

From: **Paul King, Cabinet Member for Economic Development and Coastal Regeneration**

Simon Jones - Corporate Director of Growth, Environment & Transport

To: Growth, Economic Development and Communities Cabinet Committee

Subject: **Kent and Medway Business Fund Bi-Annual Monitoring – Q4 2024-25**

Classification: **Unrestricted**

Summary: This report summarises the results of KCC's monitoring returns from businesses that have received loans and equity from KCC managed Government funded Business Investment Schemes – this consists of the current Kent and Medway Business Fund (KMBF) scheme and the former Regional Growth Fund (RGF) schemes.

Since 2012, the number of new and protected jobs recorded up to the end of Q4 2024/25 is 5,252.72 (increase of 94.72 since the last report), consisting of 3,849.42 new jobs (increase of 90.42 since last report) and 1,403.30 protected jobs (increase of 4.30 since last report). The average cost per job is £1,032.20 (see Paragraph 5).

The total cumulative loan repayments to the end of Q4 2024/25 of the value of £41,266,851 (increase of £402,635 since last report) 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 110 loans being reported, 69.0 % are rated as Green or Amber (increase of 2% since the last report), 31.0% of loans are rated Red (a decrease of 2% since the last report) (see Paragraph 3.1).

Recommendation: The Growth, Economic Development and Communities Cabinet Committee is asked to note this performance report and make any recommendations to the Cabinet Member.

1. Background Information

- 1.1 Since January 2017, KCC has used the recycled KMBF and RGF loan repayments to enable the Kent and Medway Business Fund (KMBF) to provide loans and equity investments ranging between £50,000-£600,000 to eligible businesses across Kent and Medway (origins of the scheme Annex One). The majority of funding recipients received 0% interest loans, with a repayment period of up to five 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 4 of this report.

- 1.2 All applications to the KMBF scheme undergo due diligence inquiries from an independent financial appraiser and KCC Finance colleagues before being examined by the Investment Advisory Board (IAB) and its Sub-Group. There are three KCC Councillors who currently sit on the Boards who also chair the main IAB and Sub-Groups. Most 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. KCC officers review the Recommendation, and approval is made by either the Director of Growth and Communities or the Head of Economy, in line with the Officer Scheme of Delegation.
- 1.3 The scheme uses Bevan Brittan LLP, Antony Collins Solicitors LLP, and Freeths Ltd to provide advice on contracts and on insolvency issues and to work with the KCC Business Investment Team to recover the maximum amount of loan value. KCC Internal Audit oversees the investment procedures and processes and advise on other matters related to the use of the funds. A KCC Internal Audit report in 2022 identified one High Risk, three Medium Risks and two Low Risks related to the Kent and Medway Business Fund. This report was extensively discussed at the Governance and Audit Committee in October 2022. Following on from this meeting a plan of action was agreed with the support of the Corporate Director Finance and KCC Finance colleagues.
- 1.4 In order to reduce the risk of default, KCC requires applicants to provide some form of security, whether through assets, property, or personal guarantees for all loans over £100,000. For loans between £26,000 and £99,999, security is not taken as standard but may still be requested commensurate with the risk assessment of the application.
- 1.5 Where businesses find it difficult to repay the loans, KCC can offer to restructure their debt to support further business growth and resume repayments. In cases of non-engagement, KCC pursues loan recovery through Security or Personal Guarantees, where applicable (see Paragraph 2.1).
- 1.6 Working with an independent financial appraiser and KCC Finance colleagues, KCC has established a Debt Recovery Working Group, a sub-group of the IAB, chaired by the Cabinet Member, to advise on technical issues related to the recovery of existing investments (see Paragraph 2.1).
- 1.7 The previous contracts with the Government ended on the 31 March 2023. After a successful negotiation with Government to retain the funds, details of the proposed new arrangements for the recycled KMBF/RGF investments were presented and discussed at the September 2023 meeting of the Growth, Economic Development and Communities Cabinet Committee and a new Key Decision was subsequently agreed by the Cabinet Member (23/00088).

