

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 12 June 2018

**BY:** Depute Chief Executive (Resources and People Services)

**SUBJECT:** East Lothian Investments Ltd 2017/18

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**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Investments Ltd in 2017/18.

**2 RECOMMENDATIONS**

- 2.1 That the Audit and Governance Committee note the contents of the report.

**3 BACKGROUND**

- 3.1 East Lothian Investments Ltd (ELI), formerly East Lothian Economic Development Company (SC187674) - was formed in April 2001 by East Lothian Council (ELC) following the disaggregation of the Lothian Enterprise Board (LEB).
- 3.2 The aforementioned disaggregation resulted in the transfer of equity stakes in 5 East Lothian companies which, under local authority governance rules, ELC could not accept hence the requirement to form a company to take ownership of the shareholding.
- 3.3 ELI Ltd developed and implemented exit strategies for the investments and used the funds generated as an instrument for the development of the business base and therefore economy of East Lothian.
- 3.4 This instrument took the form of interest free loans to start-ups/ businesses based within the county of East Lothian. The current ceiling for loans is £25,000 repayable over a maximum of 60 months with an arrangement fee of 5% of loan award to cover company overheads.

- 3.5 The company has a board of 5 directors comprising of the Leader of the Council, Economic Development spokesperson, and three private industry sector representatives.
- 3.6 The board act on a “*Pro Bono*” basis and do not receive payment.

### **Governance**

- 3.7 Following the credit crisis of 2008 all lenders of credit were required to apply to the Financial Conduct Authority (FCA) for approval to lend. This replaced the previous credit license arrangement.
- 3.8 A Compliance Monitoring Document (CMD), regulatory business plan and a suite of policies including a new application process were developed for ELI. The FCA approved the application in June 2016 and the company is now fully authorised and regulated by the FCA.
- 3.9 The Economic Development & Strategic Investments (EDSI) Business Development manager, is the FCA approved person as well as the Company Secretary and manager of the company. The manager is supported by the EDSI Business Development assistant.
- 3.10 The Business Development manager and assistant undertake the work under their current ELC job remits.
- 3.11 Board meetings are held on a regular basis linked to the level of loan applications. The CMD and relevant policies are reviewed and updated at each board meeting as per FCA requirements. Decisions made to award loans, the level of award and repayment period are taken by a majority with the Chair having the casting vote on any tied decision.
- 3.12 Minutes of board meetings are taken and approved at subsequent board meeting by the chair.
- 3.13 East Lothian Investments Ltd is audited annually by Springfords Accountancy, Dalkeith. End of Year accounts are approved by the board and signed off accordingly and provided to ELC for group accounting purposes.
- 3.14 As per FCA requirements ELI is required to report annually on the following: - Complaints return, Financial Data, Lenders and Volumes.
- 3.15 The company has an interest bearing and chequing account with the Royal Bank of Scotland. This is currently under review.
- 3.16 Legal advice is provided by Addleshaw Goddard (Formerly HBJ Gately), Edinburgh.

### **Overall lending**

- 3.17 Since formation ELI has awarded 319 loans to the value of £2,820,604 which has levered in private funds of £16,384,637.
- 3.18 784 new jobs have been created and 1,471 jobs have been protected.

- 3.19 Loans are unsecured but for limited companies personal guarantees may be taken if the board requests
- 3.20 The level of bad debts written off stands currently at 2.82%.

### **2017/18 Lending Activity**

- 3.21 29 applications for funding were received - 23 were approved, with 21 drawing down the loan offer to the value of £386,500 which levered in private funds of £3,408,480.
- 3.22 163 new jobs are projected to be created and 124 jobs will be protected.
- 3.23 Sectors awarded:-
  - Business services – 7
  - Energy provision – 1
  - Property development – 1
  - Retail – 4
  - Food and drink – 3
  - Health – 2
  - Hospitality – 4
  - Manufacture – 1
- 3.24 The loan book has currently 58 active loans.
- 3.25 Due to the level of demand for funding the programme is currently suspended due to lack of funds.

## **4 POLICY IMPLICATIONS**

- 4.1 None.

## **5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – None.
- 6.2 Personnel - EDSI's Business Development Team manager and Business Development assistant.
- 6.3 Other – none.

## 7 BACKGROUND PAPERS

7.1 None

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