

REPORT TO: Audit and Governance Committee

MEETING DATE: 16 February 2021

BY: Companies Manager – East Lothian Investments Ltd

SUBJECT: East Lothian Investments Ltd 2019/20

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Investments Ltd in 2019/20.

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.

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.

- 3.3 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 £15,000 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.
- 3.4 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

- 3.5 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.
- 3.6 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.
- 3.7 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.
- 3.8 The Business Development manager and assistant undertake the work under their current ELC job remits. *(Post committee paper period note – The Business Development Manager from 1st May 2020 stood down from his role in Economic Development and now acts solely as Companies manager for ELI and East Lothian Land Ltd on a part time basis)*
- 3.9 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.
- 3.10 Minutes of board meetings are taken and approved at subsequent board meeting by the chair. *(Post committee paper period note – COVID restrictions are in place for board meetings and decision making on loan awards and all FCA required policies amended accordingly)*
- 3.11 East Lothian Investments Ltd is audited annually by Azets (Formally 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. The company use Xero accounting cloud software.
- 3.12 As per FCA requirements ELI is required to report annually on the following:- Complaints return, Financial Data, Lenders, Volumes and Company organisation. *(Post committee paper period note – Due to COVID from July 2020 the FCA have been requiring quarterly reports on loan book, level of turnover, company liquidity and provision of bad debts.)*
- 3.13 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

- 3.14 Since formation ELI has awarded and paid 359 loans to the value of £3,125,300 which has levered in private investment of £17,270,082. The lending created 855 new jobs and protected 1,833. 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 3.12%.

2019/20 Lending Activity

- 3.15 23 applications for funding were received prior to March 2020 and the COVID lockdown - 17 were approved to the value of £141,000 which levered in private funds of £738,445. It is projected that 23.5 new jobs will be created and 203 jobs protected.

Sectors awarded:-

Retail – 2
Food and drink – 5
Hospitality – 2
Business Services – 6
Construction – 1
Social Enterprise - 1

COVID Impact

- 3.16 Due to the COVID lockdown invoked on the 16th March 2020 ELI identified a clear need for immediate financial assistance and introduced on the 18th March a Business Interruption Loan (BIL) to assist businesses that had severe cash flow issues following closure and prior to the availability of funds from national governments.
- 3.17 The loan offering was to a ceiling of £5,000 interest free with a 6 month repayment holiday and repaid over 24 months. A simplified application process was introduced but conformed to FCA rules and regulations as well as ELI's due diligence and governance as per the main loan offering.
- 3.18 The BIL offering ran from the 18th March to 24th April 2020 and 18 applications were received during this period with 15 loans awarded to the value of £70,200.

Sectors awarded:-

Retail – 2
Food and drink – 2
Hospitality & Tourism – 7
Business Services – 3
Social Enterprise - 1

(Post-report period note – As at January 2021 there are no loan defaults, 3 loan holidays are in place and 1 business entered into a Debt Arrangement Scheme (Not COVID related)).

The loan enquiries and level of applications have been impacted by government funded programmes such as the Business Bounce Back loan (BBL).

9 loans (Excluding BIL) have been awarded with 1 to an existing business and the remaining 8 to start up businesses with the last 3 awarded loans assisting the opening of High Street retail outlets. (Start ups are not eligible for BBL as the business has to be established prior to 1st March 2020)).

- 3.19 The loan book has currently 58 active loans with a balance of £395,560 (as at January 2021).

East Lothian Gift Card

Background

- 3.20 The ELI board agreed in July 2018 to launch and deliver the East Lothian Gift Card on behalf of ELC. (Appendix 1) This was based on the successful Christmas Shop local programme ran by ELC Economic Development for 10 years with the aim to keep spend local.
- 3.21 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.
- 3.22 A supplier of gift cards was identified and website created <https://eastlothiangiftcard.co.uk/>.
- 3.23 The initiative, which is year round was launched in October 2018 and is delivered by the Companies Manager, the business development assistant of Economic Development and the support services administrator.

Outputs

- 3.24 The following indicates quarterly card purchases since launch :-

GIFT CARD purchases	Period	Amount	no's	average
Q1 2018	Oct - Dec 2018	£12,824	235	£54.57
Q2 2019	Jan-March 2019	£2,605	71	£36.69
Q3 2019	April - June 2019	£1,930	49	£39.39
Q4 2019	July - Sept 2019	£1,671	32	£52.22
Q5 2019	Oct - Dec 2019	£21,485	346	£62.10
Q6 2020	Jan to March 2020	£1,535	35	£43.86
		£42,050	768	£54.75

131 businesses accept the gift card in the following towns:-

Town	no's
Dunbar	26
Dir/NB	24
Gullane	12
Haddington	32
Musselburgh	15
Pans/Long	9
Tranent	13
Total	131

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 - Companies Manager, EDSI's Business Development assistant and support services administrator.

6.3 Other – none.

7 BACKGROUND PAPERS

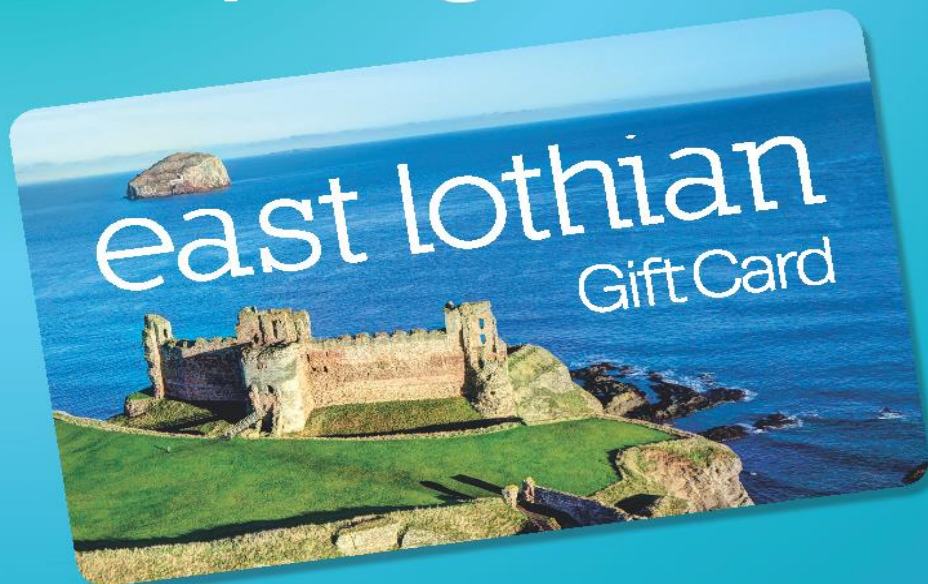
7.1 2018/19 report to the Audit and Governance Committee in February 2020.

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DATE	9 th January 2021

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