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Cabinet Member Economic Development

To: Economic Development Cabinet Committee – 14 April 2015

Subject: RGF Programmes and Framework for Monitoring Report

- Escalate (West Kent and parts of East Sussex)
- Expansion East Kent (East Kent and Ashford)
- Tiger (North Kent and Thurrock)

Classification: Unrestricted

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## **Background Information**

Since November 2011 the Department of Business, Innovation and Skills (BIS) has allocated £55 million to KCC for three schemes:

- Expansion East Kent (£35 million)
- Tiger (£14.5 million)
- Escalate (£5.5 million)

These schemes provide funds for companies with investment plans that will lead to job creation. This report provides an update on the allocation of funds to companies and the introduction of a framework for future reports.

## **Recommendation**

Members of Growth, Economic Development and Communities Cabinet are asked to NOTE and agree the framework for future reports.

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### **1. Summary of RGF Schemes**

As of 13<sup>th</sup> March 2015, KCC has committed over £54 million across the three RGF schemes since April 2012. For the majority of companies the loan finance provided is set at 0% interest with a repayment period of between 5 to 7 years. The contractual agreement with BIS also allows the programmes to offer grants and equity investments in exceptional circumstances. All repayment of loans and returns on Equity Investments will be reinvested into future financial support programmes for businesses and companies across Kent, Thurrock and parts of East Sussex.

In total, over 190 companies have been supported through the RGF schemes managed by Kent County Council. These companies are targeted to create 11,500 jobs and will leverage in £84 million from private sector investment.

1.1 The Expansion East Kent Programme was launched in December 2012. As of 13<sup>th</sup> March 2015 KCC has committed over £34.5 million to 103 companies within the local authority areas of Ashford, Canterbury, Dover, Shepway and Thanet. Companies

from the local authority area of Ashford were invited to apply to the programme in July 2014. The programme was suspended on 1<sup>st</sup> February 2015 and is no longer open to any applicants.

1.2 The Tiger Programme for North Kent and Thurrock was launched in March 2013. As of 13<sup>th</sup> March 2015 KCC has committed £14.5 million to 51 companies within Dartford, Gravesham, Medway, Swale and Thurrock. The programme is no longer open to any new applicants.

1.3 The Escalate Programme for West Kent and parts of East Sussex was launched in December 2013. The first amounts of funding were awarded to businesses from March 2014. As of 13<sup>th</sup> March 2015 KCC has committed £5.5 million to 35 companies and the programme is no longer accepting any new applications.

## **2. Monitoring Framework**

2.1 The contractual arrangements between KCC and successful bidders are as follows:-

- A legally binding contract agreement is issued to the company and sealed by KCC.
- This contract includes clauses that cover defaults on payments, non return of monitoring forms and other clauses specific to the delivery of the milestones and targets as agreed between the company and KCC.
- In addition to the monitoring process undertaken by KCC a quarterly monitoring check is carried out by the DCLG Monitoring Officer with the BIS Contract Manager.
- Also KCC Internal Audit Team and an external auditor Grant Thornton are commissioned on an annual basis to carry out audits on the compliance of the process and the administration of the schemes see below:
  - The main objective of the KCC Internal Audit is to provide assurance on the governance arrangements, decision making and outcomes for the RGF initiatives.
- Recommendations from previous audits have been accepted and incorporated into the programme administration processes.

2.2 The monitoring framework encompasses stage 4 - issuing of the loan agreement and stage 5 - the process for monitoring companies.

- Contract Issuing stage 4 – all information on the companies is held on a bespoke Customer Relationship Management (CRM) and Excel Finance system.
- Contract Monitoring stage 5 – process for issuing the reports to companies and compiling returns.

2.3 On receipt of returns the following RAG rating is applied:-

1. Green Status – full return received and no outstanding issues noted.
2. Amber Status – partial return received and issues noted

3. Red Status – no return received and non achievement of key milestones i.e. repayment, job outcomes or delay to planned objectives

In addition the following process has been implemented for the non-return of the monitoring form.

