

By: Mark Dance, Cabinet Member for Economic Development
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To: Growth, Economic Development and Communities Cabinet Committee - 1 December 2015

Key Decision No: 15/00108

Subject: Innovation Investment Initiative: Local Growth Fund grant

Classification: Unrestricted

Past pathway of paper: None

Future pathway of paper: None

Electoral Division: All

Summary

The South East Local Enterprise Accountability Board has approved the allocation of £6 million over six years from the Local Growth Fund to deliver the i3 (Innovation Investment Initiative) programme. This will provide loans to small businesses with the potential for innovation and growth in Kent and Medway, with the aim of creating 450 jobs and attracting a further £9 million in private sector investment. This programme has been branded as the Innovation Investment Initiative (i3).

This report explains the i3 programme and sets out KCC's role. It seeks the support of the Cabinet Committee for KCC to accept the LGF grant allocation and to use it to operate a programme of loans to business.

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 to:

- i. Decide that KCC shall act as the accountable body for the i3 programme;
- ii. Accept grant funding of up to £6 million capital to deliver the programme;
- iii. Delegate to the Director of Economic Development the authority to sign on KCC's behalf a Grant Offer Letter;
- iv. Receive further reports on the progress of the programme at future meetings of the Cabinet Committee.

1. Introduction: The Local Growth Fund

1.1. The Local Growth Fund is a national Government capital fund which is allocated to Local Enterprise Partnership (LEP) areas to support business growth and housing delivery. To date, £488.3 million has been indicatively allocated to the South East LEP, the majority of which is for transport infrastructure projects. Release of this funding is subject to individual project approval by the LEP Accountability Board, following the appraisal of a full business case.

2. The Innovation Investment Initiative (i3)

2.1. The LGF allocation to the South East LEP included £6 million capital to support business growth, made available as £1 million per year from 2015/16.

2.2. Following this allocation, the Innovation Investment Initiative (i3) has been designed to provide financial support to small businesses that will invest in projects to enable them to create and adopt innovative products, processes and services, improve productivity and deliver sustainable employment over the long term. The i3 scheme is broadly similar to the TIGER, Expansion East Kent and Escalate programmes, all of which have a strong pipeline of projects. However, it will be available to applicants across Kent and Medway.

2.3. The i3 scheme will not replace commercial sources of finance or offer operating subsidies. Rather, it will support projects with strong business cases for which commercial finance is unavailable on viable terms (for example, because the product or technology involved is untested). The scheme will normally only provide finance for up to 50% of project costs, with the balance funded through private sources, including bank lending.

2.4. Loans will be generally offered interest-free, although arrangement charges will be levied to pay for administration costs. As the Fund offers a subsidised product, all loans investments will be offered as state aid, in accordance with the state aid rules.

2.5. A full business case for the scheme has been developed, and is attached as Annex 2. The South East LEP has independently evaluated the proposal, and i3 was fully approved by the LEP Accountability Board on 13 November.

3. Accountability, governance and management

KCC's role

3.1. Essex County Council, as the accountable body for the LEP, administers the Local Growth Fund money that has been allocated by Government to the South East LEP. KCC will receive £1 million annually as a grant from the Local Growth Fund: KCC will be responsible for assessing applications from

individual businesses, issuing loan agreements, monitoring the loans and for reporting on performance to the LEP and to Government. This role is similar to the accountable body role that KCC currently performs in relation to the Regional Growth Fund programmes. When the loans are repaid, the funds accumulated can be recycled: the details are expected to be set out in the Grant Agreement between KCC and Essex County Council.

Governance arrangements

- 3.2. All applications from business for i3 funding will be appraised. Following appraisal, lending decisions will be made by KCC on advice from an investment advisory panel, drawn from Kent and Medway Economic Partnership and the advisory panels set up for the Regional Growth Fund schemes. The accountable body for i3 funding will be KCC. KCC will reserve the right to refuse any application that does not provide adequate value for money or which presents an unacceptable level of risk.

Management arrangements and costs

- 3.3. There are economies of scale in managing the i3 programme alongside TIGER, Escalate and Expansion East Kent. However, there will be some additional costs incurred: these will be partially mitigated through the charging of arrangement fees, as set out in Annex 2, and work is underway across KCC's business finance programmes to examine ways in which they can be made more sustainable at lower cost to the Council.

4. Risks

- 4.1. A full risk register is included on page 29 of the business case at Annex 1. The main risks are:
 - a) Failure to meet the outputs stated in the business case. This will be mitigated through the robustness of the appraisal and monitoring processes associated with each individual project and through close overall programme management.
 - b) Uncertainty of Government commitment beyond 2016. While the LEP has approved the scheme and £1 million funding is available this year (2015/16), it is not clear what is the Government's commitment for future years. This may be clarified following the Spending Review.

5. Next steps

- 5.1. There is a relatively limited timescale within which to commit funds for 2015/16. Work has therefore already started to inform partners of the new scheme and to

identify potential projects from the existing pipeline. The scheme will be launched in early December, with an initial call for projects.

- 5.2. Currently, the Growth, Economic Development and Communities Cabinet Committee receives regular reports on the progress of the RGF-funded business finance schemes. It is envisaged that this will be extended to the new i3 scheme, if the Cabinet Committee is in agreement.

6. Recommendations

6.1 The Growth, Economic Development and Communities Cabinet Committee is asked to consider and endorse, or make recommendations to the Cabinet Member for Economic Development to:

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- iii. Delegate to the Director of Economic Development the authority to sign on KCC's behalf a Grant Offer Letter;
- iv. Receive further reports on the progress of the programme at future meetings of the Cabinet Committee.

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Annexes:

Annex 1: Proposed Record of Decision

Annex 2: Business case (October 2015)