financial – the cost of the additional loan will be met by ELI with the exception of administrative costs. Each party will fund their own administrative costs. Although the interest rate used in the loan will be set with reference to the PWLB rates applicable on agreement day, the Council will fund the loan as part of its normal treasury management activities and will not specifically borrow these funds from PWLB. This means the sum loaned will be funded using the most financially efficient method available along with the day-to-day revenue and capital cash requirements normally managed by the Head of Council Resources.
- 6.2 Personnel - none
- 6.3 Other - none

7 BACKGROUND PAPERS

- 7.1 Supporting East Lothian Businesses – report to Council 26 May 2009
- 7.2 Loan to East Lothian Investments – MLS Report December 2011

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| AUTHOR'S NAME | Jim Lamond |
| DESIGNATION | Head of Council Resources |
| CONTACT INFO | jlamond@eastlothian.gov.uk |
| DATE | 14 February 2013 |