***If the Applicant has passed their deadline for the return of the monitoring form, a further deadline of two weeks is set for return by the sending of a formal reminder for the monitoring form.***

***If the Applicant has not submitted their return by the extended deadline, a further formal email is sent to them informing them that if their return is not received within a further seven days a site visit will be undertaken to ensure contractual compliance with regard to contractual outputs and milestones***

2.4 The following table provides a headline summary for all three RGF programmes for the period of September - December 2014.

No of companies awarded investment and completed contract stage	No of companies in monitoring reporting cycle	No of reports received	No of companies in Green Risk Status	No of Companies in Amber Risk Status	No of Companies in Red Risk Status
172	125	111 (89%)	76 (61%)	26 (21%)	23 (18%)
		<b>Combined Loan Values</b>			
		£33,090,319	£21,752,165	£5,638,111	£5,700,043

Breakdown of Red Risk Status	Category A Non Payment of Debt	Category B Nil Return of Monitoring Form	Category C Significant shortfall on milestones / targets
No of Companies	4 (3%)	11 (9%)	8 (6%)
Combined Loan Value	£864,330	£3,077,500	£1,758,213
Actions to be taken	Formal legal proceedings undertaken	Follow up email	Company under review

It is important to note out of the 125 companies within the monitoring reporting cycle 82% (102 companies) fall within green or amber and only 18% (23 companies) fall within the red risk status. Equally important is the fact the monitoring framework further segments the red risk status into three categories as follows:

Category A = Failure to repay loan on time = 4 companies (3%)

Category B = Nil return of monitoring form = 11 companies (9%)

Category C = Significant delays in outputs = 8 companies (6%)

### **3. Delivery of Schemes**

Annex 1 provides full details on the monitoring returns for the **Expansion East Kent programme** and expected job creation to March 2019.

Annex 2 provides full details on the monitoring returns for the **Tiger programme** and expected job creation to March 2019.

Annex 3 provides full details on the monitoring returns for the **Escalate programme** and expected job creation to March 2019.

### **4. Recommendation:**

Members of Growth, Economic Development and Communities Cabinet are asked to NOTE progress to date in delivering the three RGF programmes and agree format of future reports.

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**Annex 1**  
**Expansion East Kent Programme**

This annex provides full details of the funding awarded to companies within the East Kent and Ashford area from the Expansion East Kent programme.

**1. Funding Awarded**

The table shows total funding committed, a breakdown per local authority, number of jobs to be created and private sector investment (matched funding).

Expansion East Kent Scheme	Funds Awarded £m	Private Investment £m	No of Companies	No of jobs to be created	Saved posts	Total no of Jobs created/safeguarded posts
Ashford	0	0	0	0	0	0
Canterbury	6,729,199.12	7,588,601.00	21	1,205.58	83.92	1,289.50
Dover	11,443,620.00	23,952,203.00	22	506.09	233.61	739.7
Shepway	6,021,037.00	10,001,339.78	21	432.79	124.55	557.34
Thanet	5,457,215.00	12,424,985.00	19	472.58	278.75	751.33
<b>Total</b>	<b>29,651,071.12</b>	<b>53,967,128.78</b>	<b>83</b>	<b>2,617.04</b>	<b>720.83</b>	<b>3,337.87</b>
<b>Position as at 13 March 2015</b>						

<b>Total Committed Funding</b>	£29,651,071.12	£53,967,128.78	83	2,617.04	720.83	3,337.87
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Within the Expansion East Kent scheme there are two additional programmes and the Investment Advisory Board have agreed to ring fence and commit £6 million to the programmes as follows:

- (a) Small Business Boost = £1m
- (b) Equity Investment Fund = £5m

The Small Business Boost has currently awarded funding to 20 companies (5 of which are in Ashford).

<b>Total Funding Committed = £29,651,071.12</b>
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**2. Defrayment of Funds**

Each company applying to the programme will provide a profile for the drawdown of funds. This would be dependent on the needs of the businesses and the companies plans for growth.

