

From: Mark Dance, Cabinet Member for Economic Development
Barbara Cooper, Director of Economic Development

To: Economic Development Cabinet Committee - 20 September 2013

Subject: Decision Number: 13/000070 - Escalate: Decision to enter into Regional Growth Fund grant agreement

Classification: Unrestricted

Past Pathway of Paper: Listed on Forward Executive Decisions

Future Pathway of Paper: Cabinet Member Decision

Electoral Division: All in Maidstone, Sevenoaks, Tonbridge & Malling and Tunbridge Wells

Summary: Following a successful application to the Regional Growth Fund (RGF), the Government has awarded £5.5 million to Kent County Council to deliver the Escalate programme. This will provide direct financial support to businesses with the potential for growth in Maidstone, West Kent and the A21 Corridor, with the aim of creating over 300 jobs and attracting a further £25 million in private sector investment.

To take Escalate forward, a Key Decision will be required to enable KCC to act as the accountable body for the programme and to enter into a formal grant agreement with the Government. This has been published in the Forward Plan.

This paper sets out the background to the Escalate programme, its aims and objectives and proposed arrangements for programme management and governance. It also sets out the formal agreements that need to be reached to draw down RGF funding.

Recommendations:

The Cabinet Committee is asked to consider and endorse or make recommendations to the Cabinet Member for Economic Development on the proposed decision to:

- i. agree that KCC shall act as the accountable body for Escalate;
- ii. Accept the Government's offer of Regional Growth Fund grant in respect of the Escalate project, subject to the approval of the terms of the draft grant agreement by the Director of Economic Development in consultation with the Cabinet Member for Regeneration and Economic Development; and
- iii. Delegates authority to the Director of Economic Development to sign on behalf of the County Council the final Grant Offer Letter

1. Introduction: The Regional Growth Fund

- 1.1. The Regional Growth Fund is a national Government fund which is available to support projects and programmes which will lead to the creation of private sector jobs, especially in areas affected by high levels of public sector dependency and relatively weak private business growth. Funding is allocated on a competitive basis, and KCC has so far been successful in securing £55 million to deliver the Expansion East Kent and TIGER (Thames Gateway Innovation, Growth and Enterprise) access to finance schemes, both of which are now operating successfully.
- 1.2. Earlier in 2013, the Government announced a third round of RGF funding, with over £300 million available nationally. In response to the Government's call for projects, KCC (together with West Kent Partnership and Oxford Innovation, the providers of the Government's Growth Accelerator service) submitted an application in March for the Escalate programme. This has now been approved in principle by Government, with an allocation of £5.5 million.

2. Escalate

- 2.1. The Escalate programme aims to provide financial support to businesses with high growth potential that are able to create sustainable, higher-value employment. The programme recognises that while West Kent has a relatively strong economy, reduced bank lending has impacted its small business base, creating a particular challenge for innovative businesses with both high growth potential and higher risk profiles.
- 2.2. Escalate seeks to respond to this gap by providing targeted loan funding (normally interest-free and unsecured) to companies where this will secure additional private sector finance and support job creation.
- 2.3. Geographically, Escalate will be available for investment in Maidstone, Sevenoaks, Tonbridge and Malling and Tunbridge Wells, as well as in the East Sussex districts of Hastings, Rother and Wealden. All funds will need to be committed by the end of March 2015. However, as loans are repaid, the fund will recycle locally for at least ten years (at which point the Government may decide to recover remaining repayments or continue the fund, depending on performance and market need).
- 2.4. All businesses seeking funding from Escalate will need to demonstrate that they have strong growth potential, are able to create or safeguard employment as a result of an Escalate loan and will unlock additional private sector investment. To ensure that all businesses applying to Escalate receive appropriate support (including assistance in accessing other sources of finance), all applicants will be required to register with either the High Growth Kent service funded by KCC or the national Growth Accelerator service.
- 2.5. To generate early demand for Escalate, KCC has allocated £150,000 to a small pilot loan scheme, known as Accelerator Plus. This was launched in July, with a closing date for applications of 17 September.

3. Accountability, governance and management

Accountable body

- 3.1. The original application to Government for the Regional Growth Fund proposed that KCC shall act as the accountable body for Escalate. This will mean that KCC will receive the £5.5 million funding in quarterly tranches and will be responsible for issuing grant and loan agreements to individual businesses and for reporting on performance to Government. It will also be liable for any repayment of the RGF allocation in the event that outputs and conditions specified in the Government's grant agreement are not met. This role is the same as the accountable body role that KCC currently performs in relation to the TIGER and Expansion East Kent programmes.

