

REPORT TO: Audit and Governance Committee

MEETING DATE: 14th February 2023

BY: Companies Manager – East Lothian Investments Ltd

SUBJECT: East Lothian Investments Ltd 2021/22

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken by East Lothian Investments Ltd in 2021/22.

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. (See appendix 1 for current directors)
- 3.5 Directorship changes - 20th December 2021- Due to the passing of Cllr Innes the directorship changed to the new Council Leader who had been acting as a proxy for Cllr Innes in his absence. Following the retirement of the director Eric Murray, the board appointed Louise Elder, owner of Black & Gold cold pressed rape seed oil, East Lothian farmer (Stevenson mains) and director of the Royal Highland Show to the board. 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) (Appendix 2), 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 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.
- 3.9 The Companies manager acts as the Company Secretary.
- 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. COVID restrictions were adhered to for board meetings and all FCA required policies were amended accordingly.
- 3.12 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.
- 3.13 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.

- 3.14 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

- 3.15 Since formation ELI has awarded and paid 372 loans to the value of £3,389,531 which has levered in private investment of £20,635,531. The lending created 896 new jobs and protected 1,869. 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 3.03%.

2021/22 Lending Activity

- 3.16 12 applications for funding were received in the period - 8 were approved to the value of £99,300 which levered in private funds of £147,280. It is projected that 11 new jobs will be created and 10.5 jobs protected.

Sectors awarded:-

Leisure – 2
Hospitality – 3
Tourism – 1
Business Services – 1
Manufacturing – 1

(Post Committee paper period note – As at January 2023 there are no loan defaults, 2 loan holidays are in place and 1 business (retail) entered into liquidation. The loan book has 43 active loans with an outstanding balance of £332,792.65.)

EAST LOTHIAN GIFT CARD - Background

- 3.17 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.
- 3.18 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.
- 3.19 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, and financial control and audit requirements.
- 3.20 As at November 2021 the gift card was also made available in selected local outlets for individuals to pick up and then load themselves via the website – programme run under the name “Load this Card”.

3.21 The initiative, which is year round, was launched in October 2018 and in the period was delivered by the Companies Manager, the business development assistant of Economic Development and the support services administrator.

(Post Committee paper period note – As at April 2022 due to ELC internal staff promotions for the business development assistant and support services administrator it was agreed in the short term that the company Gift Card provider (Miconex) deliver the operational aspect for an agreed monthly fee.)

Outputs

3.22 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
Q11 2021	April - June 2021	£15,136	1095	£13.82
Q 12 2021	July - Sept 2021	£17,931	2158	£8.31
Q 13 2021	Oct - Dec 2021	£23,765	532	£44.67
Q14 2022	Jan - March 2022	£25,545	1650	£15.48
		£192,931	8889	£21.70

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

TOTALS	Town	no's
	Dunbar	27
	Dir/NB	20
	East Linton	5
	Longniddry	2
	Gullane	10
	Haddington	31
	Musselburgh	19
	East Saltoun	3
	Tranent / Prestonpans	18
	Gifford	2
Total		137

3.23 The number of outlets has increased since 2020/21 by 20. It would be a reasonable assumption to attribute the increase to coming out of the pandemic and businesses re-opening / starting up.

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 2020/21 report to the Audit and Governance Committee in February 2021.

AUTHOR'S NAME	Richard Baty
DESIGNATION	Companies Manager
CONTACT INFO	rbaty@eastlothian.gov.uk
DATE	14 th January 2023

