By: Mark Dance, Cabinet Member for Economic Development

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To: Growth, Economic Development and Communities Cabinet Committee - 12 October 2016

Subject: Recycling the Regional Growth Fund: The Kent and Medway Business Fund

Decision Number 16/00107

Classification: Unrestricted

Past pathway of paper: None

Future pathway of paper: Cabinet Member Decision

Electoral Division: All

Summary

Since 2011, Kent and Medway has benefited from Government investment of £55 million from the Regional Growth Fund. This has supported the Expansion East Kent, TIGER and Escalate business loan schemes.

All of the original RGF funding has now been defrayed. However, as loans are repaid, it is estimated that £5-7 million will be available to reinvest each year in businesses with the potential for growth.

This paper sets out a proposal for the reinvestment of this funding. This is based on the launch of a 'Kent and Medway Business Fund' which will replace the existing schemes. The paper outlines how the Fund will operate and the timetable for delivery.

Recommendations

The Growth, Economic Development and Communities Cabinet Committee is asked to consider and endorse, or make recommendations to the Cabinet Member for Economic Development on the proposed decision:

a) To delegate to the Director of Economic Development the authority to launch a new scheme on behalf of KCC to invest recycled RGF loan repayments to eligible organisations in the Kent & Medway area;

b) That the governance arrangements for the RGF schemes (Expansion East Kent, Tiger and Escalate) allow officer sign off of all investments up to £1 million

That the governance arrangements for the RGF schemes allow for the Leader to take decisions in line with the legislative requirements for key decisions for all investments over £1 million are carried forward.

1. Introduction: The Regional Growth Fund

1.1. Since 2011, £55 million has been allocated to Kent County Council from the Regional Growth Fund. This enabled the delivery of three direct business finance schemes which offered loans, equity investment and in a small number of cases, grants:

- Expansion East Kent £35 million
- TIGER £14.5 million
- Escalate £5.5 million

1.2. The three schemes were similar, and were managed by the same KCC team. However, they operated to slightly different criteria, and each had a separate advisory board responsible for making recommendations to the Accountable Body (Kent County Council) for project approval or rejection.

1.3. All three schemes have now closed, and regular reports on performance are provided to the Cabinet Committee. However, as loans are repaid and there is a return on equity investment, KCC is able to recycle the funding to invest in businesses with the appetite and capacity for growth. It is currently estimated that around £39.5 million will be repaid by 2021, which will mean that there will be up to £5-7 million per year to reinvest.

2. Proposed new fund

Principles

2.1. Following an assessment of the three previous schemes, consideration has been given to the design of a new, successor scheme. This scheme will need to take into account:

a) *Sustainability:* The administration costs of the three previous schemes were covered by KCC (and the other participating local authorities in the case of TIGER). However, this will not be viable in the future, and a new scheme will need to recover costs.

b) *Capital availability:* While £5-7 million per year is a significant sum, it is less than the sums available over a short period of time in the earlier schemes. The design of a new scheme will need to reflect this lower amount of capital.

c) *Market demand and experience:* The original schemes were set up at a time of recession and significant credit constraints. A review of demand has been carried out to assess current need.

d) *Government grant conditions and regulations:* Recycled funds will continue to be subject to Government monitoring and regulation. This includes the state aid rules, with which any new Fund must comply.

Design

2.2. Based on these considerations, it is proposed that a new **Kent and Medway Business Fund (KMBF)** should be created. This will provide loans for small and medium-sized enterprises to support new jobs and business growth and to stimulate innovation and improve productivity. As loans are repaid, they will be recycled into the KMBF. The funds recycled from the original Expansion East Kent (East Kent), TIGER (North Kent) and ESCALATE (West Kent) Schemes will again be allocated for projects in those three areas.

2.3. It is envisaged that the new scheme will be broadly similar to the former RGF programmes and the South East LEP-funded Innovation Investment Initiative (i3) launched earlier this year. The KMBF will not seek to replace commercial sources of finance, but will seek to unlock and work alongside other forms of investment. Applicants must have a viable business case and be able to demonstrate that commercial finance is not available to cover the full value of the investment. The scheme will normally provide finance for up to 50% of total eligible costs, with the balance funded through private sources, including bank lending. Wherever possible security for the loans will be obtained.

2.4. As with the previous RGF schemes, loans will generally be offered interest-free, within the state aid rules. However, to cover administrative costs, arrangement charges will be levied.

Governance

2.5. Recognising the lower amount of funding available each year, it is envisaged that the KMBF will operate as a single scheme, across Kent and Medway, using a single application form and decision-making process.

2.6. KCC will be the accountable body for the new scheme, as part of its existing contract with Government. KCC will therefore continue to manage the application, appraisal, decision-making processes. KCC will also be responsible for issuing loan agreements, payments and monitoring of the loans, as well as reporting performance to the Department for Business, Energy and Industrial Strategy (BEIS).

2.7 All applications for the new scheme will be subject to independent appraisal. Following this appraisal, lending decisions will be made by KCC on advice from an independent investment advisory board. It is envisaged that the membership of this board will be drawn from the advisory panels established for the former RGF schemes. To ensure all current elected members retain the option to support the companies from their areas, they will be able to accompany applicants to the panel meeting should they wish to do so. Information will also be sought from officers of host local authorities on each application for consideration by the independent investment advisory board.

2.8 As with the three RGF schemes, it is anticipated that regular reports on performance will be provided to the Cabinet Committee, as well as to the independent investment advisory board established for the KMBF. Additionally, specific items may be reported to KCC Governance and Audit Committee when requested.

3. Risks

3.1. The main risks are:

- **Insufficient number of high quality applications**. This will be mitigated through the a strong pipeline of bids, marketing and work with offices and members of local Districts and Boroughs and local partners and business support agencies using the experience gained in managing the three former RGF schemes.

- **Loan failure (bad debt)**. This will be mitigated by seeking security for loans, robust appraisal and an effective monitoring process, drawing on experience to date.

- **Unsustainable administrative costs to KCC.** Costs will be recovered as far as possible through arrangement fees. At this stage, it is not anticipated that the scheme will need to charge interest to recover costs. However, this will be kept under review.

4. Next steps

4.1. It is anticipated that the new scheme will be launched in December 2016, with a view to initial loans being agreed by the end of March 2017. Ahead of this, work is underway to develop detailed scheme guidance, appoint an independent investment advisory board and develop, with local partners, an appropriate marketing strategy.

4.2. In addition, it should be noted that the original RGF schemes also covered Thurrock and part of East Sussex. Discussions are underway with the local authorities in these areas and with BEIS to determine how repaid funds may be used.

5. Recommendations

5.1 The Growth, Economic Development and Communities Cabinet Committee is asked to consider and endorse, or make recommendations to the Cabinet Member for Economic Development on the proposed decision:

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c) That the governance arrangements for the RGF schemes allow for the Leader to take decisions in line with the legislative requirements for key decisions for all investments over £1 million are carried forward.

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