

To: Paul Carter
Leader of the County Council

Cc: Kevin Lynes, Bryan Sweetland, John Simmonds,
David Cockburn, Mike Austerberry, Andy Wood, Geoff Wild

From: Barbara Cooper
Director, Economic Development

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Subject: REGIONAL GROWTH FUND:
ACCEPTANCE OF GRANT OFFER

Date: 13 March 2012

Summary

Government has allocated £40 million to Kent County Council from the Regional Growth Fund. This will be used to fund:

- Expansion East Kent, a programme of financial support to business in East Kent for investments that will lead to job creation (£35 million); and
- Enhancements to the Ashford to Ramsgate rail line to provide speed improvements (£5 million).

This report recommends that KCC accepts the Government's offer of grant, and sets out the proposed next steps in approving governance and implementation arrangements.

1. Background

- 1.1. In summer 2011, KCC (on behalf of the Sandwich Economic Development Task Force) applied to the Government's Regional Growth Fund for a £40 million programme of assistance for the districts of Canterbury, Dover, Shepway and Thanet. This programme sought to:
 - a) Establish a programme of direct financial assistance to existing businesses and inward investors in East Kent; and
 - b) Maximise the benefit of High Speed One to East Kent by providing part-funding to line speed enhancement between Ashford and Ramsgate.
- 1.2. Linked with separate investment in the Discovery Park Enterprise Zone (approved in August 2011), the allocation of Government, KCC and private sector resources to provide 1 in 200 year flood protection for the Pfizer site and Sandwich town and investment by KCC in providing additional rail services on HS1 to Sandwich and Deal, the proposed Regional Growth Fund programme formed part of a major package of support for the East Kent economy.

- 1.3. In November 2011, the Government announced that KCC's proposal had been successful, and we have been allocated the full £40 million requested.

2. The grant offer

- 2.1. To enable KCC to draw down funding and to begin implementation, the Council needs to sign formal grant agreements with the Department for Business, Innovation and Skills (BIS), which administers the Regional Growth Fund.
- 2.2. We are currently in receipt of two grant offers: one for the £35 million Expansion East Kent business finance scheme; the other for the £5 million line speed enhancement scheme. The following paragraphs set out the current status of each and the conditions associated with them.

Expansion East Kent (£35 million)

- 2.3. We have received a final grant offer from BIS for signature for the Expansion East Kent scheme. This provides that KCC will receive the grant in a single sum at the start of the scheme, and may use it to provide assistance (within state aid regulations) to business to create private sector jobs.
- 2.4. All funds received from Government must be disbursed to beneficiaries by 31 March 2016 or returned to Government. Any interest generated as a result of the Government grant must be reinvested in the scheme and paid back to Government by 31 March 2016.
- 2.5. The scheme aims to create or safeguard 5,000 private sector jobs and this is set out as a key performance indicator within the grant offer. KCC is required to monitor progress against the achievement of this target and funding could be clawed back if the target is not met or if the scheme fails to report outputs.
- 2.6. BIS also require KCC to undertake confirmatory due diligence on the programme and its management. BDO (a major accountancy firm) has been appointed to carry out this work, which is now nearing completion.

Line speed enhancement (£5 million)

- 2.7. We have received a draft grant offer letter from BIS for the line speed enhancement scheme. This provides that KCC will receive the grant in a single sum once the first £100,000 of expenditure has been defrayed. The grant may be used alongside additional investment from Network Rail for improvements to the Ashford-Ramsgate line. All funds must be spent by 31 March 2016.
- 2.8. Work is currently underway with Network Rail to define the specific schedule of work to BIS's satisfaction before a final grant offer letter will be issued. However, BIS intend to issue a final offer letter by the end of the month.

3. KCC contribution

- 3.1. Neither grant offer formally commits KCC to a financial contribution. However, Regional Growth Fund grants may only be used for direct implementation – they cannot be used to fund administration and programme management.

- 3.2. Consequently, KCC has already allocated £1.5 million from the Regeneration Fund to support the management of the Expansion East Kent scheme. There will also be limited management costs in respect of the line speed enhancement scheme.

4. Management

- 4.1. The £35 million Expansion East Kent scheme will be managed by the Director of Economic Development. An interim team is in place to establish and market the scheme and the recruitment process for the permanent team is underway. Work is also underway to establish a private sector-led Board to approve individual applications for Expansion East Kent funding.
- 4.2. The £5 million line speed enhancement scheme will be managed by the Director of Planning and Environment. As the scheme will be delivered by Network Rail, a separate contract will be established between KCC and Network Rail.

5. Risks

- 5.1. Risk registers are maintained for both schemes. The main risks are:

Risk	Mitigation
Expansion East Kent	
Failure to meet job creation/ safeguarding targets	<ul style="list-style-type: none"> • Extensive marketing campaign to attract applications • Independent project appraisal • Regular monitoring of all projects to ensure appropriate progress made and outputs met
Breach of state aid regulations	<ul style="list-style-type: none"> • Clear Scheme Manual in place at start • Compliance checked at pre-appraisal stage and within appraisal process
Failure to spend to profile	<ul style="list-style-type: none"> • Extensive marketing campaign • Scheme-level monitoring undertaken by Expansion East Kent Board
Failure to secure sufficient private sector leverage	<ul style="list-style-type: none"> • Strong links made with banks in East Kent to enable bank lending to support ExEK finance • Independent project appraisal and review at approval stage
Poor project sustainability	<ul style="list-style-type: none"> • Regular monitoring of all projects, including scheme-level review by Board
Line speed enhancement	
Failure to meet job creation/ safeguarding targets	<ul style="list-style-type: none"> • Realistic targets set at outset • Close monitoring to flag concerns at earliest opportunity
Cost overrun	<ul style="list-style-type: none"> • Strong management of contract with Network Rail
Time overrun	<ul style="list-style-type: none"> • Strong management of contract with Network Rail
Failure to spend to profile	<ul style="list-style-type: none"> • Strong management of contract with Network Rail

6. Recommendations

6.1. It is recommended that:

- a) Authority is delegated to the Director of Economic Development to sign the grant offer letter in respect of the £35 million Expansion East Kent scheme;
- b) Authority is delegated to the Director of Planning and Environment to sign the grant offer letter in respect of the £5 million line speed enhancement scheme, subject to the receipt of a final offer letter from BIS and consultation on its content with the Director of Governance and Law;
- c) A full report is received by Cabinet in April to determine the appropriate governance and implementation arrangements for both schemes.

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