Appendix 1 – Current Company directors / officers

EAST LOTHIAN INVESTMENTS LIMITED

Company number **SC187674**

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Overview	Filing history	People	More
<p>Officers Persons with significant control</p>			
<p>Filter officers</p> <p><input checked="" type="checkbox"/> Current officers</p>			
<p>6 current officers</p>			
<p>BATY, Richard</p>			
<p>Correspondence address John Muir House, Room 2.19, Brewery Park, Haddington, East Lothian, EH41 3HA</p>			
Role	ACTIVE	Appointed on	
Secretary		11 September 2007	
Nationality	British	Occupation	Manager
<hr/>			
<p>ELDER, Louise, Dr</p>			
<p>Correspondence address John Muir House, Room 2.19, Brewery Park, Haddington, East Lothian, EH41 3HA</p>			
Role	ACTIVE	Date of birth	Appointed on
Director		January 1966	21 December 2021
Nationality	British	Country of residence	Occupation
		Scotland	Business Owner
<hr/>			
<p>HAMPSHIRE, Norman</p>			
<p>Correspondence address John Muir House, Room 2.19, Brewery Park, Haddington, East Lothian, EH41 3HA</p>			
Role	ACTIVE	Date of birth	Appointed on
Director		September 1959	20 December 2021
Nationality	British	Country of residence	Occupation
		Scotland	Councillor
<hr/>			
<p>HARPER, Joseph William Meikle Cochran</p>			
<p>Correspondence address Richard Baty, John Muir House, Room 2.19, East Lothian Investments Ltd, Brewery Park, Haddington, East Lothian, Scotland, EH41 3HA</p>			
Role	ACTIVE	Date of birth	Appointed on
Director		July 1954	16 December 2015
Nationality	British	Country of residence	Occupation
		Scotland	Company Director
<hr/>			
<p>MCMILLAN, John Fleming Allan, Provost</p>			
<p>Correspondence address John Muir House, Room 2.19, Brewery Park, Haddington, East Lothian, Scotland, EH41 3HA</p>			
Role	ACTIVE	Date of birth	Appointed on
Director		December 1951	6 June 2012
Nationality	British	Country of residence	Occupation
		Scotland	Local Authority Councillor
<hr/>			
<p>SHEARER, Rodney</p>			
<p>Correspondence address 11 High Street, Haddington, East Lothian, EH41 3ES</p>			
Role	ACTIVE	Date of birth	Appointed on
Director		April 1956	19 January 1999
Nationality	British	Country of residence	Occupation
		Scotland	Production Director

Appendix 2 – 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 ELC insert	Feb-15	Companies Manager / East Lothian Council	Aug-23
Operational resilience plan	Aug-21	Companies manager	Aug-23
Debt Management policy incl. letters	Mar-15	Companies manager	Aug-23
Loan application form	Mar-15	Companies manager	Aug-23
Loan statements to clients (XERO)	Mar-15	Companies manager	Aug-23
Data Protection policy - GDPR	Apr-15	Companies manager	Feb-23
GDPR Privacy policy	May-18	Companies manager	Feb-23
GDPR Retention & Record keeping policy	Aug-15	Companies manager	Feb-23
Complaints policy	Apr-15	Companies manager	Aug-23
Anti Money Laundering policy	Apr-15	Companies manager	Aug-23
Anti Bribery Policy	Apr-15	Companies manager	Aug-23
Audit compliance Policy	Jun-15	Companies Manager / ELC	Feb-23
Personal guarantee document / letters	Jun-15	Companies Manager / ELI Lawyers	Mar-23
Conflicts of interest policy	Jul-15	Companies Manager / ELC auditors	Feb-23
Lone working policy	Jun-15	Companies Manager / East Lothian Council	June 2019 (ELC)
Senior Manager and Certification regime	Dec-19	Companies manager	Feb-23
Statement of responsibility	Dec-19	Companies manager	Feb-23
Certification of employees	Jan-21	Companies manager	Mar-23
Cancellation policy	Aug-15	Companies manager	Feb-23
Regulatory Business Plan	Aug-15	Companies manager	Mar-23
Guidance to loan applicants	Aug-15	Companies manager	Aug-23
Personal Statement form	Aug-15	Companies manager	Aug-23
Director induction	Dec-21	Companies manager	Dec-23
Director induction checklist	Dec-21	Companies manager	Dec-23
Skills gap matrix	Dec-21	Companies manager	to be reviewed at recruitment
Equal opp policy	Feb-22	Companies manager	Mar-23
Consumer Principle policy	Aug-22	Companies manager	Aug-23
Gifts & hospitality policy	Aug-22	Companies manager	Aug-23
Gifts & hospitality register	Aug-22	Companies manager	Aug-23