2. Update on Government Funded KCC Business Investment Schemes

2.1 Within the KMBF scheme there are no district allocations and all applications as assessed against the scheme's eligibility criteria and commercial viability. The table below shows the total funding committed in loan and equity investments, broken down by local authority area, the number of jobs created/protected and private sector investment (leverage) cumulatively as of the 31 March 2025.

Local Authority	Funding per Local Authority £	Private Investment £	No. of Businesses	No. of Jobs Created	No. of Jobs Protected	Total Jobs
Ashford	£2,042,500	£1,904,707	25	55.11	29.38	84.49
Canterbury	£10,782,680	£12,296,220	69	1466.11	88.24	1554.35
Dartford	£2,430,115	£2,238,578	16	137.84	50.19	188.03
Dover	£15,511,183	£15,019,772	56	441.21	161.29	602.50
Folkestone & Hythe	£6,912,468	£10,433,471	34	233.61	124.72	358.33
Gravesham	£881,062	£843,375	5	54.50	60.00	114.50
Maidstone	£5,116,473	£5,094,603	29	140.80	83.67	224.47
Medway	£5,573,591	£4,528,299	36	244.04	149.97	394.01
Rother	£136,250	£136,250	3	33.87	3.00	36.87
Sevenoaks	£1,053,000	£980,222	11	54.35	19.27	73.62
Swale	£7,784,202	£19,165,108	28	284.77	281.97	566.74
Thanet	£8,951,256	£11,667,224.29	66	419.85	285.91	705.76
Thurrock	£881,700	£1,421,356	4	72.00	12.53	84.53
Tonbridge & Malling	£1,583,509.50	£1,632,798	15	55.73	26.20	81.93
Tunbridge Wells	£2,350,721	£2,371,632	20	150.40	22.96	173.36
Wealden	£200,000	£200,000	1	5.23	4.00	9.23
Total	£72,190,711	£89,933,614	418	3849.42	1403.30	5252.72

2.2 All businesses are still 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 protected. The cumulative total of full-time equivalent (FTE) jobs that have been created or protected is 5,252.70 FTE as of 31 March 2025. In its positive decision on the future use of the recycled KMBF/RGF investments (see Paragraph 1.7) the Government confirmed that KCC has exceeded agreed jobs targets laid down in its contracts.

2.3 The cumulative amount of repayments expected to the end of Q4 2024/25 was £48,060,884.89, excluding those already written off as bad debt this is then reduced to £41,266,851.39. The actual amount receipted by the end of Q4 2024/25 was £41,154,784.86, which represents an achievement of 85.6%.

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 110 being reported on during the monitoring period 1 January 2025 to 31 March 2025, 76 (69.0%) of returns were flagged as Green or Amber. The value of those loans was £14,486,276. Of the total number monitored during the period, 11 businesses (loan value £852,000) identified were in the Red Category B (Nil or incomplete monitoring return) and 23 businesses (loan value £4,561,020) were identified as Red Category C (Non-achievement of key milestones/targets).

3.3 98 businesses (no change since last report) have had loans which are in Category A (Bad Debt) with a value of £14,886,422 (no change since last report) of which £4,377,883 (no change since last report) has so far been recovered. The total of funds not yet recovered is therefore £10,508,539 (no change since last report) which equates to 14.5% of the total loan and equity investments made to date. This includes businesses which KCC is still actively pursuing to repay the debt and where further debt recovery is still possible (£5,233,946). The total value of KMBF/RGF loans where debt recovery is no longer possible is £5,521,886, such a determination is reached in line with KCC Financial Regulations. Any bad debts incurred during the normal course of business investment (loans and equity) are attributed as a loss to the Fund rather than to the County Council. The County Council's liability is limited to instances of KCC's misadministration of the Fund.

4. Equity Investments

4.1 Between 2013 and 2016 KCC made equity investments via the KCC RGF Bespoke Equity Fund (KRBEF) and the Discovery Park Technology Investment Fund (DPTIF) in 19 businesses at a cumulative initial value of £9,387,417 at the time the respective equity investments were made. KCC has fully exited from one business and partially exited from another business.

