

From: Mike Whiting, Cabinet Member for Economic Development
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To: Growth, Economic Development and Communities Cabinet Committee - 10 March 2020

Subject: Government Funded Business Investment Schemes Monitoring Report - Q3 2019/20

Classification: Unrestricted

Summary: This report summarises the results of KCC's monitoring returns for the period 1 October 2019 to 31 December 2019 from businesses that have received loans and equity from KCC managed Government funded Business Investment Schemes - the current Kent and Medway Business Fund (KMBF) scheme and the former Regional Growth Fund (RGF) schemes.

The number of new and safeguarded jobs recorded up to the end of December 2019 is 4,622 (new jobs 3,236, safeguarded jobs 1,386). The average cost per job was £1,656.

By 31 December 2019, loan repayments to the value of £28,478,746 have been received. These repayments are being recycled through the Kent and Medway Business Fund to enable KCC to continue to offer financial support for new investment.

Out of the 104 loans being reported on in the period 1 October to 31 December 2019 period, 64% are rated as Green or Amber.

Recommendation: The Growth, Economic Development and Communities Cabinet Committee is asked to note the report.

1. Background Information

1.1 The Regional Growth Fund (RGF) was established in June 2010 with three objectives:

- to facilitate new investment by private sector enterprise: the aim was to support projects with significant potential for economic growth and to create sustainable private sector employment.
- to help those areas and communities that are particularly dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity; and
- to address a market failure in the provision of bank lending to viable small and medium sized businesses who have a limited credit history or track record and those which require finance on flexible terms given their limited collateral.

1.2 The Department for Business, Energy and Industrial Strategy (BEIS) allocated £55 million from the Government's Regional Growth Fund to KCC between 2011 and

2014. This funded three RGF schemes covering the whole of Kent and Medway and additional local authority areas:

- Expansion East Kent (East Kent - £35 million);
- Tiger (North Kent and Thurrock - £14.5 million);
- Escalate (West Kent and parts of East Sussex - £5.5 million).

- 1.3 These RGF schemes provided grants, loans and equity investments for businesses with investment plans leading to job creation and growth from November 2011 to January 2016. For most businesses, loan finance was provided at 0% interest, with a repayment period of between 5 and 7 years. The schemes also allocated grants and equity investments.
- 1.4 From January 2017, KCC used the recycled RGF loan repayments to enable the Kent and Medway Business Fund (KMBF) to provide loans and equity investments ranging between £50,000-£500,000 to eligible businesses across Kent and Medway. The majority of funding recipients receive 0% interest loans, with a repayment period of up to 5 years. The recycled RGF loan repayments are also used to finance the Kent Life Sciences Fund (KLSF), a sub-programme of the KMBF scheme. This provides equity investments predominantly in the life science sector. A summary of the equity investments can be found in Section 5 of this report.
- 1.5 All applications to RGF schemes and the KMBF undergo due diligence inquiries before being examined by the Investment Advisory Board (IAB). The majority of the members of this Board come from the private sector, including Finance and Banking, Manufacturing, and the Scientific and Creative Industries. Once an application has been reviewed by the Board, it makes a recommendation to KCC to Approve or Reject the project and what conditions should be set if funding is approved.
- 1.6 Invicta Law Ltd provides advice on contracts, insolvency issues and works with the KCC Business Investment Team to recover the maximum amount of loan value. KCC Internal Audit oversees the investment procedures and processes and advice on other matters related to the use of the funds.
- 1.7 In order to minimise risk, KCC requires applicants to provide some form of security, whether through assets, property or personal guarantees for all investments over £100,000. For loans between £50,000 and £100,000, the IAB may recommend a Personal Guarantee be taken before funding is given, though it is not a requirement.
- 1.8 Where businesses find it difficult to repay the loans KCC can offer to restructure their debt in order to support further business growth and resume repayments. In cases of non-engagement, KCC pursues loan recovery through Security or Personal Guarantees, where applicable.
- 1.9 Working with external partners, KCC has recently established a Recovery Working Group, a sub-group of the IAB, to advise on technical issues related to the recovery of existing investments.
- 1.10 This report is in a different format to that previously provided to the Growth, Economic Development and Communities Cabinet Committee: it now includes the Kent and Medway Business Fund and equity investments made to businesses using the RGF and KMBF schemes.

2. Update on all Government Funded KCC Business Investment Schemes

2.1 The table below shows as of the 31 December 2019 the total funding committed in loan and equity investments, broken down by local authority area, the number of jobs created/safeguarded and private sector investment (leverage).

