

From: Mike Whiting, Cabinet Member for Economic Development

To: Growth, Economic Development and Communities Cabinet Committee, 18 January 2021

Subject: **Kent and Medway Growth Fund Extension**

Key decision 21/00001

Classification: **Unrestricted**

Past Pathway of report: N/A

Future Pathway of report: Key Decision

Electoral Division: All KCC Wards

Summary: This report outlines a proposal to extend the operation of the Kent and Medway Business Fund (KMBF) until 31 March 2023.

Recommendation(s):

The Cabinet Committee is asked to consider and recommend to the Cabinet Member for Economic Development the proposed decision to delegate the authority to the Director of Economic Development:

- 1) To enter into relevant contracts, legal agreements and put appropriate arrangements in place required to implement this decision allowing Kent, Medway and Thurrock Companies to access grants, loans or equity investments from the Kent and Medway Business Fund (KMBF) until the 31 March 2023.
- 2) That these grants, loans, and equity investments will be financed from recycled loan and equity repayments previously obtained from companies that received funds via the former RGF and KMBF programmes.
- 3) These investments shall be subject to the same rules, criteria and management/administrative charges as investments that have been allocated under the existing KMBF scheme.

Proposed Record of Decision is attached as Appendix A

1. Introduction

- 1.1 Kent County Council is seeking to extend the Kent and Medway Business Fund (KMBF) which is currently due to end on the 31 March 2021, for a further 2 years, until the 31 March 2023.
- 1.2 The extended KMBF scheme will offer investments in the form of grants, loans and equity, financed from recycled equity and loan repayments received from previous recipients of both the KMBF and the former Regional Growth Fund (RGF) schemes - Expansion East Kent (ExEK), Tiger and Escalate programmes.

- 1.3 The Department for Business, Energy & 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:
- East Kent (Expansion East Kent - £35 million).
 - North Kent, Medway and Thurrock (Tiger - £14.5 million).
 - West Kent (Escalate - £5.5 million).
- 1.4 These schemes operated from November 2011 to January 2016. For most companies, loan finance was provided at 0% interest, with a repayment period of between 5 and 7 years.
- 1.5 Since January 2017, KCC has 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 applicants across Kent and Medway. Most 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 (KLS) Fund, a sub-programme of the KMBF scheme. This provides equity investments predominantly in the life science sector. Details of the KMBF and KLS investments are listed in Appendix C.
- 1.6 Funding to Thurrock companies will operate on the same basis as Kent & Medway companies as agreed by a recent Key Decision (Decision 20/00103) but under a separate scheme.

2. Background, Options & Risks

- 2.1 KMBF is administered by Kent County Council (KCC) via two contracts with BEIS. An East Kent contract (original contract end date 31 March 2021) and a West Kent, North Kent, Medway & Thurrock contract (original contract end date 31 March 2023).
- 2.2 BEIS has now unilaterally extended the East Kent contract until 31 March 2023 to bring its end date in line with the West Kent, North Kent, Medway & Thurrock contract.
- 2.3 When the Key Decision for the Kent and Medway Business Fund (KMBF) was agreed in 2016 (Decision 16/00107) the decision was made to seek approval up until the end of the then East Kent contract – 31 March 2020. Now that the East Kent contract has been extended KCC are seeking to extend the KMBF scheme until 31 March 2023.
- 2.4 **Options** - KCC could seek to appoint an external third-party to manage the grant and loans (an on-going external equity management arrangement already exists). This option has not been pursued due: a) the value of the contact would require a lengthy procurement exercise; b) this contract would only initially last for a maximum of two years i.e. March 2023; c) it is unclear if these arrangements would offer savings or improved in investment performance.

- 2.5 **Risks** - If KCC does not extend the KMBF programme, all uncommitted funds - current and future recycled loan and equity investments from the KMBF and former RGF schemes - will be returned to BEIS at the end of the current contracts (see 2.1).