The profile for the defrayment of funds is as follows:-

- (a) Funds defrayed as of February 2015 = £19,390,282}
- (b) Estimated funds to be defrayed March 2015 = £4,420,964} £35 million
- (c) Estimated funds April 2015 to March 2016 = £11,188,754}

### 3. Profile for Repayments of Funds (as at 27<sup>th</sup> February 2015)

All repayment of loans and returns on Equity Investments will be reinvested into future financial support programmes for businesses and companies.

The table below provides details on the repayment profile due to be repaid by March 2021.

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
£335,294	£898,196 (see below)	£2,864,594	£3,815,509	£4,480,191	£3,856,001

2019/20	2020/21	Total Repayment
£3,052,121	£4,698,847	£24,000,753

There are two loan repayment periods per financial year i.e. September 2014 and March 2015.

The estimated amount to be received for the September 2014 period was £444,034. The actual amount received as of 30<sup>th</sup> September 2014 was £441,459 which represented an achievement rate of 99.42%.

The remaining funds (£456,737) for the financial year 2014/15 will be received in March 2015.

### 4. Monitoring Returns

The monitoring returns for the Expansion East Kent programme for the period of December 2014 period have resulted in 45% being allocated Green status (performance fully met as per loan agreement) or Amber status (slight slippage but in the main delivery of job outputs as per loan agreement) are as follows:

No of companies awarded investment	No of companies in monitoring reporting cycle	No of reports received	No of companies in Green Risk Status	No of Companies in Amber Risk Status	No of Companies in Red Risk Status
83	64	53 (83%)	29 (45%)	18 (28%)	17 (27%)
		<b>Combined Loan Value</b>			
		£19,177,399	£10,924,343	£3,636,226	£4,616,830

It is important to note there are three categories with the RED status – see table below.

<b>Breakdown of Red Risk Status</b>	<b>Category A Non Payment of Debt</b>	<b>Category B Nil Return of Monitoring Form</b>	<b>Category C Significant shortfall on milestones / targets</b>
No of Companies	3 (5%)	8 (13%)	6 (9%)
Combined Loan Value	£454,330	£2,547,500	£1,615,000
Actions to be taken	Formal legal proceedings undertaken	Follow up email	Company under review

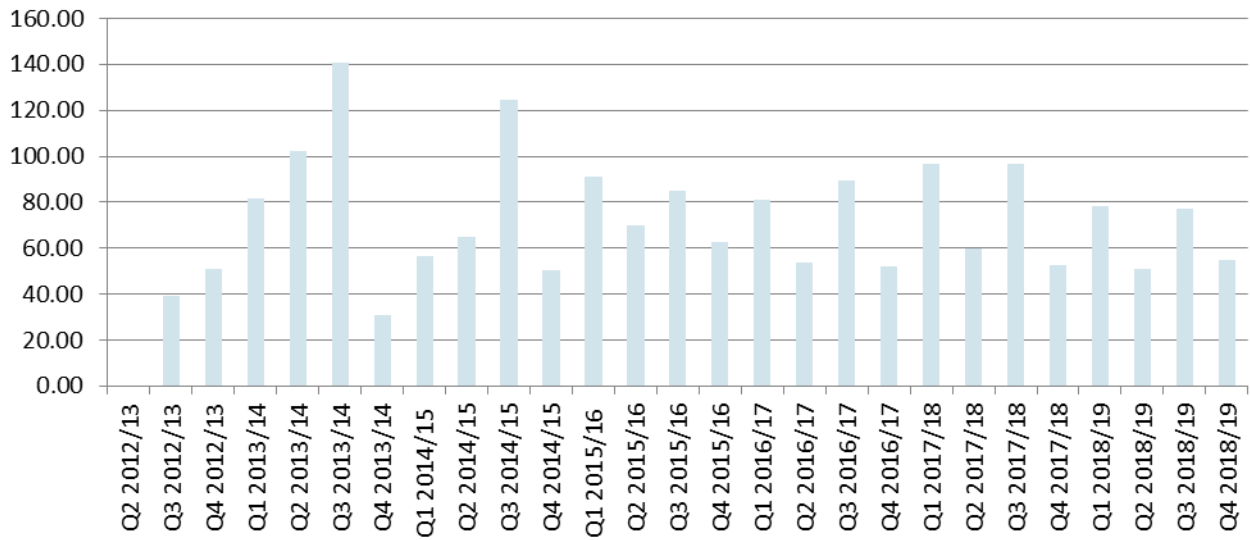
The action taken on 18 (28%) companies in Red Status is as follows:

