

From: Mike Whiting, Cabinet Member, Economic Development
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To: Growth, Economic Development and Communities Cabinet Committee
– 17 November 2020

Subject: Regional Growth Fund Monitoring Report – Q1 2020/21

Classification: Unrestricted

Summary: This report summarises the results of KCC's monitoring returns for the period 1 April 2020 to 30 June 2020 from businesses that have received loans and equity from KCC managed Government funded Business Investment Schemes - the current Kent and Medway Business Fund (KMBF) scheme and the former Regional Growth Fund (RGF) schemes.

The number of new and protected jobs recorded up to the end of June 2020 is 4,630 (new jobs 3,288, protected jobs 1,342). The average cost per job was £1,649.

By 31 March 2020, loan repayments to the value of £29,153,881 have been received. These repayments are being recycled through the Kent and Medway Business Fund to enable KCC to continue to offer financial support for new investment.

Out of the 107 loans being reported on in the period 1 April 2020 to 30 June 2020 period, 58% are rated as Green or Amber.

Recommendation: The Growth, Economic Development and Communities Cabinet Committee is asked to note the report.

1. Background Information

1.1 The Regional Growth Fund (RGF) was established in June 2010 with three objectives:

- To facilitate new investment by private sector enterprise: the aim was to support projects with significant potential for economic growth and to create sustainable private sector employment.
- To help those areas and communities that are particularly dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity; and
- To address a market failure in the provision of bank lending to viable small and medium sized businesses who have a limited credit history or track record and those which require finance on flexible terms given their limited collateral.

- 1.2 The Department for Business, Energy and Industrial Strategy (BEIS) allocated £55 million from the Government's Regional Growth Fund to KCC between 2011 and 2014. This funded three RGF schemes covering the whole of Kent and Medway and additional local authority areas:
 - Expansion East Kent (East Kent - £35 million).
 - Tiger (North Kent and Thurrock - £14.5 million).
 - Escalate (West Kent and parts of East Sussex - £5.5 million).
- 1.3 These RGF schemes provided grants, loans, and equity investments for businesses with investment plans leading to job creation and growth from November 2011 to January 2016. For most businesses, loan finance was provided at 0% interest, with a repayment period of between 5 and 7 years. The schemes also allocated grants and equity investments.
- 1.4 From January 2017, KCC used the recycled RGF loan repayments to enable the Kent and Medway Business Fund (KMBF) to provide loans and equity investments ranging between £50,000-£500,000 to eligible businesses across Kent and Medway. Most funding recipients receive 0% interest loans, with a repayment period of up to 5 years. The recycled RGF loan repayments are also used to finance the Kent Life Sciences (KLS) Fund, a sub-programme of the KMBF scheme. This provides equity investments predominantly in the life science sector. A summary of the equity investments can be found in Section 5 of this report.
- 1.5 All applications to RGF schemes and the KMBF undergo due diligence inquiries before being examined by the Investment Advisory Board (IAB). Most of the members of this Board come from the private sector, including Finance and Banking, Manufacturing, and the Scientific and Creative Industries. Once an application has been reviewed by the Board, it makes a recommendation to KCC to Approve or Reject the project and what conditions should be set if funding is approved.
- 1.6 Invicta Law Ltd provides advice on contracts, insolvency issues and works with the KCC Business Investment Team to recover the maximum amount of loan value. KCC Internal Audit oversees the investment procedures and processes and advice on other matters related to the use of the funds.
- 1.7 In order to minimise risk, KCC requires applicants to provide some form of security, whether through assets, property, or personal guarantees for all investments over £100,000. For loans between £50,000 and £100,000, the IAB may recommend a Personal Guarantee be taken before funding is given, though it is not a requirement.
- 1.8 Where businesses find it difficult to repay the loans KCC can offer to restructure their debt to support further business growth and resume repayments. In cases of non-engagement, KCC pursues loan recovery through Security or Personal Guarantees, where applicable (see Section 2.1).
- 1.9 Working with external partners, KCC has recently established a Recovery Working Group, a sub-group of the IAB, to advise on technical issues related to the recovery of existing investments (see Section 2.1).

1.10 This report is the first since the significant economic disruption caused by the Covid-19 outbreak. Within this report we outline the various actions undertaken to support businesses in receipt of loan and equity investment from the former RGF schemes and the Kent and Medway Business Fund.

2. Update on all Government Funded KCC Business Investment Schemes

2.1 Since the last report presented to this Committee in March 2020, to mitigate the impact of the Covid-19 outbreak on its loan recipients and the wider business community KCC agreed to offer all loan recipients a one-year repayment holiday until March 2021. We continue to monitor the existing loan recipients against agreed monitoring targets i.e. jobs and expenditure.

2.2 The table below shows as of the 30 June 2020 the total funding committed in loan and equity investments, broken down by local authority area, the number of jobs created\protected and private sector investment (leverage).

