

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 February 2020

BY: Fund Manager – East Lothian Investments Ltd

SUBJECT: East Lothian Investments Ltd 2018/19

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Investments Ltd in 2018/19.

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 £10,000 although this is discretionary and a higher level can be awarded depending on economic benefits / job creation and are repayable over 36 to 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. The board act on a “*Pro Bono*” basis and do not receive payment.

Governance

- 3.6 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.
- 3.7 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.
- 3.8 The Economic Development & Strategic Investments (EDSI) Business Development team manager, is the FCA approved person and Senior Manager under the FCA Certification Regime as well as the Company Secretary. The manager is supported by the EDSI Business Development assistant.
- 3.9 The Business Development manager and assistant undertake the work under their current ELC job remits.
- 3.10 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.
- 3.11 Minutes of board meetings are taken and approved at subsequent board meeting by the chair.
- 3.12 East Lothian Investments Ltd is audited annually by Campbell Dallas Accountancy, Dalkeith. End of Year accounts are approved by the board and signed off accordingly and provided to ELC for group accounting purposes.
- 3.13 The company is currently in the process of moving financial reporting and loan book to Xero accounting cloud software.
- 3.14 As per FCA requirements ELI is required to report annually on the following: Complaints return, Financial Data, Lenders, Volumes and Company organisation.
- 3.15 The company has an interest bearing and two chequing accounts with the Royal Bank of Scotland. Legal advice is provided by Addleshaw Goddard, Edinburgh.

Overall lending

- 3.16 Since formation, ELI has awarded 338 loans to the value of £2,951,100 which has levered in private investment of £16,730,082. A total of 841 new

jobs have been created and 1,707 jobs have been protected since launch of the fund. Loans are unsecured but for limited companies personal guarantees may be taken if the board requests. The level of bad debts written off stands currently at 3.18%.

2018/19 Lending Activity

- 3.17 Due to the level of lending in the previous year the loan fund became financially exhausted in August 2018 and was suspended. However, 7 applications for funding were received prior to August 2018; of which 5 were approved to the value of £83,000 which levered in private funds of £202,000.
- 3.18 It is projected that 10 new jobs will be created and 17 jobs will be protected.
- 3.19 Sectors awarded:-
- Finance – 1
 - Retail – 1
 - Food and drink – 2
 - Hospitality – 1
- 3.20 The loan book has currently 59 active loans.

Additional Funding

- 3.21 Due to the loan fund being exhausted ELI Ltd in May 2018 approached ELC for additional funding to re-open the fund. This was viewed by the board as being extremely important due to the potential for a hard BREXIT and possible impact to the economy.
- 3.22 A loan of £300,000 was awarded in June 2019 at 1.5% above the Public Works Loans Board Three Year Annuity Rate. This equalled to an interest rate of 3.07% being charged.
- 3.23 This loan award from ELC has allowed the loan offering to re-open and 15 loans to the value of £136,000 have been awarded leveraging in £270,445 private funding.

East Lothian Gift Card

- 3.24 In July 2018 the ELI board agreed to launch and deliver the East Lothian Gift Card (See appendix 1). This was based on the successful Christmas Shop Local programme run by ELC Economic Development for 10 years with the aim to keep spend local. ELC Economic Development funded ELI to cover the set up and running costs with a grant of £20,000.
- 3.25 The gift card is based on a money card which is presented to participating businesses that swipe through their credit / debit card terminal and are paid instantly. There is no cost to the business for participation in the initiative.

A supplier of gift cards was identified and website created:

<https://eastlothiangiftcard.co.uk/>.

- 3.26 Substantial back office systems were required to be implemented to run the programme including an e-payment SAXO bank account, card loading and management / financial reporting software, additional bank account with RBoS and a Paypal account.
- 3.27 The initiative, which is year round was launched in October 2018 and is delivered by the Fund Manager, the business development assistant of Economic Development and the support services administrator.
- 3.28 First quarter of the launch (October to December 2018) 127 businesses had signed up to accept the card with 235 cards purchased to the value of £12,824.
- 3.29 East Lothian is currently the only county in Scotland to have a county wide Gift Card programme.

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, Business Development assistant and support services administrator.
- 6.3 Other – none

7 BACKGROUND PAPERS

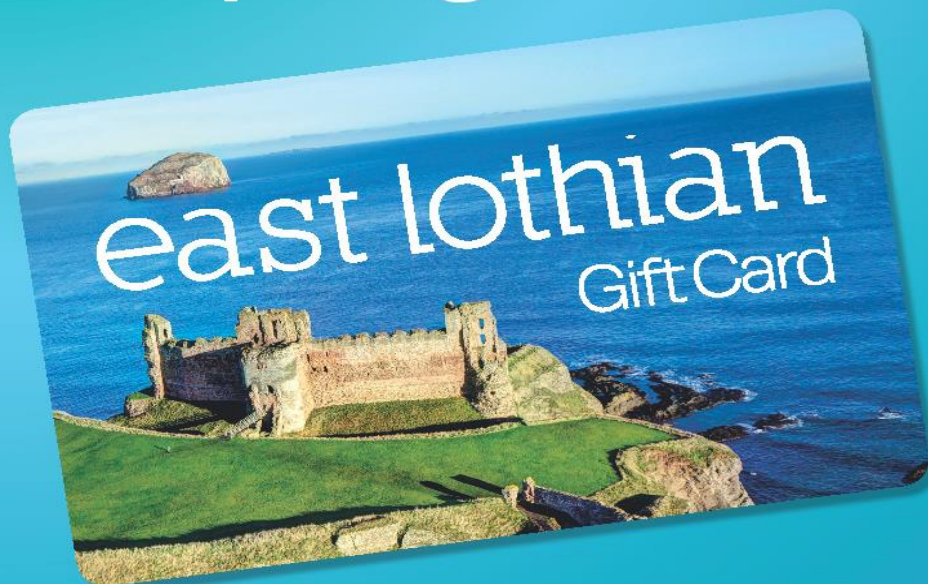
- 7.1 Audit and Governance report 2017/18.

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DATE	25 January 2020

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