

REPORT TO: East Lothian Council

MEETING DATE: 26 February 2019

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Support for East Lothian Businesses Loan to East Lothian Investments Ltd (ELI)

1 PURPOSE

- 1.1 To approve a loan to East Lothian Investments Ltd (ELI) and to authorise the Head of Council Resources to finalise and enter into a loan agreement on behalf of Council.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- approve a loan of £300,000 to ELI;
 - authorise the Head of Council Resources to finalise the loan agreement satisfying to requirements set out in section 3.8.

3 BACKGROUND

- 3.1 In 2009, the Council approved a loan facility of £300,000 to ELI which was repayable over a 3-year period, and which provided funds that ELI could lend to local businesses. In addition, a further loan of £300,000 was approved in December 2011 by the then Head of Finance and a report was lodged in the Members' Library, and a subsequent loan of equal value approved by Council in February 2013.
- 3.2 All of these loans were issued on similar terms where 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.

- 3.3 The loans offered to business are typically unsecured funding up to a ceiling of £10,000 repayable over a maximum period of 36 months. The Board of ELI awards loans based on due diligence for 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.
- 3.4 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 it has:
- Awarded £2,815,100 from 321 loans
 - Received 517 loan applications
 - Created 815 jobs and protected 1,500
 - Levered in private sector funds of £16,459,637
- 3.5 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. East Lothian Investments Ltd is authorised and regulated by the Financial Conduct Authority.
- 3.6 All of the original loan facilities have operated without any difficulties and has been repaid to the Council in full and on time.
- 3.7 The Directors of ELI have approach ELC for a further loan facility of £300,000 as their loan capital is fully committed. Applications for loans from ELI are currently closed until funds are replenished and any new demand from local business is not currently able to be supported. In recognition of the previous track record of timely repayment, and the continuing need to support local business, it is suggested that the Council should offer a loan facility to a maximum of £300,000.
- 3.8 If approved by Council, it is recommended that the Head of Council Resources is remitted to offer an additional 3-year loan to ELI to a maximum value of £300,000. ELI would be required 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 £8,742.88.
- 3.9 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 £10,000 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 does 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 1.78%. 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. This facility has been carried out and there remains no concern around the credit worthiness of ELI. In addition the Council intends to enter into a robust loan agreement with ELI to ensure we apply the appropriate controls.

4 POLICY IMPLICATIONS

- 4.1 The loan will directly link in with the Economic Development Strategy 2012-22 (refreshed in 2018) and in particular, the two key policies of job creation and increasing the level of business density in the county.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

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 The flexibility to apply this loan facility is allowable within the Council's Treasury Management Strategy.
- 6.3 Personnel - none
- 6.4 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
- 7.3 Support for East Lothian Business – report to Council 26 February 2013
- 7.4 East Lothian Investments – report to Audit and Governance June 2018

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