

From: **Derek Murphy, Cabinet Member, Economic Development**
**Simon Jones - Corporate Director of Growth,
Environment & Transport**

To: Growth, Economic Development and Communities Cabinet
Committee – 10 May 2022

Subject: **Kent & Medway Business Fund Bi-Annual Monitoring –
Q3 2021/22**

Classification: **Unrestricted**

Summary: This report summarises the results of KCC’s monitoring returns from businesses that have received loans and equity from KCC managed Government funded Business Investment Schemes – this consists of the current Kent and Medway Business Fund (KMBF) scheme and the former Regional Growth Fund (RGF) schemes.

Since 2012, the number of new and protected jobs recorded up to the end of December 2021 is 5,103, consisting of 3,617 new jobs and 1,485 protected jobs. The average cost per job is £1,003.

Loan repayments to date of the value of £32,794,822 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 109 loans being reported, 66% are rated as Green or Amber (covered in paragraph 3.1).

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

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 were 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 had a limited credit history or track record and required 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 five and seven 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. The majority of funding recipients receive 0% interest loans, with a repayment period of up to five 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 4 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). The majority 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 reduce the risk of default, KCC requires applicants to provide some form of security, whether through assets, property, or personal guarantees for all loans 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 Many loan recipients have incurred economic disruption caused by the impact of Covid-19 outbreak. This report will 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 Government Funded KCC Business Investment Schemes

2.1 Since the last report presented to this Committee in September 2021, the 18 month loan repayment holiday offered to all loan recipients ended in September 2021 (18 months in total, since March 2020).

2.2 The table below shows 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) as of the 31 December 2021.

Districts	Funding per Local Authority £	Private Investment £	No of Businesses	No of Jobs Created	No of Jobs Protected	Total Number of Jobs
Ashford	£1,139,600	£982,928	18	37	20	57
Canterbury	£9,270,080	£9,737,619	60	1,326	90	1,416
Dartford	£2,430,115	£2,238,578	16	134	56	190
Dover	£13,929,970	£18,791,422	57	410	213	623
Folkestone & Hythe	£6,463,468	£10,175,900	30	242	120	362
Gravesham	£881,062	£843,375	5	55	60	115
Maidstone	£3,272,587	£3,487,936	19	105	92	197
Medway	£4,798,621	£4,246,218	26	220	173	393
Rother (1)	£136,250	£136,250	3	30	3	33
Sevenoaks	£644,000	£760,472	7	48	18	66
Swale	£7,685,202	£19,140,158	27	292	285	577
Thanet	£8,516,256	£11,314,724	63	449	292	742
Thurrock (2)	£881,700	£1,421,355	5	72	13	85
Tonbridge & Malling	£1,173,510	£1,187,798	12	46	21	67
Tunbridge Wells	£1,993,000	£2,257,250	16	146	25	171
Wealden (1)	£200,000	£200,000	1	5	4	9
Total	£63,415,421	£86,921,983	365	3,617	1,485	5,103

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

(2) KCC is now working with Thurrock to develop a fund managed by KCC to support Thurrock businesses as agreed in Key Decision 20/00103.

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 5,103 as of 31 December 2021. This is an increase of 176 since the last report submitted to this Committee in September 2021 (4,927). This increase is in part due to additional KMBF Capital Growth and KMBF Recovery loan recipients being added to the monitoring cycle. It should also be noted we have also seen jobs lost in some companies and we anticipate possible further job losses in 2022 when the positive impact of the various Government funded Coronavirus supports scheme, is expected to wane and the potential impact in the rise of energy costs, is expected to grow. There is an overall target of 5,990 jobs (4,402 new jobs and 1,588 protected jobs) for the period up to March 2023.

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 109 being reported on during the monitoring period 1 October 2021 to 31 December 2021, 73 (67%) of returns were flagged as Green or Amber. In the case of partial returns or concerns over meeting contracted milestones, KCC will liaise with the businesses, obtain the missing information, and determine if further action is required. The value of those loans was £11,589,002. Of the total number of businesses monitored during the period 17 identified were in the Red Category B (Nil or incomplete monitoring return) and 19 businesses were identified as Red Category C (Non-achievement of key milestones/targets).

3.3 71 businesses have had loans or equity which are in Category A (Bad Debt) with a value of £9,528,082 of which £2,645,879 has so far been recovered. The total of funds not yet recovered is therefore £6,882,203 which equates to 10.85% 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 (£1,761,738). The total value of RGF loans written off (where debt recovery is no longer possible) is £5,120,465.

4. Equity Investments

4.1 Between 2013 and 2016 KCC made equity investments in 19 businesses at a cumulative initial value of £8,990,634 at the time the respective equity investments were made.

4.2 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. This sector was targeted because of its high growth potential and the opportunities it offered to build upon the facilities offered by Discovery Park, Kent Science Park and the Kent based universities. KCC has committed equity investments to nine businesses at a cumulative initial value of £4,350,000. KLS is funded from recycled RGF loan repayments.

4.3 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 three to five years. NCL Technology Ventures (NCL) have been appointed by KCC 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.

4.4 NCL have designated 17 of KCC's equity investments as having Green Risk Status, five as Amber Risk Status and three as Red Risk Status. Three of KCC equity investments (total initial value £2,274,072) are designated as Bad Debt as of 31 December 2021.

4.5 To mitigate the economic impact of the Covid-19 on companies in receipt of equity funding, KCC has been working with NCL to ensure that the innovative companies in which KCC invested have received specialist support and assistance.

5. Cost per Job

5.1 The cumulative amount of repayments expected in the nine years to December 2021 was £34,327,294. The actual amount repaid by the end of December 2021 was £32,363,157 which represents an achievement of 94.28%. In terms of the unrecovered funds, the cost per job is £1,003.

5.2 In terms of the total loan and equity awarded by the former RGF and KMBF schemes the average "cost" per job is £12,427 in comparison with the national average for Regional Growth Fund Schemes of £37,400 per job (over the first four RGF rounds according to the 2014 National Audit Office report on the Regional Growth Fund).

6. Legal

6.1 KCC has two contracts with BEIS and it also has legal agreements with the company undertaking independent financial appraisals and the company managing the equity portfolio.

6.2 The BEIS contracts will end in March 2023. KCC is currently negotiating with BEIS regarding the options for retaining the funds post-2023.

7. Policy Framework

7.1 KCC's Interim Strategic Plan sets out the short term goals and this scheme assists in meeting the Economic Challenge.

7.2 The impact of Covid19 has impacted on this scheme and KCC have instituted measures to mitigate these impacts, and these have been outlined in this Report.

8. Equalities and data protection implications

8.1 An Equality Impact Assessment (EqIA) was undertaken in March 2021 and concluded there were no adverse implications arising.

9. Data protection

9.1 No adverse data protection issues are expected as part of this project.

10. Recommendation

Recommendation:

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

11. Contact details

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