By:	Mark Dance Cabinet Member for Regeneration and Economic Development David Smith Director of Economic Development
To:	Governance and Audit Committee Trading Activities Sub Group 27th April 2016
Subject:	Regional Growth Fund – Equity Investments
Classification:	Unrestricted

Summary

Background and Update:-

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 grants, loans and equity investments for companies with investment plans that will lead to job creation.

Purpose

This report provides details on the investment strategy and governance adopted for equity investments made on behalf of KCC from the Regional Growth Funded programmes: Expansion East Kent, TIGER and Escalate.

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1. Equity Investment Strategy

1.1 On 30th April 2013 the Expansion East Kent Investment Advisory Board approved amendments to the Investment Strategy to allow applicants the opportunity to apply for equity investment finance. The Expansion East Kent programme has offered equity investments from May 2013 to the present day. The aim of the investments from the RGF fund is to bring forward products from the research and development stage to commercialisation. The investment forms long term finance to enable the company to upscale their developments.

1.2 The other two RGF programmes TIGER and Escalate have adopted the same strategy as the Expansion East Kent programme. All three programmes are under the same governance arrangements.

2. Governance for RGF Programmes

2.1 The RGF funds operate under a contract from Department for Business, Innovation and Skills from round 3 of the Regional Growth Fund. Kent County Council is the accountable body for the funds.

2.2 Each Board receive written proposals from the company and all applications were assessed by an independent review team (from Pricewaterhouse Coopers (PwC) on the suitability of the investment. PwC's reports flag up issues for the Panel's consideration under the following six headings:-

1. Additionality
2. Jobs Created and Sustained
3. Funding
4. Value for money/ benefits to the economy
5. Financial Viability and sustainability
6. State aid

Each heading is given a 'risk rating' – Red, Amber or Green. A Red or Amber rating indicates a recommendation that the issue should be carefully considered by the Panel. A red rating can also mean that at the time of the independent review team's report there was insufficient information to provide a sufficient assurance for a investment decision.

2.3 Approval panels were established for each programme and consist of both public and private members. The panels are commissioned to:

Consider all loan applications and note appraisal report issued by (PwC) following their independent appraisal.

Consider all information provided by the Company as presented to them at the Investments Advisory Board.

Make a recommendation to approve, partial approve or rejection the funding applications, taking into account the Scheme Annual Investment Strategy and the funds available within the geographical allocations.

2.4 Each Approval Panel is made up of between 6 and 12 people, with a 50% representing from the private sector. Each Panel has representative from relevant and appropriate professional and business experts.

2.5 In addition, the Accountable Body is represented at each Approval Panel by the Programme Manager and/or Deputy Programme Manager.

2.6 The Chair for the Expansion East Kent Programme is Paul Carter, Leader of the Council. The Chair for Tiger and Escalate programmes is Mark Dance , portfolio holder for Economic Development. Secretariat services are provided by the Programme Management Team.

2.7 Each Approval Panel should meet at least six times per year to consider applications but due to the high volume of applications during 2015 the panels met on a monthly basis.

2.8 Equity investments require additional ‘Due Diligence’ which follows on from the initial Panel recommendation. In all cases, the company must enter into a contract with the Accountable Body which conforms to the requirements of BIS and KCC’s (financial rules).

2.9 The ‘Due Diligence’ process normally follows professional advice from those qualified and experienced in the matter. Throughout the due diligence process, the Approval Panel is kept informed and makes a recommendation to the Chair of the meeting and the final decision is taken by Kent County Council.

2.10 The RGF Scheme operates as ‘Aid in the Form of Risk Capital’ within the state aid rules. The rules state the public sector must operate as if it were a market investor. To ensure this, any public investment must be made *pari passu* with a private equity investor (Market Economy Investment Principles - MEIP).

2.11 The RGF investments require the applicant to secure a matching investment from a private sector investor (which may be the owners of the company or other equity investment organisations). This model tends to be followed by other smaller scale funds, such as the Scottish Seed Fund.

2.12 As part of the loan/equity agreement each company is obliged to provide quarterly monitoring returns. The monitoring of the companies consists of Activities to date, Financial Updates, Identification of risks and Progress on performance against milestones. All companies provide a monitoring report on a quarterly basis to KCC in addition to the shareholder notifications received for all equity investments.

3. Recommendation

3.1 Members are recommended to note the contents of this report for assurance.

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