<b>Category A =</b>	3 Companies have significant issues i.e. failure to repay loan on time – bad debt.
Action taken:	All three Companies have advised KCC of action taken either voluntary administration or voluntary liquidation. Legal advice sourced on the appropriate action to take and costs of actions.
<b>Category B =</b>	8 companies - nil return of monitoring form
Action taken:	All 8 Companies received follow up emails and resulted in 8 monitoring returns still outstanding. The outstanding returns have now been merged with the March 2015 return.
<b>Category C =</b>	6 Companies - Significant delays in the following areas: <ul style="list-style-type: none"> <li>• Job creation significantly behind, loss of staff, and/or not employment contracts not clearly evidenced</li> <li>• Audit Certificate for 13/14 overdue</li> <li>• Risk to company premises, relocation required</li> <li>• Match funding for final drawdown is at risk</li> </ul>

The monitoring returns for December 2014 have included evidence i.e. employment contract for the creation of 362.39 jobs and safeguarded of 372.43. This figure is profiled to rise to 950.91 jobs created and 577.36 safeguarded by the end of March 2015.

The following graph provides information of the estimated number of jobs to be created per quarter per year until 2019.

## EXPANSION EAST KENT EXPECTED JOB CREATION TO MARCH 2019





## Annex 2 Tiger Programme

This annex provides full details of the funding awarded to companies within the North Kent and Thurrock area from the Tiger programme.

### 1. Funding Awarded

The table shows total funding committed, a breakdown per local authority, number of jobs to be created and private sector investment (matched funding).

Tiger Programme	Funding per Local Authority £ m	Private Investment £ m	No of Companies	No of jobs to be created	Saved Posts	Total number of Jobs
Dartford	1,477,247	1,283,822	9	158.69	56.21	214.9
Gravesham	881,062	843,062	5	45.58	62	107.58
Medway	4,445,489	3,050,659	15	262.03	158.97	421
Swale	6,574,502	17,669,708	16	310.86	312.24	623.1
Thurrock	1,121,700	1,501,355.5	5	131.76	18.53	150.29
<b>Total</b>	<b>14,500,000</b>	<b>24,348,606.5</b>	<b>50</b>	<b>908.92</b>	<b>607.95</b>	<b>1516.87</b>
<b>Position as at 13 March 2015</b>						

<b>Total Funding Committed</b>	<b>£14,500,000</b>	<b>£24,348,606.5</b>	<b>50</b>	<b>908.92</b>	<b>607.95</b>	<b>1516.87</b>
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### 2. Defrayment of Funds

Each company applying to the programme provides a profile for the drawdown of funds. This drawdown would be dependent on the needs of the businesses and the companies' plans for growth.

The profile for the defrayment of funds is as follows:

Funds defrayed as at 1 <sup>st</sup> March 2015	=£11,489,940}	£14.5 million
Estimated funds to be defrayed by end March 2015	=£3,010,060}	

### 3. Profile for Repayments of Funds (as at 27<sup>th</sup> February 2015)

All repayment of loans and returns on Equity Investments will be reinvested into future financial support programmes for businesses and companies.

The table below provides details on the repayment profile. The total amount to be repaid is £12,665,928 as two companies have been awarded equity investments (£1,424,072).

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
£143,007	£2,166,185	£2,556,524	£2,459,093	£2,026,844	£1,663,545	£1,240,704
<b>Total Repayment = £12,665,928</b>						

There are two loan repayment periods per financial year i.e. September 2014 and March 2015.