Districts	Funding per Local Authority £	Private Investment £	No of Businesses	No of Jobs Created	No of Jobs Safeguarded	Total Number of Jobs
Ashford	£572,600	£624,628	12	24	5	29
Canterbury	£8,693,080	£9,497,619	53	1,173	81	1,254
Dartford	£2,189,115	£1,631,428	12	105	42	147
Dover	£14,402,053	£12,351,972	49	402	215	617
Folkestone & Hythe	£6,363,468	£10,175,900	28	201	114	315
Gravesham	£881,062	£843,375	5	54	60	114
Maidstone	£3,094,587	£3,455,936	17	87	88	175
Medway	£4,288,621	£3,895,834	20	181	145	326
Rother ⁽¹⁾	£136,250	£136,250	3	18	3	21
Sevenoaks	£644,000	£760,472	7	46	18	64
Swale	£7,630,202	£19,085,158	26	265	285	550
Thanet	£8,211,256	£11,214,724	59	431	271	702
Thurrock ⁽¹⁾	£1,241,700	£3,066,356	5	72	12	84
Tonbridge & Malling	£1,073,510	£1,072,798	11	42	20	62
Tunbridge Wells	£1,993,000	£2,257,250	16	129	23	152
Wealden ⁽¹⁾	£200,000	£200,000	1	6	4	10
Total	£61,614,504	£80,269,700	324	3,236	1,386	4,622

(1) These districts are no longer part of the eligible area for the Kent and Medway Business Fund

2.2 All businesses are required to complete a monitoring return as part of their loan agreements with the County Council and these must include employment contracts and copies of payroll as evidence for jobs created and safeguarded. The cumulative total of jobs that have been created or safeguarded is 4,622 as of 31 December 2019. There is an overall target of 5,921 jobs (4,338 new jobs and 1,583 safeguarded jobs).

3. Loan Monitoring

3.1 As part of the loan agreement, each business is contracted to provide a quarterly monitoring return. These returns are in arrears of the previous quarter, and upon receipt and internal validation, one of the following RAG ratings is applied:

- Green Risk Status: full return received and no outstanding issues.
- Amber Risk Status: partial return received and/or some issues re contracted milestones.
- Red Risk Status: Category A (Bad debt); Category B (No monitoring return); Category C (Non-achievement of key milestones/targets, including loan repayment, job outcomes and/or delay to planned objectives).

3.2 Out of the 104 Loans being reported on during the monitoring period 1 October 2019 to 31 December 2019, 66 (64%) of returns were flagged as Green or Amber. The value of those loans was £11,337,648. Of the total number of businesses

monitored during the period 14 identified were in the Red Category B (No monitoring return) and 24 businesses were identified as Red Category C (Non-achievement of key milestones/targets).

- 3.3 58 businesses have had loans and equity which are in Category A (Bad Debt) with a value of £8,616,309, of which £960,848 has so far been recovered. The total of funds not yet recovered is therefore £7,655,461 which equates to 12.42% of the total loan and equity investments made. This includes businesses which KCC is still actively pursuing to repay the debt and where further debt recovery is still possible (£2,631,044). The total of loans written off (where debt recovery is no longer possible) is £5,024,417.

4. Equity Investments

- 4.1 Initially the RGF schemes offered only loans and grants but after 12 months KCC identified a need and demand for equity investments to work alongside loans. Between 2013 and 2016 KCC has made equity investments in 18 businesses at a cumulative initial value of £8,583,068 at the time the respective equity investments were made.
- 4.2 In January 2017 the Kent Life Sciences Fund (KLSF) was established with the aim of making equity investments in companies with game-changing medical technologies and advanced therapeutics. KCC has committed equity investments to 6 businesses at a cumulative initial value of £3,275,000. KLSF is funded from recycled RGF loan repayments.
- 4.3 In making these equity investments, KCC sees its role as a “patient investor” and it is anticipated the Council will not accrue a positive return from most of the businesses for a further 3 to 5 years. NCL Technology Ventures (NCL) have been appointed to manage, monitor and oversee these investments. NCL work with businesses to design an appropriate exit strategy for each investment. Quarterly reports on the performance of all the equity investments are provided to the KMBF Investment Advisory Board (chaired by a KCC Member) and an annual report is provided to the KCC Governance and Audit Committee as part of the reporting on companies in which KCC has an interest.
- 4.4 NCL have designated 14 of KCC’s equity investments as having Green Risk Status, 4 as Amber Risk Status and 3 as Red Risk Status (a further equity investment has yet to be committed, so has no designation). 2 of KCC equity investments (total initial value £1,120,020) are designated as Bad Debt as of 31 December 2019.

5. Cost per Job

- 5.1 The cumulative amount of repayments expected in the 8 years to December 2019 was £30,729,735. The actual amount received by the end of December 2019 was £28,478,746 which represents an achievement of 93%. In terms of the unrecovered funds, the cost per job is £1,656.
- 5.2 In terms of the total loan and equity awarded by the former RGF and KMBF schemes the average “cost” per job is £13,300 in comparison with the national average for Regional Growth Fund Schemes of £37,400 (over the first 4 RGF rounds according to the 2014 National Audit Office report on the Regional Growth Fund).

6. Recommendation

Recommendation:

The Growth, Economic Development and Communities Cabinet Committee is asked to note the report.

7. Contact details

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