

**From:** Stephanie Holt-Castle, Director of Growth & Communities

**To:** Derek Murphy, Cabinet Member for Economic Development

**Subject:** Kent & Medway Business Fund 2023

**Key decision:** 23/00088

**Classification:** Unrestricted

**Electoral Division:** All

**Summary:** The report propose that the Kent County Council (KCC) reopen the Kent & Medway Business Fund (KMBF) on 9 October 2023 offering loans to businesses within Kent & Medway, following formal written approval from the Head of Regional Growth Fund (RGF), Department of Levelling Up, Housing and Communities received on 12 June 2023, allowing Kent County Council to continue managing the recycled KMBF/RGF investments to provide loans to local businesses until March 2032.

**Recommendation(s):**

The Cabinet Member for Economic Development is asked to:

- (i) Reopen the Kent & Medway Business Fund (KMBF) in October 2023 and continue to provide loan finance to businesses until March 2032;
- (ii) Approve the KMBF Scheme Governance and decision-making arrangements; and
- (iii) Delegate authority to the Director of Growth and Communities to take relevant actions, including but not limited to entering into contracts or other legal agreements, as necessary to implement this decision.

The Record of Decision is attached as Appendix A

## 1. Introduction

1.1 The Government allocated £55 million from the Regional Growth Fund (RGF) to KCC between 2011 and 2014. This funded three RGF programmes 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).

1.2 These programmes operated from November 2011 to January 2016. For most businesses, loan finance was provided at 0% interest, with a repayment period of between five and seven years. KCC's costs of administering these programmes were fully covered by an administration charge deducted from each loan and a charge to the RGF allocation.

1.3 Since January 2017, KCC has used the recycled KMBF\RGF investments (loan repayments and sale of shares in equity stakes) to enable the KMBF to provide new loans ranging between £26,000-£500,000 to eligible businesses across Kent and Medway in addition to a small number of equity investments managed separately by an external supplier. Most funding recipients receive interest-free loans, with a repayment period of up to five years. The recycled KMBF/RGF investments were also used to finance the Kent Life Sciences (KLS) Fund, a sub-programme of the KMBF programme, which provides equity investments in companies predominantly in the life science sector to support their growth. Since 2017, KMBF has made the following investments:

- No of Loan Investments: 104; Total Loan investment £13,889,299
- No of Equity Investments: 9 companies; Total Equity Investment £4,350,000
- KMBF Jobs created Full Time equivalent (FTE) 449.92
- KMBF Jobs Protected Full Time equivalent (FTE) 138.91

## **2. Kent & Medway Business Fund**

2.1 Since August 2022, the KCC Business Investment Team has been working with senior colleagues from the Office of General Counsel and Finance to review the entire loan process, to ensure that the governance, due diligence, application process and template documentation pertaining to the scheme was updated and fit for purpose to support the relaunch of the scheme following confirmation that KCC can do so from the Head of Regional Growth Fund, DLUHC received on 12 June 2023.

2.2 On 25 January 2023 the Business Investment Team submitted their formal Business Case to the Head of Regional Growth Fund to support the retention of the recycled KMBF/RGF loan repayments.

2.3 On 31 March 2023 KCC's current contracts with government pertaining to the RGF funds originally allocated expired, and the scheme closed.

2.4 On 12 June 2023 the Head of Regional Growth Fund, DLUHC, provided written confirmation allowing KCC to continue managing the recycled KMBF/RGF investments to provide loans to local businesses until March 2032.

2.5 On 14 June 2023 the members of the Investment Advisory Board (IAB) and IAB Sub-Group came together to review the historic performance of the KMBF/RGF schemes and to scope the proposed offer, terms, and eligibility criteria of KMBF's future loan products.

2.6 On the 14 July 2023, the Chairmen of both the IAB and IAB Sub-Group presented their proposals for KMBF to senior officers of the Council from the GET Directorate, Office of General Counsel and Finance, and agreement was reached on the proposed offer, terms, and eligibility criteria of KMBF's future loan products. The scheme criteria is set out below:

<b>Kent &amp; Medway Business Fund (Standard)</b>	
<b>Offer/Terms</b>	<b>Eligibility</b>
Loan Offer £100k-£600k (0% Interest)	Business Type Kent & Medway SME - established
Repayment Period Term of loan – 5 years (following a 6-month repayment free period)	Sectors Exclude - Sensitive Sectors* Applications invited from all other sectors*
Match Funding/Admin Fee Match – 50% of total project costs Admin Fee – 10%	Criteria Growth, Innovation, Increased Productivity, Supply Chain, Contribution to Net Zero
Security Security applied on all loans, but commensurate with risk	Employment Job Creation Job Protection

<b>KMBF Small Business Boost</b>	
<b>Offer/Terms</b>	<b>Eligibility</b>
Loan Offer £26k-£99k (0% Interest)	Business Type Kent & Medway SME – established Kent & Medway start-ups
Repayment Period Term of loan – 5 years (following a 6-month repayment free period)	Sectors Exclude - Sensitive Sectors* Applications invited from all other sectors*
Match Funding/Admin Fee Match – 20-30% of total project costs Admin Fee – 10%	Criteria Growth, Innovation, Increased Productivity, Supply Chain, Contribution to Net Zero
Security Security may be applied, commensurate with risk, as detailed within the independent appraisal report. <i>(No specific loan value at which security is applied)</i>	Employment Job Creation Job Protection

\*Since the eligibility was agreed, it has been determined that there are no sensitive sectors within the Subsidy Control Act 2022, Minimal Financial Assistance (MFA) route.

