From: **Derek Murphy, Cabinet Member, Economic Development**

Simon Jones - Corporate Director of Growth, Environment & Transport

To: Growth, Economic Development and Communities Cabinet Committee – 11 September 2024

Subject: **Kent and Medway Business Fund Bi-Annual Monitoring – Q4 2023-24**

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 Q4 2023-24 is 5,259 (increase of 33 since the last report), consisting of 3,784 new jobs (increase of 36 since last report) and 1,475 protected jobs (decrease of three since the last report). The scheme was closed to new applicants between April and October 2023 so no new loans joined the portfolio for a seven-month period. The average cost per job is £1,002.96 (see Section 5).

The total cumulative loan repayments to the end of Q4 2023/24 of the value of £39,437,172 (increase of £1,216,584 since last report) 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 90 loans being reported, 71.1% are rated as Green or Amber, 28.9% of loans are rated Red (see Section 3.1).

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

1. Background Information

1.1 Since January 2017, KCC has used the recycled KMBF and 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 (origins of the scheme Annex One). The majority of funding recipients received 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 Fund (KLSF), 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.

1.2 All applications to the KMBF scheme undergo due diligence inquiries from an independent financial appraiser and KCC Finance colleagues before being examined by the Investment Advisory Board (IAB) and its Sub-Group. There are three senior KCC Councillors who currently sit on the IAB and Sub-Group, of whom two chair the main IAB and that Sub-Group. The majority of the members of the 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. KCC officers review the Recommendation and approval is made by either the Director of Growth and Communities or the Interim Head of Economy in line with the Officer Scheme of Delegation.

1.3 The scheme uses Bevan Brittan LLP and Freeths Ltd to provide advice on contracts and on insolvency issues and to work with the KCC Business Investment Team to recover the maximum amount of loan value. KCC Internal Audit oversees the investment procedures and processes and advise on other matters related to the use of the funds. A recent KCC Internal Audit report identified one High Risk, three Medium Risks and two Low Risks related to the Kent and Medway Business Fund. This report was extensively discussed at the Governance and Audit Committee in October 2022. Following on from this meeting a plan of action was agreed with the support of the Corporate Director Finance and KCC Finance colleagues. Progress on this action plan will be regularly reported and monitored by the Governance and Audit Committee and is being actively monitored by officers from within KCC Internal Audit as part of KCC good governance and assurance.

1.4 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 £26,000 and £99,999, normally security is not taken.

1.5 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).

1.6 Working with an independent financial appraiser and KCC Finance colleagues, KCC has established a Debt Recovery Working Group, a sub-group of the IAB, chaired by a KCC Member to advise on technical issues related to the recovery of existing investments (see Section 2.1).

1.7 The previous contracts with the Government ended on the 31 March 2023. KCC closed KMBF to new applications on 9 February 2023 pending a decision by the Government on the future use of the fund.

1.8 As reported at the May and June 2023 meetings of this committee, KCC has now received a positive decision on the future use of the recycled KMBF/RGF investments.

1.9 Details of the proposed new arrangements for the recycled KMBF/RGF investments were presented and discussed at the September 2023 meeting of the Growth, Economic Development and Communities Cabinet Committee and a new Key

Decision was subsequently agreed by the Cabinet Member (23/00088). The scheme reopened to pre-applications in November 2023.

2. Update on Government Funded KCC Business Investment Schemes

2.1 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) cumulatively as of the 31 March 2024.

Local Authority	Funding per Local Authority £	Private Investment £	No. of Businesses	No. of Jobs Created	No. of Jobs Protected	Total Jobs
Ashford	£1,857,600	£1,739,637	23	59	34	93
Canterbury	£9,884,680	£10,995,473	65	1,384	91	1,475
Dartford	£2,470,115	£2,238,578	16	138	52	190
Dover	£15,606,053	£19,219,589	57	495	213	708
Folkestone & Hythe	£6,886,468	£10,426,900	33	214	123	337
Gravesham	£881,062	£843,375	5	55	60	115
Maidstone	£4,318,837	£4,527,436	24	126	92	218
Medway	£5,066,621	£4,396,664	29	218	150	368
Rother (1)	£136,250	£136,250	3	34	3	37
Sevenoaks	£734,000	£790,472	8	50	20	70
Swale	£7,685,202	£19,140,158	27	286	286	572
Thanet	£8,921,256	£11,659,724	65	439	282	721
Thurrock (2)	£881,700.00	£1,421,356	4	72	13	85
Tonbridge & Malling	£1,533,510	£1,617,798	14	54	27	81
Tunbridge Wells	£2,083,000	£2,279,250	17	155	25	180
Wealden (1)	£200,000	£200,000	1	5	4	9
Total	**£69,146,354**	**£91,632,660**	**391**	**3,784**	**1,475**	**5,259**

2.2 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 5,259 as of 31 March 2024. In its positive decision on the future use of the recycled KMBF/RGF investments (see Section 1.8) the Government have confirmed that KCC has exceeded agreed jobs targets laid down in its contracts.

2.3 The cumulative amount of repayments expected to the end of Q4 2023/24 was £43,127,092. The actual amount receipted by the end of Q4 2023/24 was £39,187,172 which represents an achievement of 90.8%.