#### 4. Monitoring Returns

The monitoring returns for Tiger programme for the period of December 2014 period have resulted in 72% being allocated Green status (performance fully met as per loan agreement) or Amber status (slight slippage but in the main delivery of job outputs as per loan agreement) are as follows:

No of companies awarded investment	No of companies in monitoring reporting cycle	No of reports received	No of companies in Green Risk Status	No of Companies in Amber Risk Status	No of Companies in Red Risk Status
51	39	36 (92%)	28 (72%)	5 (13%)	6 (15%)
		<b>Combined Loan Value</b>			
		£10,417,960	£7,864,078	£1,524,669	£1,083,213

It is important to note there are three categories with the RED status – see table below.

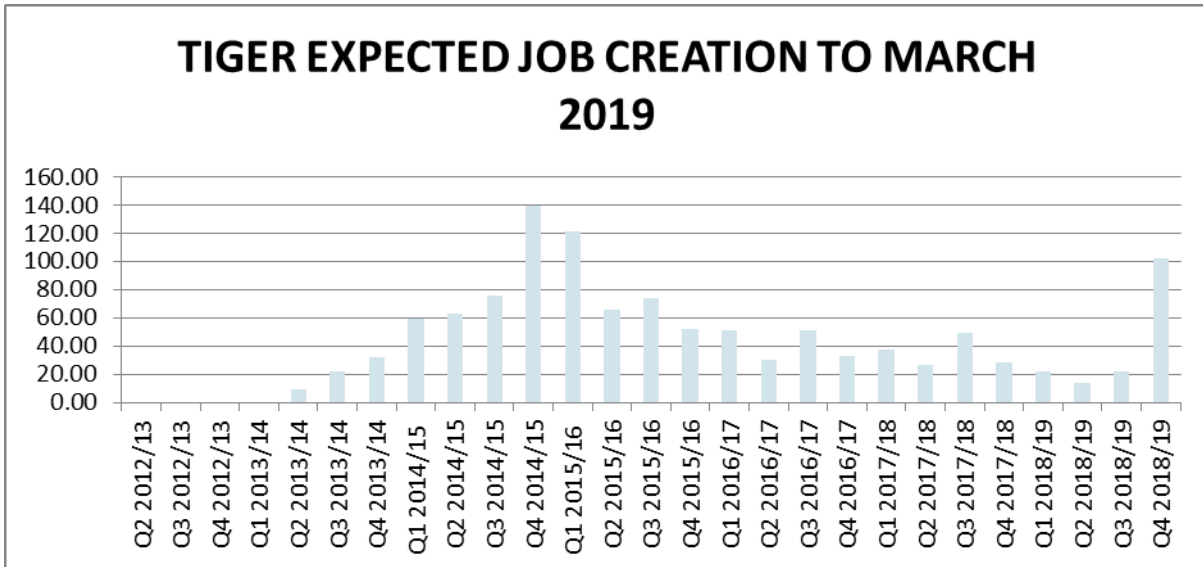
Breakdown of Red Risk Status	Category A Non Payment of Debt	Category B Nil Return of Monitoring Form	Category C Significant shortfall on milestones / targets
No of Companies	1 (2%)	3 (5%)	2 (8%)
Combined Loan Value	£410,000	£530,000	£143,313
Actions to be taken	Formal legal proceedings undertaken	Follow up email	Company under review

The action taken on 6 (15%) companies in Red Status is as follows:

<b>Category A =</b>	1 Company has significant issues i.e. failure to repay loan on time – bad debt.
<i>Action taken:</i>	The company have advised KCC of voluntary administration. Legal advice sourced on the appropriate action to take and costs of actions.
<b>Category B =</b>	2 Companies - nil return of monitoring form
<i>Action taken:</i>	Both companies have received follow up emails and resulted in 2 monitoring returns still outstanding. The outstanding returns have now been merged with the March 2015 return.
<b>Category C =</b>	3 companies - Significant delays in the following areas: <ul style="list-style-type: none"> <li>Job creation significantly behind, loss of staff, and/or not employment contracts not clearly evidenced.</li> </ul>
<i>Action taken:</i>	One company has confirmed that they will be repaying their loan early due to not being able to retain staff due to their proximity and easy access to London. The other two companies are actively seeking the right calibre of staff.