Governance arrangements

- 3.2. All applications for Escalate funding will need to be independently appraised. It was proposed that following appraisal, decisions to award loans will be made by a panel of businesses and local authority representatives, on which KCC will be represented by the Cabinet Member for Regeneration and Economic Development. As accountable body for the programme, KCC will reserve the right to refuse any applications that present an unacceptable level of risk.

Management arrangements and costs

- 3.3. Escalate will be managed by the team within KCC that already manages TIGER and Expansion East Kent. Because the RGF grant will go directly to business, these management costs will need to be borne by KCC and its local partners – although there are significant economies of scale in managing Escalate alongside our existing schemes.
- 3.4. Revenue funding of up to £194,000 has been allocated from the KCC Regeneration Fund to contribute to the costs of managing Escalate. It is anticipated that the District Councils will also support the local marketing of the scheme.

4. Securing the Regional Growth Fund grant

- 4.1. Following the Government's announcement of funding for Escalate, the Department for Business, Innovation and Skills is currently undertaking an Operational Review of the scheme. This is intended to ensure the Government that the programme will be managed effectively and that employment and other outputs will be met.
- 4.2. Once Government are satisfied that the Operational Review has been completed, we will receive a draft final grant offer. This will form our contract with Government for the delivery of the programme and its outputs. The draft final offer will be subject to comment by KCC Legal and Finance before it is concluded, and it is recommended that the authority to enter into the grant agreement is delegated to the Director of Economic Development, subject to the due diligence process.

5. Risks

- 5.1. The main risk to KCC associated with its acceptance of a grant offer for Escalate is a failure to meet the jobs and leverage outputs associated with the programme, with the potential for grant to be clawed back by Government. This will be mitigated through the robustness of the appraisal and monitoring processes associated with each individual project and through close overall programme management.
- 5.2. A risk register is included as Annex 1.

6. Next steps

It is intended that Escalate will be launched to applicants in November, once we have our full grant secured.

7. Recommendations

The Cabinet Committee is asked to consider and endorse or make recommendations to the Cabinet Member for Economic Development on the proposed decision to:

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- iii. Delegates authority to the Director of Economic Development to sign on behalf of the County Council the final Grant Offer Letter

Report author:

Ross Gill
Economic Strategy and Policy Manager
01622 221312 (7000 1312)/07837 872705
Ross.gill@kent.gov.uk

Relevant Director:

Barbara Cooper
Director of Economic Development
01622 221856
Barbara.cooper@kent.gov.uk

Annexes

Annex 1: Risk Register

Support documents

Escalate bid to Regional Growth Fund (available on request)

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ANNEX 1: RISK REGISTER

Risk	Inherent			Mitigation	Residual		
	Impact	Likelihood	I*L		Impact	Likelihood	I*L
Lack of appropriate projects – inability to spend	4	3	12	<ul style="list-style-type: none"> Initial Accelerator Plus scheme to drive demand High Growth Kent/ Growth Accelerator promoting scheme Marketing strategy developed Joint working with other business representative/ support agencies and banks 	3	2	6
Excessive demand – inability to process applications in time	3	4	12	<ul style="list-style-type: none"> Experienced delivery team and robust systems Applicants required to receive business support in applying Clear communication of scheme criteria 	3	3	9
Inconsistent project approval	3	4	12	<ul style="list-style-type: none"> Single programme manual Single programme management team 	2	2	4
Breach of state aid regulations resulting in clawback of grant	4	3	12	<ul style="list-style-type: none"> State aid considered as key element of project appraisal Clear published eligibility criteria Each project individually approved 	3	1	3
Failure to meet stated outputs	3	3	9	<ul style="list-style-type: none"> Jobs and leverage outputs highlighted as core criteria Robust independent appraisal process Ongoing project monitoring 	3	2	6
Failure to secure private sector leverage	3	3	9	<ul style="list-style-type: none"> Dialogue with banks and other potential investors Jobs and leverage outputs highlighted as core criteria 	3	2	6

				<ul style="list-style-type: none"> • Robust independent appraisal process • Ongoing project monitoring 			
Business failure	4	2	8	<ul style="list-style-type: none"> • Integrated support from High Growth Kent/ Growth Accelerator • Robust appraisal and monitoring 	3	1	3
Lack of additionality (projects would have happened anyway)	3	2	6	<ul style="list-style-type: none"> • Additionality considered at appraisal stage 	3	1	3