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 90 being reported on during the monitoring period 1 January 2024 to 31 March 2024, 64 (71.1%) of returns were flagged as Green or Amber. The value of those loans was £7,157,436. Of the total number monitored during the period, 12 businesses (loan value £800,500) identified were in the Red Category B (Nil or incomplete monitoring return) and 14 businesses (loan value £2,419,000) were identified as Red Category C (Non-achievement of key milestones/targets).

3.3 Since programme inception, 92 businesses (increase of seven since last report) have had loans which are in Category A (Bad Debt) with a value of £13,049,622 (increase of £2,204,072 since last report) of which £3,680,693 (increase of £356,670 last report) has so far been recovered. The total of funds not yet recovered is therefore £9,368,929 (an increase of £1,847,402 since last report) which equates to 13.5% of the total loan and equity investments made to date. This includes businesses which KCC is still actively pursuing to repay the debt and where further debt recovery is still possible (£2,920,065). The total value of KMBF/RGF loans where debt recovery is no longer possible is £5,274,593, such a determination is reached in line with KCC Financial Regulations. Any bad debts incurred during the normal course of business investment (loans and equity) are attributed as a loss to the Fund rather than to the County Council. The County Council's liability is limited to instances of KCC's misadministration of the Fund.

4. Equity Investments

4.1 Between 2013 and 2016 KCC made equity investments via the KCC RGF Bespoke Equity Fund (KRBEF) and the Discovery Park Technology Investment Fund (DPTIF) in 19 businesses at a cumulative initial value of £9,387,417 at the time the respective equity investments were made. KCC has fully exited from one business and partially exited from another business.

4.2 In January 2017 the Kent Life Sciences Fund (KLSF) 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 £4,762,392. KLSF is funded from recycled KMBF/RGF loan repayments.

4.3 In making these equity investments, KCC has seen its role as a "patient investor". Newable Ltd (now Maven Cognition) and NCL Technology Ventures (NCL) have been appointed by KCC to manage, monitor, and oversee these investments. Both contractors work with the businesses in receipt of our equity investments 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 KCC Finance for audit purposes as part of the reporting on companies in which KCC has an interest.

4.4 There have been 28 investments in 26 companies (two companies were jointly funded by DPTIF/KLSF). KCC has fully exited from one company, and it is no longer monitored, and six companies are categorised as Bad Debt (see Section 4.5). Therefore 19 equity investments are still being monitored.

4.5 Newable and NCL have designated eight of KCC's equity investments as having Green Risk Status, seven as Amber Risk Status and four as Red Risk Status (total initial value £1,656,000). Six of KCC's equity investments (total initial value £3,619,072) are designated as Bad Debt as of 31 March 2024. Again, such determination is reached in line with KCC Financial Regulations, and represents a loss to the Fund rather than the County Council

4.6 To mitigate the potential impact of the current economic conditions on companies in receipt of equity funding, KCC has been working with Newable and NCL to ensure that the innovative companies in which KCC invested have received specialist support and assistance.

5. Cost per Job

5.1 In terms of the unrecovered funds, the cost per job is £1,002.96.

5.2 In terms of the total loan and equity awarded by the KMBF/RGF schemes the average "cost" per job is £13,149.19 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. Financial Implications

6.1 The capital costs of loan and equity investments are sourced from current and future recycled loan and equity investments from the KMBF/RGF schemes.

6.2 The annual cost to KCC of administering the KMBF scheme (inc. staff, legal, appraisal and monitoring costs) is £670,000 per annum, in addition KCC have made significant changes in recent months to reduce operating cost. The revenue costs of this activity have been funded from two sources: a) a management charge of up to 10% levied from the fund on the value of all investments made to companies; and b) an administrative charge of 10% levied from the companies on the value of all loans since November 2023.This makes the scheme self-funding.

7. Legal

7.1 KCC had two contracts with DBT, both ended on the 31 March 2023. A recent decision by DLUHC mandated that all the recycled KMBF/RGF funds are to be managed by KCC as either a loan or equity scheme for a 10-year period, until 2032.

7.2 KCC also has legal agreements with the company undertaking independent financial appraisals, two legal companies (see Section1.6) and the two companies managing the equity portfolio (see Section 4.3).

8. Policy Framework

8.1 The KMBF is in-line with Priority 1: Levelling Up Action 3 - Kent County Council's Strategic Statement Framing the Future: Framing Kent's Future – Our Council Strategy - as KMBF seeks to attract national and international investment to businesses in the county.

8.2 KMBF also supports the following priority in Securing Kent's Future – Budget Recovery Strategy, Objective 3 - Full cost recovery on discretionary spend.

9. Equalities implications

9.1 An Equality Impact Assessment (EqIA) has been undertaken and is attached to this report as an appendix.

9.2 The EqIA will be kept under review as the project progresses.

10. Data protection

10.1 The existing privacy notice covers the operation of the KMBF, and no new data protection issues arise due to the contents of this paper.

11. Recommendation The Growth, Economic Development and Communities Cabinet Committee is asked to note the report and make any recommendations to the Cabinet Member.

12. Contact details

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Annex One

The Regional Growth Fund (RGF) was established in June 2010 by the Department for Business, Innovation and Skills now the Department for Business and Trade (DBT) 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.

The Government's Regional Growth Fund allocated £55 million 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).

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, loans and equity investments.