Districts	Funding per Local Authority £	Private Investment £	No of Businesses	No of Jobs Created	No of Jobs Protected	Total Number of Jobs
Ashford	£572,600	£624,628	12	25	5	30
Canterbury	£8,783,080	£9,737,619	56	1,326	96	1,422
Dartford	£2,370,115	£2,238,578	14	104	43	147
Dover	£14,452,053	£12,431,972	56	338	162	500
Folkestone & Hythe	£6,363,468	£10,175,900	28	207	114	321
Gravesham	£881,062	£843,375	5	55	60	115
Maidstone	£3,094,587	£3,455,936	17	82	91	173
Medway	£4,598,621	£4,205,834	24	184	148	332
Rother (1)	£136,250	£136,250	3	19	3	22
Sevenoaks	£644,000	£760,472	7	47	18	65
Swale	£7,445,202	£19,140,158	26	265	283	548
Thanet	£8,261,256	£11,264,724	60	384	275	659
Thurrock (1)	£1,121,700	£1,421,355	5	72	13	85
Tonbridge & Malling	£1,073,510	£1,072,798	11	44	17	61
Tunbridge Wells	£1,993,000	£2,257,250	16	138	24	162
Wealden (1)	£200,000	£200,000	1	5	4	9
Total	£61,990,504	£79,966,849	341	3,295	1,356	4,651

(1) Not part of the eligible area for the Kent and Medway Business Fund since 2017

2.3 All businesses are still required to complete a monitoring return as part of their loan agreements with the County Council and these must include employment contracts and copies of payroll as evidence for jobs created and protected. The cumulative total of jobs that have been created or protected is 4,651 as of 30 June 2020. This is a small increase of 29 since the last report submitted to this Committee (4,622). This increase is in part due to a number of new loans creating and protecting jobs joining the monitoring cycle in Q4 2019/20 and the effectiveness of the Government schemes (Coronavirus Job Retention Scheme (furlough), Coronavirus Bounce Back Loans and Coronavirus Business Interruption Loan) in supporting job retention in Q1

2020/21. We do expect job losses when reports are submitted to this Committee in 2021. There is an overall target of 5,990 jobs for the period up to March 2023(4,402 new jobs and 1,588 protected jobs).

- 2.4 KCC supported and funded the establishment of an on-line COVID-19 Questionnaire to encourage feedback and build intelligence on local companies and the Kent economy and has been liaising with the Kent Invicta Chamber of Commerce, Federation of Small Businesses, Locate in Kent and other business bodies to assess the current gaps in financial support. The feedback and intelligence obtained is being used to inform the relaunch of KMBF such as level of demand and type of loan products.

3. Loan Monitoring

- 3.1 As part of the loan agreement, each business is contracted to provide a quarterly monitoring return. These returns are in arrears of the previous quarter, and upon receipt and internal validation, one of the following RAG ratings is applied:
- Green Risk Status: full return received and no outstanding issues.
 - Amber Risk Status: partial return received and/or some issues re contracted milestones.
 - Red Risk Status: Category A (Bad debt); Category B (No monitoring return); Category C (Non-achievement of key milestones/targets, including loan repayment, job outcomes and/or delay to planned objectives).
- 3.2 Out of the 105 Loans being reported on during the monitoring period 1 April 2020 to 30 June 2020, 62 (58%) of returns were flagged as Green or Amber. The value of those loans was £11,290,279. Of the total number of businesses monitored during the period 10 identified were in the Red Category B (No monitoring return) and 33 businesses were identified as Red Category C (Non-achievement of key milestones/targets).
- 3.3 60 businesses have had loans or equity which are in Category A (Bad Debt) with a value of £9,056,289 of which £1,120,993 has so far been recovered. The total of funds not yet recovered is therefore £7,935,295 which equates to 12.80% of the total loan and equity investments made. This includes businesses which KCC is still actively pursuing to repay the debt and where further debt recovery is still possible (£3,096,695). The total of loans written off (where debt recovery is no longer possible) is £4,838,600.

4. Equity Investments

- 4.1 To help mitigate the economic impact of the Covid-19 outbreak on the companies in receipt of equity funding, since March 2020 KCC has been working with its equity partner, NCL Technology Ventures to ensure that innovative companies in which KCC invested have received specialist support and assistance.
- 4.2 Between 2013 and 2016 KCC made equity investments in 18 businesses at a cumulative initial value of £8,583,068 at the time the respective equity investments were made.

- 4.3 In January 2017 the Kent Life Sciences (KLS) Fund was established with the aim of making equity investments in companies with game-changing medical technologies and advanced therapeutics. KCC has committed equity investments to 6 businesses at a cumulative initial value of £3,175,000. KLS is funded from recycled RGF loan repayments.
- 4.4 In making these equity investments, KCC sees its role as a “patient investor” and it is anticipated the Council will not accrue a positive return from most of the businesses for a further 3 to 5 years. NCL Technology Ventures (NCL) have been appointed to manage, monitor, and oversee these investments. NCL work with businesses to design an appropriate exit strategy for each investment. Quarterly reports on the performance of all the equity investments are provided to the KMBF Investment Advisory Board (chaired by a KCC Member) and an annual report is provided to the KCC Governance and Audit Committee as part of the reporting on companies in which KCC has an interest.
- 4.5 NCL have designated 14 of KCC’s equity investments as having Green Risk Status, 4 as Amber Risk Status and 3 as Red Risk Status. Three of KCC equity investments (total initial value £2,394,072) are designated as Bad Debt as of 30 June 2020. The total of equity written off (where recovery is no longer possible) is £600,000.

5. Cost per Job

- 5.1 The cumulative amount of repayments expected in the 8 years to June 2020 was £31,951,397. The actual amount received by the end of June 2020 was £29,175,655 which represents an achievement of 91.3%. In terms of the unrecovered funds, the cost per job is £1,813.
- 5.2 In terms of the total loan and equity awarded by the former RGF and KMBF schemes the average “cost” per job is £13,328 in comparison with the national average for Regional Growth Fund Schemes of £37,400 (over the first 4 RGF rounds according to the 2014 National Audit Office report on the Regional Growth Fund).

6. Recommendation

Recommendation:

The Growth, Economic Development and Communities Cabinet Committee is asked to note the report.

7. Contact details

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