- 2.7 This has led into the preparation and drafting thereof of Guidance Notes for KMBF to support its relaunch on 9 October 2023, with input from senior officers from the Office of General Counsel and Finance.
- 2.8 Following the production of draft Guidance Notes, the Business Investment Team sought legal advice and guidance on the UK Subsidy Control Act 2022, that the proposed schemes decided upon were compliant with UK Subsidy Control. That legal advice was received on 18 August 2023 and confirmed that KCC can progress its scheme under the Minimal Financial Assistance (MFA) route within the 2022 Act. KCC is continuing to work with its external legal representatives on the governance documentation to support the MFA route, such as de minimis declaration and gross cash equivalent notification on all approved loans, and embedding into its process, those awards that require to be added to the Subsidy Control Database.
- 2.9 On 24 August 2023, the draft Guidance Notes were sent to external lawyers for final review, and at the point of writing this report the final review, and any suggested amends thereof is awaited.

### **3. Financial Implications**

- 3.1 The approximate overall KCC revenue costs of administering the loan schemes are around £670,000 per annum. The overall administration costs are made up of staff costs, legal, due diligence/appraisal, and the ongoing monitoring costs associated with and to the lifespan of each individual investment held with the loan portfolio.
- 3.2 Whilst preparing the Business Case submitted to DLUHC KCC undertook a financial modelling exercise which assisted in determining the level at which the administration fee and management fee should be set ensuring that the total revenue costs of the scheme could be covered. This exercise determined that a figure of 10% would be appropriate. The Business Case submitted and approved allows KCC to apply a management fee of up to 10% (formerly 5%) on each approved loan.
- 3.3 In addition, a further modelling exercise was undertaken whereby the Business Investment Team ran a variety of loan values, through a loan template calculator, using various interest rates to ensure that the application of a 10% administration fee, paid by each approved loan recipient, was not prohibitive as the loan offer is set at 0% interest. This exercise concluded that the increase from a 5% administration fee to 10% would not be cost prohibitive due to the current rate of interest set by the Bank of England Monetary Policy Committee (MPC).
- 3.4 The application of both the management fee and administration fee will ensure that the administration of the KMBF/RGF Investments and future KMBF loan schemes will be self-funding.

### **4. Legal implications**

- 4.1 The approval from DLUHC allows KCC to continue to manage the recycled KMBF/RGF Investments and to provide loans to local businesses until March 2032.
- 4.2 Investments will be internally and externally assessed via an impartial third-party appraiser, under contract with KCC, who provide an appraisal report to assist the Investment Advisory Board and Sub-Group in making recommendations to Senior Officers in line with the Officer Scheme of Delegation. Such recommendations will include specific loan conditions to mitigate any default and/or loss to the KMBF/RGF recycled funds, by way of the attachment of security.
- 4.3 Such investments will be recommended by the Investment Advisory Board and Sub-Group and approved by either the Director of Growth and Communities or the Interim Head of Economy in line with the Officer Scheme of Delegation.

### **5. Equalities implications**

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

## **6. Data Protection implications**

- 6.1 A DPIA assessment determined that a full DPIA required to be completed and this has been actioned and is currently in the approval stage. An existing privacy notice covers the operation of the KMBF and has been reviewed as part of the decision process preparation; and it has been determined that no new data protection issues will arise from the proposed processing of new loan applications.

## **7. Governance**

- 7.1 The Director of Growth and Communities will inherit the main delegations via the Officer Scheme of Delegation.

## **8. Conclusions**

- 8.1 To continue to offer finance to businesses located in Kent & Medway, via loan investments with the objectives of supporting growth, increase productivity, innovate and create/protect jobs.

## **9. Recommendation(s):**

The Cabinet Member for Economic Development is asked to:

- (i) Reopen the Kent & Medway Business Fund (KMBF) in October 2023 and continue to provide loan finance to businesses until March 2032;
- (ii) Approve the KMBF Scheme Governance and decision-making arrangements; and
- (iii) Delegate authority to the Director of Growth and Communities to take relevant actions, including but not limited to entering into contracts or other legal agreements, as necessary to implement this decision.

The Record of Decision is attached as Appendix A

## **10. Background Documents**

- 10.1 Appendix A – Record of Decision
- 10.2 EqIA

## **11. Contact details**

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