The monitoring returns for December 2014 have included evidence i.e. employment contract for the creation of 206.51 jobs and safeguarded of 514.04. This figure is profiled to rise to 353.38 jobs created and 587.25 safeguarded by the end of March 2015.

The following graph provides information of the estimated number of jobs to be created per quarter per year until 2019.



## **Annex 3** **Escalate**

This annex provides full details of the funding awarded to companies within the districts of West Kent and three districts of East Sussex from the Escalate programme.

### **1. Funding Awarded**

The table shows total funding committed, a breakdown per local authority, number of jobs to be created and private sector investment (matched funding).

<b>Escalate Programme</b>	<b>Funding per Local Authority £ m</b>	<b>Private Investment £ m</b>	<b>No of Companies</b>	<b>No of Jobs to be created</b>	<b>Saved Posts</b>	<b>Total number of Jobs</b>
Maidstone	2,565,998.30	2,745,332	10	127.56	94.67	222.23
Rother	90,000	95,845	1	82.83	17	99.83
Sevenoaks	594,000	719,472	6	33.6	18.17	51.77
Tonbridge + Malling	763,509.50	762,798	8	60.43	19.08	79.51
Tunbridge Wells	1,093,250	1,332,250	10	146.05	19.46	165.51
Wealden	280,250	280,250	3	17.27	7	24.27
<b>Total</b>	<b>5,387,007.8</b>	<b>5,935,947</b>	<b>38</b>	<b>467.74</b>	<b>175.38</b>	<b>643.12</b>
<b>Position as at 13 March 2015</b>						
<i>*Hastings Funding total is zero</i>						
<b>Total Funding Committed</b>	<b>£5,387,007.80</b>	<b>£5,925,947</b>	<b>38</b>	<b>467.74</b>	<b>175.38</b>	<b>643.12</b>

### **2. Defrayment of Funds**

Each company applying to the programme provides a profile for the drawdown of funds. This drawdown would be dependent on the needs of the businesses and the companies' plans for growth.

The profile for the defrayment of funds is as follows:

Funds defrayed as at 1 March 2015	= £4,649,582.80}	£5.5 million
Estimated funds to be defrayed by end March 2015	= £850,417.20}	

### **3. Profile for Repayments of Funds (as at 27 February 2015)**

All repayment of loans and returns on Equity Investments will be reinvested into future financial support programmes for businesses and companies.

The table below provides details on the repayment profile. The total amount to be repaid is £5,250,000 as one company has been awarded equity investment (£250,000).

<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
£135,760	£889,304	£1,179,936	£1,170,186	£997,475	£653,086	£224,251
<b>Total Repayment = £5,250,000</b>						

#### 4. Monitoring Returns

The monitoring returns for the Escalate programme for the period of December 2014 period have resulted in 86% being allocated Green status (performance fully met as per loan agreement) or Amber status (slight slippage but in the main delivery of job outputs as per loan agreement) are as follows:

No of companies awarded investment	No of companies in monitoring reporting cycle	No of reports received	No of companies in Green Risk Status	No of Companies in Amber Risk Status	No of Companies in Red Risk Status
38	22	22 (100%)	19 (86%)	3 (14%)	0 (0%)
<b>Combined Loan Value</b>					
		£3,440,960	£2,963,744	£477,216	

The monitoring returns for December 2014 have included evidence i.e. employment contracts for the creation of 36.66 jobs and safeguarded of 58. This figure is profiled to rise to 138.76 jobs created and 176.1 safeguarded by the end of March 2015.

The following graph provides information of the estimated number of jobs to be created per quarter per year until 2019.

