

From: Mike Whiting, Cabinet Member for Economic Development
Barbara Cooper, Corporate Director of Growth, Environment and Transport

To: Growth, Economic Development and Communities Cabinet Committee - 28 November 2019

Subject: Discovery Park: Growing Places Fund

Key Decision: 19/00095

Classification: Unrestricted

Past Pathway of Paper: Key Decision 13/00034.

Future Pathway of Paper: For Cabinet Member Decision

Summary: The South East Local Enterprise Partnership Board provisionally allocated £5.3 million from the Growing Places Fund to support the development of Discovery Park. It was intended that this should be made available to Kent County Council as a loan. This would enable KCC to offer loan finance to the private sector. This paper sets out the process through which it is anticipated that funding would be drawn down and managed.

Recommendations: The Growth, Economic Development and Communities Cabinet Committee is asked to comment and endorse, or make recommendations to, the Cabinet Member for Economic Development to agree that Kent County Council should:

- a. Be the administration and funding-decision authority for the £5.3 million allocation from SELEP's Growing Places Fund.
- b. Draw down capital funds of £5.3 million from the Growing Places Fund;
- c. Make available loan finance of up to £5.3 million to support works at Discovery Park to build a spine road and associated infrastructure to enable the building of 500 new homes;
- d. That authority be delegated to the Director of Economic Development to take appropriate actions, including but not limited to, entering into legal agreements as necessary to implement this decision.

Provided that:

1. KCC is able to agree a satisfactory loan agreement from Essex County Council, (the Accountable Body for SELEP's Growing Places Fund); and
2. The receipt of a satisfactory application for loan finance for the works at Discovery Park subject to the rules of the Growing Places Fund and the findings of an independent financial appraisal.

The proposed record of decision is shown at Appendix A.

1. Background Information

- 1.1. The Growing Places Fund (GPF) is a capital fund distributed by the Government to Local Enterprise Partnerships to be used to provide repayable finance for schemes that will lead to the delivery of jobs and housing. In the South East LEP area, the Fund totals £54.5 million.
- 1.2. Essex County Council acts as the Accountable Body for the South East LEP GPF fund. Essex CC manages the Fund by entering into loan agreements with county and unitary councils for projects that are supported by the South East LEP Board. The local county or unitary councils then enter into subsidiary loan agreements with third party borrowers. These borrowers may be in the public or private sectors.
- 1.3. Discovery Park was designated as an Enterprise Zone in 2011 following Pfizer's decision to partially exit from its major research and development facility at Sandwich. Since then, the Park has successfully grown as a centre for high-value businesses, especially in the life science and pharmaceutical sectors. At present, there are around 3,500 people employed on the site, working in 160 companies. The site is in the private ownership of companies in the Midas Group.
- 1.4. Developments at Discovery Park in Dover district is an economic priority for both Kent and for the South East LEP. The site hosts a multi-business science campus with an international reputation as a centre of excellence for research and development. Recent investments include a Pfizer announcement to invest £5 million to grow its manufacturing capabilities for paediatric medicines.
- 1.5. Recognising the strategic importance of Discovery Park, the South East LEP Board originally agreed in 2013 to allocate £4.6 million from the Growing Places Fund to support capital investment within the Discovery Park boundaries. This was then subject to a previous KCC Key Decision (13/00034) dated 22 December 2015. However, KCC was not able to conclude a loan arrangement with the previous owners of Discovery Park. The new owners of Discovery Park (the Midas Group) have expressed an interest in applying for a Growing Places Fund loan but now estimate the level of GPF Loan required as £5.3 million. Note that the level of funding allocated may be lower when the full application, costings, business plan and supporting documents are independently financially appraised.

2. Securing the Growing Places Fund allocation

- 2.1. In order to secure the GPF allocation and ensure that it is used effectively, it is proposed that:
 - a) KCC shall invite applications for loan finance of up to £5.3 million for infrastructure works at Discovery Park.
 - b) Applications will then be appraised and considered through the same process as that which is currently used to determine applications for loans from the

Kent and Medway Business Fund (KMBF). This means that applicants will be required to submit a full business plan, be subject to independent appraisal and be considered by the Kent and Medway Business Fund Investment Advisory Board before a decision is made by KCC. The owners of the Discovery Park site are aware of this proposed process and we anticipate that an application will be forthcoming when the process is launched.

- c) In parallel with this process, KCC shall seek to enter into a loan agreement with Essex CC as the Accountable Body for GPF which shall mean that, subject to the approval of the loan application:
- KCC will receive funds quarterly in advance of need;
 - KCC shall be responsible for the allocation, use and monitoring of funds;
 - KCC shall seek to secure the loan against security offered by the borrower. Please note that in the unlikely event that the secured assets cannot fully repay the loan, the Fund not KCC shall bear any loss;
 - KCC shall repay the Fund according to an agreed schedule (subject to funds being recovered from the borrower);
 - KCC shall repay the Fund all income derived from the loan (i.e. any interest gained on the loan to the borrower) apart from the administration charge.

2.2. These terms were agreed by SELEP's Accountability Board on 15 November 2019.

3. Decision requirement

- 3.1. KCC has renewed its call for applications against the £5.3 million allocation for Discovery Park. However, to enter into a loan agreement, a new Key Decision needs to be taken. This is because estimated expenditure will be of over £1 million and the previous Key Decision indicated a lower level of estimated loan (£4.6 million).

4. Financial Implications

- 4.1. The key risk is that the borrower fails to repay the loan. Within the original design of the management of Growing Places Fund, county and unitary authorities acting as intermediary bodies remained liable for repayments in the event of default by the third-party borrower. This was unacceptable to KCC; consequently, the revised agreement between the Accountable Body and KCC places the risk of repayment on the Fund.
- 4.2. As the GPF allocation to Discovery Park is only an indicative ring-fenced allocation, there is a risk that a specific project may not come forward or that this project is not approved for funding. In the event that an application for funding does not come forward (or that such an application is not considered suitable following the appraisal and approval process), the ring-fenced sum for Discovery Park will be returned to the main GPF fund; and will be available for wider competition across the South East LEP area.

- 4.3. Other project risks (such as those associated with state aid compliance or scheme deliverability) will be considered in any project application through a robust application and appraisal process.
- 4.4. Responsibility for monitoring repayments and reporting to Essex CC as SELEP's Accountable Body would lie with KCC: the associated administration costs will be covered by KCC charging an administrative fee to the successful borrower.

5. Legal Implications

- 5.1. A legal agreement will need to be drawn up between KCC and Essex CC to agree to transfer Growing Places Fund monies to the County Council.
- 5.2. A legal agreement will need to be drawn up between the KCC and the successful borrower to transfer Growing Places Fund monies to this body. The loan agreement would involve a charge against assets of the borrower.
- 5.3. KCC would maintain responsibility for monitoring repayments.

6. Equalities Implications

- 6.1 There are no equalities implications arising from this proposal.

7. Recommendation

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8. Contact details

Report Author:-
Martyn Riley
Programme Manager (Business
Investment)
Tel: 03000 417161
martyn.riley@kent.gov.uk

Relevant Director:-
David Smith
Director of Economic Development
Tel: 03000 417176
David.smith2@kent.gov.uk