

REPORT TO: Audit and Governance Committee

MEETING DATE: 15 February 2022

BY: Companies Manager – East Lothian Investments Ltd

SUBJECT: East Lothian Investments Ltd 2020/21

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Investments Ltd in 2020/21.

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 £25,000 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) (Appendix 1), 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 former Economic Development & Strategic Investments (EDSI) Business Development manager, is the Companies manager and is the FCA approved person and Senior Manager under the FCA Certification Regime. The manager is supported by the EDSI Business Development assistant.
- 3.8 The Companies manager acts as the Company Secretary.
- 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. COVID restrictions were adhered to for board meetings and all FCA required policies were amended accordingly.
- 3.11 East Lothian Investments Ltd is audited annually by Azets. 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 legislation ELI is required to report annually on the following: - Complaints return, Financial Data, Lenders, Volumes and Company organisation. Due to the COVID pandemic 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 367 loans to the value of £3,244,800 which has levered in private investment of £20,146,621. The lending created 878 new jobs and protected 1,839. Loans are unsecured but for limited companies personal guarantees may be taken if the board

requests. The level of bad debts written off for the period commencing from 2009 stands currently at 3.12%.

2020/21 Lending Activity

- 3.15 12 applications for funding were received in the period - 10 were approved to the value of £104,000 which levered in private funds of £222,305. It is projected that 14.5 new jobs will be created and 81.5 jobs protected.

Sectors awarded:-

Retail – 5
Food and drink – 2
Tourism – 1
Business Services – 1
Manufacturing – 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 Committee paper period note – As at January 2022 there are no loan defaults, 1 loan holiday is in place and 1 business entered into a Debt Arrangement Scheme (Not COVID related).

Research undertaken in October 2021 on the loan book identified that 61% had received government support in the form of bounce back / interruption loans.)

- 3.19 The loan book has currently 57 active loans with an outstanding balance of £318,730 (as at January 2022).

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. 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 (Miconex) and website created <https://eastlothiangiftcard.co.uk/>. The front end website is supported by substantial back office management systems for card loading, electronic money transfers, financial control and audit requirements.
- 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
Q7 2020	April - June 2020	£3,890	82	£47.44
Q8 2020	July - Sept 2020	£3,197	56	£57.08
Q9 2020	Oct - Dec 2020	£47,393	2328	£20.36
Q10 2021	Jan-March 2021	£14,025	220	£63.75
		£110,554	3454	£32.01

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

TOTALS	Town	no's
	Dunbar	22
	Dir/NB	23
	Gullane	10
	Haddington	29
	Musselburgh	13
	Pans/Long	8
	Tranent	12
Total		117

The number of outlets has reduced since launch by 14. This is due to credit / debit card terminals being updated with no longer having the facility to accept a swipe card function.

(Post period note – ELI are looking at options to deliver the gift card digitally with a paper being presented to the board in February 2022)

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 2019/20 report to the Audit and Governance Committee in February 2021.

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DATE	14 th January 2022

Appendix 1 – Compliance Monitoring Document

Policy / procedure	Board approved date	Responsibility to the Board	Next review date
FCA Compliance Manual	Aug-15	Companies manager	Ongoing
Compliance Monitoring document	Jun-15	Companies manager	Ongoing
Business Continuity Plan	Feb-15	Companies Manager / ELC	Aug-22
Debt Management policy incl. letters	Mar-15	Companies manager	Aug-22
Loan application form	Mar-15	Companies manager	Aug-22
Loan statements to clients (XERO)	Mar-15	Companies manager	Aug-22
Data Protection policy - GDPR	Apr-15	Companies manager	Oct-22
GDPR Privacy policy	May-18	Companies manager	Oct-22
GDPR Retention & Record keeping policy	Aug-15	Companies manager	Oct-22
Complaints policy	Apr-15	Companies manager	Aug-22
Anti-Money Laundering policy	Apr-15	Companies manager	Aug-22
Anti-Bribery Policy	Apr-15	Companies manager	Aug-22
Audit compliance Policy	Jun-15	Companies Manager / ELC	Oct-22
Personal guarantee document / letters	Jun-15	Companies Manager / ELI Lawyers	Oct-22
Conflicts of interest policy	Jul-15	Companies Manager / ELC auditors	Oct-22
Lone working policy	Jun-15	Companies Manager / ELC	June 2019 (ELC)
Senior Manager and Certification regime	Dec-19	Companies manager	Dec-22
Statement of responsibility	Dec-19	Companies manager	Dec-22
Certification of employees	Jan-21	Companies manager	Jan-22
Operational resilience plan	Aug-21	Companies manager	Aug-22
Cancellation policy	Aug-15	Companies manager	Oct-22
Regulatory Business Plan	Aug-15	Companies manager	Oct-22
Guidance to loan applicants	Aug-15	Companies manager	Aug-22
Personal Statement form	Aug-15	Companies manager	Aug-22
Director induction	Dec-21	Companies manager	Dec-22
Director induction checklist	Dec-21	Companies manager	Dec-22
Director skills gap matrix	Dec-21	Companies Manager	to be reviewed at recruitment