

**By:** Mark Dance, Cabinet Member for Economic Development  
Barbara Cooper, Corporate Director – Growth Environment and Transport

**To:** Growth, Economic Development and Communities Cabinet Committee - 2 December 2014

**Subject:** Discovery Park Enterprise Zone: Growing Places Fund

**Classification:** Unrestricted

**Past pathway of paper:** None

**Future pathway of paper:** None

**Electoral Division:** Sandwich

### **Summary**

Last year, the South East Local Enterprise Partnership Board provisionally allocated £4.6 million from the Growing Places Fund to support the development of Discovery Park Enterprise Zone. It was intended that this should be made available to Kent County Council as a loan. This will then enable KCC to offer loan finance to the private sector.

This paper sets out the process through which it is anticipated that Growing Places Fund will be drawn down and managed.

### **Recommendations:**

The Growth, Economic Development and Communities Cabinet Committee is asked to CONSIDER and ENDORSE or make recommendations to the Cabinet Member for Economic Development on

- a) the proposed arrangements for managing the Growing Places Fund loan money; and
- b) the proposed decision that Kent County Council shall;
  - i. Draw down capital funds of up to £4.6 million from the Growing Places Fund;
  - ii. Make available loan finance of up to £4.6 million to one or more third party organisations to support the development of Discovery Park Enterprise Zone.

Provided that this is subject to:

- i. The conclusion of a satisfactory loan agreement from Essex County Council, as the Accountable Body for Growing Places Fund; and
- ii. The receipt of a satisfactory application for loan finance from one or more third party organisations.

## **1. Background**

### The Growing Places Fund

- 1.1. The Growing Places Fund (GPF) is a capital fund that has been distributed by central Government to Local Enterprise Partnerships so that it can be used to provide repayable finance for schemes that will lead to the delivery of jobs and housing. In the South East LEP area, the Fund has a value of £49 million.
- 1.2. Essex County Council acts as the Accountable Body for the South East LEP GPF fund. Essex CC manages the Fund by entering into loan agreements with county and unitary councils for projects that are supported by the South East LEP Board. The local county or unitary councils then enter into subsidiary loan agreements with third party borrowers. These final borrowers may be in the public or private sectors.

### Discovery Park Enterprise Zone

- 1.3. Discovery Park was designated as an Enterprise Zone in 2011, following Pfizer's decision to partially exit from its major research and development facility at Sandwich. Since then, the Park has successfully grown as a centre for high-value businesses, especially in the life science and pharmaceutical sectors. At present, there are around 1,900 people employed on the site, working in 100 companies. The site is in the private ownership of Discovery Park Ltd.
- 1.4. Discovery Park Enterprise Zone is recognised as an economic priority for Kent and for the South East LEP as a whole. However, it is understood that the reconfiguration of the site from a facility designed for a single user to a diverse science park will impose significant costs on the site owner or its occupiers.

### The Growing Places Fund allocation

- 1.5. Recognising the strategic importance of Discovery Park Enterprise Zone, and the potential requirement for financial assistance, the South East LEP Board agreed in 2013 to allocate a maximum of £4.6 million from the Growing Places Fund to support capital investment within the Zone boundaries. However, this allocation is not legally committed; rather, it is a ringfenced sum that may be secured in the event that a full project proposal comes forward.

## **2. Securing the Growing Places Fund allocation**

- 2.1. In order to secure the GPF allocation and ensure that it is used effectively, it is proposed that:

- a) Kent County Council shall invite applications for loan finance of up to £4.6 million for infrastructure at Discovery Park.
- b) Applications shall then be appraised and considered through the same process as that which is currently used to determine applications for loans from the Expansion East Kent programme. This means that any application will be required to submit a full business plan, be subject to independent appraisal and be considered by the Expansion East Kent Investment Advisory Board before a decision is made by KCC. The owners of the Discovery Park site are aware of this proposed process and we anticipate that an application will be forthcoming when the process is launched.
- c) In parallel with this process, KCC shall seek to enter into a loan agreement with Essex County Council as the Accountable Body for GPF which shall mean that, subject to the approval of the loan application:
  - KCC will receive funds quarterly in advance of need;
  - KCC shall be responsible for the allocation, use and monitoring of funds;
  - KCC shall seek to secure repayment of the loan from the final beneficiary. However, in the event that repayment cannot be secured, the Fund shall bear any loss;
  - KCC shall repay the Fund according to an agreed schedule (subject to funds being recovered from the final beneficiary);
  - KCC shall repay Fund all income derived from the loan (i.e. any interest gained on the loan to the final borrower), minus management costs incurred.

2.2. These terms have been discussed with Essex County Council and have received in-principle agreement. However, they will need to be formalised when an agreement to lend to a final borrower has been reached.

### **3. Decision requirement**

3.1. KCC has already called for applications against the £4.6 million allocation for Discovery Park. However, to enter into a loan agreement, a Key Decision will need to be taken. This is because it will result in expenditure of over £1 million.

3.2. A draft Record of Decision is attached at Annex 1. This proposes that the Cabinet Member for Regeneration and Economic Development agrees that Kent County Council shall:

- a) Draw down capital funds of up to £4.6 million from the Growing Places Fund;
- b) Make available loan finance of up to £4.6 million to one or more third party organisations to support the development of Discovery Park Enterprise Zone.

This shall be subject to:

- a) The conclusion of a satisfactory loan agreement from Essex County Council, as the Accountable Body for Growing Places Fund; and
- b) The receipt of a satisfactory application for loan finance from one or more third party organisations

#### **4. Risks**

- 4.1. The key risk is that the final borrower fails to repay the loan. Within the original design of the management of Growing Places Fund, county and unitary authorities acting as intermediary bodies remained liable for repayments in the event of default by the third party final borrower. This was considered unacceptable to KCC; consequently, the revised agreement between the Accountable Body and KCC places the risk of repayment on the Fund, as set out in para. 2.1(c) above.
- 4.2. As the GPF allocation to Discovery Park Enterprise Zone is only an indicative ring fence, there is also a risk that a specific project may not come forward. In the event that an application for funding does not come forward (or that such an application is not considered suitable following the appraisal and approval process), the ring-fenced sum for Discovery Park will be returned to the main GPF fund, and will be available for wider competition across the South East LEP area.
- 4.3. Other project risks (such as those associated with state aid compliance or scheme deliverability) will be considered in any project application through the process described in 2.1(b).

#### **5. Recommendations**

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