

**By:** Mark Dance, Cabinet Member for Economic Development

**To:** Scrutiny Committee – 31 March 2017

**Subject:** Recycled Regional Growth Fund (RGF) Scheme

**Classification:** Unrestricted

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### Summary

This paper reports on how the lessons learned delivering the former Regional Growth Fund (RGF) Schemes – Expansion East Kent, Tiger and Escalate have been incorporated into the documentation for the successor scheme, the Kent and Medway Business Fund (“KMBF”):

- (i) Guidance Notes provided to Applicants;
  - (ii) Loan Agreements (“Contracts”) and subsequent contractual Monitoring requirements;
  - (iii) Procedure Notes.
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### Background

1. This report responds to the recommendation from the Scrutiny Committee Meeting held on 15 December 2016.
  - a. **Guidance Notes:** These explain the scheme, confirm the eligibility criteria; and highlight the following:
    - i. Applicants’ agree to KCC undertaking both company and individual director checks.
    - ii. Loans over a certain value will require security,
    - iii. Loans repayments will be made by monthly direct debit.
  - b. **Loan Agreements and Contractual Monitoring requirements:** These ensure that the following becomes contractual and the action KCC could take should any term be breached:
    - i. Security;
    - ii. Monthly Repayment schedule;
    - iii. Monitoring requirements, to include monitoring guidance; and
    - iv. Actions in the event of default.
  - c. **Procedure Notes:** These internal process notes are primarily for use by all KCC staff involved in the managing and monitoring of the former RGF and the new KMBF schemes. They detail:
    - i. The loan application and contractual monitoring process;
    - ii. How to deal with issues as and when they arise; and
    - iii. Moving forward there will be a redacted version shared with funding recipients.
2. An explanation on how this has been achieved can be found in Table 1 below.

**Table 1**

<b>Source</b>	<b>Background</b>	<b>Actions</b>	<b>Status</b>
Scrutiny Committee Minutes 15/12/16	More detailed checks on applicant companies and their directors	Applicants Guidance: An enhanced company credit check (current) and credit check on individual directors undertaken (new)	Achieved (Green)
Scrutiny Committee Minutes 15/12/16	Review Management Accounts and financial health checks	Applicants Guidance: Management Accounts (for existing companies) required. For financial health checks (see above). In addition, most loans will be required to provide security equivalent to the value of the loan, therefore there will be additional checks at the full application stage on the value and suitability of the security offered.	Achieved (Green)
Scrutiny Committee Minutes 15/12/16	More rigorous approach to monitoring relevant job contracts and ongoing adherence to contracts	Loan Agreements and Contractual Monitoring requirements, Procedure Notes: Applicants will be monitored against job outcomes and targets indicated at the application stage.	Achieved (Green)
Scrutiny Committee Minutes 15/12/16	Monitoring against progress of the business plan targets indicated when funding was approved	Procedure Notes: See above	Achieved (Green)
Lessons Learned Log	Monitoring returns were received promptly were Green/ Amber and so did not raise undue concern.	Loan Agreements and Contractual Monitoring requirements, Procedure Notes: We are currently investigating the cost and value of an “early warning” system which would identify viability issues before these are identified by monitoring returns.	In-progress (Amber) Reviewing the cost of the various options.
Lessons Learned Log	The applicant made use of advisor provided by KCC. However, the applicant was encountering serious financial problems and remedial action at	Procedure Notes: Applicants who encounter monitoring and/or repayment issues will enter into a formal “loan action plan”. This will include access to business support. But also offer other options such as regular face-to-face monitoring meetings.	Achieved (Green)

	that stage was not successful.		
Lessons Learned Log	No funds to be released unless match funding is evidenced.	Loan Agreements and Contractual Monitoring requirements, Procedure Notes: This is an eligibility requirement and any changes to the match funding requirements can only be sanctioned by a recommendation of the Kent and Medway Investment Advisory Board (KMIAB) and these are assessed on a case-by-case basis.	Achieved (Green)
Lessons Learned Log	At the point that KCC is advised that the project may not be able to proceed, KCC needs to identify key actions before it can progress.	Loan Agreements and Contractual Monitoring requirements, Procedure Notes: Key actions: Validating the spend, request a face-to-face meeting to deal with the closure of the project and possible return of any the loan monies.	Achieved (Green)
Lessons Learned Log	Having a process map that details the steps that can be taken for loans under £10k and loans over £10k to ensure that all KCC staff are aware for the process for recovery of monies.	Procedure Notes: New clear guidance to staff on how to proceed and begin the process for recovery of monies.	Achieved (Green)
Lessons Learned Log	Ensure that during the face-to-face meetings all issues raised are properly answered and document the findings during the meeting.	Procedure Notes: Face-to-face meetings are properly documented and any questions raised are answered.	Achieved (Green)
Lessons Learned Log	The use of an Invoice Factoring Arrangement as evidence of match funding.	Loan Agreements and Contractual Monitoring requirements, Procedure Notes: New criterion around invoice factoring as match funding which allows consistent of approach i.e. as part of quarterly monitoring update on the current invoice factoring arrangements	Achieved (Green)
Lessons Learned Log	Additional clause within the contract that prohibits expressly that the selling or transferring of any assets the loan scheme has	Loan Agreements and Contractual Monitoring requirements: After further investigation both the offer letter and the contract indicates that under EU State Aid Law it is possible to recover all state support in the event of a project not being compliant	Achieved (Green).

	funded, without the prior consent of the Council.	with EU State Aid rules. This general provision provides KCC with wide ranging powers to withhold, delay, reduce or reclaim all or part of the assistance in certain circumstances e.g. the disposal of all or a significant part of the assets.	
Lessons Learned Log	Subsequent tranche loan payments should not take place if the monitoring process provides a RED rag rating with regard to expenditure. Second or subsequent tranches of funding should not be defrayed until the previous tranche payment has been expended in total and evidenced.	Loan Agreements and Contractual Monitoring requirements, Procedure Notes: Tranche payments are conditional of evidence of contracted levels of expenditure and any previous tranche payment has been fully expended. Any changes to the tranche payment arrangements can only be sanctioned by a recommendation from the KMIAB and these are assessed on a case-by-case basis.	Achieved (Green)
Lessons Learned Log	Monitoring Returns were not consistently received, completed or submitted	Loan Agreements and Contractual Monitoring requirements, Procedure Notes: Applicants who are consistently late with their monitoring and/or repayment will be called to a face-to-face meeting and expected to enter into a formal "loan action plan". This will consist of a combination of regular on-going meetings, access to business support, more intensive monitoring and possible interest charges on their outstanding loan repayments. Revising the contractual agreements with the business on a continuous basis will provide the optimum level of protection for the investment and also ensure appropriate business support can be provided to meet the needs of the business.	Achieved (Green)

3. The latest information on bad debt recovery is listed in Appendix 1.
4. A copy of the new Guidance Notes for the KMBF is contained within Appendix 2.
5. An overview of the new KMBF scheme which has replaced the former RGF schemes – Appendix 3.

### **Recommendations**

6. Members of the Scrutiny Committee are asked to acknowledge the completed actions and stated approach to delivering the Scrutiny Committee recommendations set out in the Table 1.

### **Appendices**

- Appendix 1 – Update on Bad debt recovery
- Appendix 2 – Copy of the Guidance provided to Companies applying to the KMBF
- Appendix 3 – An overview of the new KMBF which has replaced the former RGF schemes.

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