3. Financial Implications

- 3.1 The capital costs will be sourced from current and future recycled loan and equity investments from the KMBF and former RGF schemes. These are estimated at £24,662,159 - this consists of: a) current uncommitted recycled loan repayments (£15,181,300); b) estimated value of future recycled RGF loans repayments up to March 2023 (£9,480,859).
- 3.2 The annual cost to KCC of administering the KMBF scheme (inc. staff, legal, appraisal and monitoring costs) is £450,000 per annum. The revenue costs of this activity will be funded from two sources: a) a management charge of 5% levied from the fund on the value of all investments made to companies; and b) an administrative charge of 5% levied from the companies on the value of all loans. This makes the scheme self-funding.
- 3.3 The KMBF scheme has been given the go-ahead to allocate £6 million towards loans for 2020-21. A similar allocation of KMBF funds is anticipated for 2021-22 but will be formally agreed based on a review of the economic and business situation in 2021.
- 3.4 KCC is responsible for the recovery of outstanding investments, if these funds cannot be recovered by legal means and these funds are distributed according to the contracts and state aid rules, KCC is not responsible for any subsequent bad debts.

4. Legal implications

- 4.1 For the period of extended KMBF, KCC will continue to act as the managing authority for the existing two BEIS contracts. KCC will also continue to be responsible for developing and marketing the funding schemes. The investments will be awarded using the same decision-making structures, procedures, and safeguards as the current KMBF investments.
- 4.2 KCC will undertake eligibility and due diligence checks on all applications before being examined by an Investment Advisory Board (IAB). Most of the members of the IAB come from the private sector, including Finance and Banking, Manufacturing, and the Scientific and Creative Industries. Once an application has been reviewed by the IAB, it makes a recommendation to KCC to Approve or Reject the project and the conditions to be included if funding is approved.
- 4.3 Invicta Law Ltd will continue to provide advice on contracts, insolvency issues and works with the KCC Business Investment Team to recover the maximum amount of loan value. KCC Internal Audit will oversee the investment procedures and processes and advise on other matters related to the use of the funds. To minimise risk, for loans KCC will require applicants to provide some form of security, whether through assets, property, or personal

guarantees. KCC will continue to be responsible for investment monitoring and auditing under the terms of the BEIS contracts.

- 4.4 Contracts will be signed using the same format and debt recovery will operate in the same way. Where companies find themselves in difficulty and are unable to repay the loans on the agreed terms KCC can offer to restructure their debt to support further business growth and resume repayments. In cases of non-engagement, KCC will pursue loan recovery through Security or Personal Guarantees, where applicable. A detailed report from Invicta Law is not required at this time.

5. Equalities implications

- 5.1 An Equality Impact Assessment (EqIA) has been appended to this report.

6. Governance

- 6.1 The Director of Economic Development will inherit the main delegations via the Officer Scheme of Delegation.

7. Conclusions

- 7.1 KCC will offer grant, loan, and equity investments from the KMBF scheme until 31 March 2023.
- 7.2 These investments will be financed from recycled loan and equity repayments obtained from companies that received funds via the former RGF and KMBF programmes.
- 7.3 These investments shall be subject to the same rules, criteria and administrative charges as investments that have been allocated under the existing KMBF scheme.
- 7.4 The KCC costs of administering this scheme shall be funded from management and administrative charges levied on all companies receiving investments and the fund itself.

8. Recommendation(s):

The Cabinet Committee is asked to consider and recommend to the Cabinet Member for Economic Development the proposed decision to delegate the authority to the Director of Economic Development:

- 1) To enter into relevant contracts, legal agreements and put appropriate arrangements in place required to implement this decision allowing Kent, Medway and Thurrock Companies to access grants, loans or equity investments from the Kent and Medway Business Fund (KMBF) until the 31 March 2023.
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- 3) These investments shall be subject to the same rules, criteria and management/administrative charges as investments that have been allocated under the existing KMBF scheme.

Proposed Record of Decision is attached as Appendix A

9. Background Documents

- **Appendix A – Proposed Record of Decision**
- **Appendix B – EqlA KMBF**
- **Appendix C – Investments by the KMBF and KLS: 2017 to Date**
- **Appendix D – KMBF Investment Advisory Board (IAB) Terms of Reference.**

10. Contact details

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