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. This sector was targeted because of its high growth potential and the opportunities it offered to build upon the facilities offered by Discovery Park, Kent Science Park and the Kent based universities. KCC has committed equity investments to nine businesses at a cumulative initial value of £4,999,730. KLSF is funded from recycled KMBF/RGF loan repayments.

4.3 In making these equity investments, KCC determined 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 three to five years. Maven Cognition (formerly Newable) and NCL Technology Ventures (NCL) have been appointed by KCC to manage, monitor, and oversee these investments. Both contractors work with the businesses in receipt of our equity investments 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 KCC Finance for audit purposes as part of the reporting on companies in which KCC has an interest.

- 4.4 Two companies were jointly funded by DPTIF/KLSF. KCC has fully exited from one company, and it is no longer monitored, and nine companies are categorised as Category A (Bad Debt) (see Paragraph 4.5).
- 4.5 Maven and NCL have designated eight of KCC's equity investments as having Green Risk Status, four as Amber Risk Status and four as Red Risk Status (total initial value £2,952,500). Nine of KCC's equity investments (total initial value £4,475,210) are designated as Category A (Bad Debt) as of 31 March 2025. Again, such determination is reached in line with KCC Financial Regulations, and represents a loss to the Fund rather than the County Council
- 4.6 To mitigate the potential impact of the current economic conditions on companies in receipt of equity funding, KCC has been working with Maven and NCL to ensure that the innovative companies in which KCC invested have received specialist support and assistance.

5. Cost per Job

- 5.1 In terms of the unrecovered funds, the cost per job is £1,051.24. This is calculation based on dividing Total Unrecovered Debt by Total Jobs.
- 5.2 In terms of the total loan and equity awarded by the KMBF/RGF schemes the average "cost" per job is £12,958.43 in comparison with the national average for Regional Growth Fund Schemes of £37,400 per job (over the first four RGF rounds according to the 2014 National Audit Office report on the Regional Growth Fund).

6. Financial Implications

- 6.1 The capital costs of loan and equity investments are sourced from current and future recycled loan and equity investments from the KMBF/RGF schemes.
- 6.2 The annual cost to KCC of administering the KMBF scheme (inc. staff, legal, appraisal and monitoring costs) is £670,000 per annum, in addition KCC have made significant changes in recent months to reduce operating cost The revenue costs of this activity have been funded from two sources: a) a management charge of up to 10% levied from the fund on the value of all investments made to companies; and b) an administrative charge of 10% levied from the companies on the value of all loans since November 2023. This makes the scheme self-funding, meaning that the combined administration and management charges cover the direct costs of the scheme

7. Legal

- 7.1 KCC had two contracts with Government's Department for Business & Trade, both ended on the 31 March 2023. A recent decision by the Government's Ministry for Housing, Communities and Local Government mandated that all the recycled KMBF/RGF funds are to be managed by KCC as either a loan or equity scheme for a 10-year period, until 2032.
- 7.2 KCC also has legal agreements with the company undertaking independent financial appraisals, two legal companies (see Paragraph 1.6) and the two companies managing the equity portfolio (see Paragraph 4.3).

8. Policy Framework

8.1 The KMBF is in-line with Priority 1: Levelling Up Action 3 - Kent County Council's Strategic Statement Framing the Future: Framing Kent's Future – Our Council Strategy - as KMBF seeks to attract national and international investment to businesses in the county.

8.2 KMBF also supports the following priority in Securing Kent's Future – Budget Recovery Strategy, Objective 3 - Full cost recovery on discretionary spend.

9. Equalities implications

9.1 An Equality Impact Assessment (EqIA) has been undertaken, and this is attached to this report.

9.2 The EqIA is kept under review.

10. Data protection

10.1 The existing privacy notice covers the operation of the KMBF, and no new data protection issues arise due to the contents of this paper.

11. Recommendation

The Growth, Economic Development and Communities Cabinet Committee is asked to note the performance report and make any recommendations to the Cabinet Member.

12. Appendices

- **Annex One – Origins of the Scheme**
- **Equalities impact assessment**

13. Contact details

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