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To: Governance and Audit Committee

Date: 24 April 2019

Subject: Regional Growth, Discovery Park Technology Investment Fund

Classification: Unrestricted

Summary: This report provides an update and summary on the equity investment Programmes/Fund made since the RGF programmes were launched in April 2012.

**For Assurance**

## 1. Background Information

1.1 Between 2012/13 and 2015/16 the Department of Business, Innovation and Skills (BIS) allocated £55 million from the Regional Growth Fund (RGF) to KCC to deliver three schemes:

- Expansion East Kent (£35 million for projects in East Kent)
- Tiger (£14.5 million for projects in North Kent and Thurrock)
- Escalate (£5.5 million for projects in West Kent and parts of East Sussex)

1.2 These schemes offered:-

(i) loan finance at 0% interest, with a repayment period of between 5 and 7 years.
(ii) grants
(iii) investment in companies' equity.

1.3 This report provides an update and summary on the equity investment Programmes/Fund made since the RGF programmes were launched in April 2012.

## 2. Summary Headline (for assurance)

2.1 KCC has managed two equity programmes funded from the Regional Growth Fund.

**KCC RGF Bespoke Equity Fund (KRBEF)**

£3.5 million has been invested in in the unlisted equity of 10 companies located across Kent. These investments were funded from the Expansion East Kent, Tiger and Escalate RGF programmes.

**Discovery Park Technology Investment Fund (DPTIF)**

£4.6m investment in the unlisted equity of 8 companies are located in Discovery Park in East Kent. These were funded from the Expansion East Kent programme.

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## 3. KCC RGF Bespoke Equity Portfolio (KRBEF)

3.1 The KCC RGF Bespoke Fund (KRBF) purchased shares to the value of £2,871,498 in 10 companies which were early stage businesses, pre-profit (and in many cases pre-revenue) at the time of the investment. Accordingly, this fund is high risk investments.

3.2 The companies in whom the KRBF invested also received 0% loans. Two companies have repaid their loans in full. The other companies are continuing to make repayments as per loan agreements.

3.3 The KRBEF's mandate is:-

- KCC will only make an investment in the company alongside other private sector investors.
- KCC will not be the lead in the funding round.
- KCC must only hold a minority shareholding.
- KCC must have the right to appoint an observer or to appoint a board member onto the company board.
- The investment must be made in accordance with state aid legislation and apply the Market Economy Operator Principles (MEOP). The Principles state 'an economic transaction carried out by a public body does not constitute State aid if it is carried out in line with normal market conditions'.

3.4 Six transactions have been made to purchase equity, three involve convertible loan agreements and one for crowd funding.

3.5 NCL Technology Ventures (NCL) has been appointed to manage, monitor and oversee these investments.

3.6 NCL report quarterly to the Investment Advisory Board which is chaired by the Leader of the Council and has a majority of representatives from the private sector.

3.7 The companies which KCC have an invested in present an update on their performance to the Investment Advisory Board on an annual basis.

3.8 KCC has received a small dividend payment from one company. The positive impact on the local economy and good prospects of KCC obtaining a finance return on its investment. One company has gone into administration.

3.9 Indicative valuation for KCC (KRBEF) Grandfathering Portfolio itemising details on the companies and the shareholdings are contained within the Exempt Report.

3.10 The strategy for these investments is to maximise the financial return for KCC. KCC will seek to exit at an acceptable value.

3.11 The focus is on companies with a strong potential for growth and a high return on investment. Private sector investment is also required on the same terms as the equity is purchased by its fund to meet state aid legislation (see 3. above).

3.12 Over £20m of private sector investment has been syndicated and facilitated across the 7 companies with an additional £7m obtained in grants.

3.13 Details on the companies, shareholdings and valuation are contained in the Exempt Report (Indicative Valuation of KCC Equity Investments).

## 4. The Discovery Park Technology Investment Fund (DPTIF)

4.1 The Discovery Park Technology Investment Fund (DPTIF) was launched in January 2015 to attract companies to locate at Discovery Park or other parts of East Kent.

4.2 NCL carries out detailed analysis of each company including management structure, financial position and technical analysis of the product for KCC. A full report is compiled for KCC. Recommendations are presented to the Investment Advisory Board by NCL. Representatives from those companies are invited to meet the Board and present their proposals once all the due diligence has been completed. Only 8 companies have been included in the fund although circa 400 companies have been assessed.

4.3 The investment structure consists of a beneficiary holder of the shares, a special partner (NCL) and general partner (NCL). This ensures the fund operates under FCA regulations and is a structure that replicates existing Venture Capitalist funds. This allows for private sector funding of the equity alongside KCC's funds.

4.4 £4.6m has been invested in 8 companies in the DPTIF portfolio.

4.5 The mandate for the DPTIF is as follows:-

- KCC will only permit an investment if there are other private sector investors.
- NCL acting on behalf of KCC may take the lead role in the funding round to acquire other investors.
- The fund must only hold a minority shareholding.
- NCL / KCC must have the right to appoint an observer or to appoint a board member onto the company's board,
- The investment must be made in accordance with state aid legislation and apply the Market Economy Operator Principles (MEOP). In commercial terms this means the investment of public funds must be made in line with normal market conditions. As the Principles state 'an economic transaction carried out by a public body does not constitute State aid if it is carried out in line with normal market conditions'.

- The company receiving investment must be located in Discovery Park or relocate to Discovery Park.

4.6 Details on the companies, shareholdings and valuation are contained in the Exempt Report – DPTI Valuation.

4.7 The valuation of any business will be based on several factors which will inform the point of exit. An exit strategy has been prepared for each investment and varies from three to ten years.

4.8 The portfolio NCL is currently reporting an uplift of Circa 25% (annualised) based on IPEVC (International Private Equity Venture Capital Valuation Guidelines) with no failures to date.

## 5. Conclusion

5.1 In conclusion:-

- Both equity programmes are still in the early stages and it is anticipated that some of the investments will not show a positive return on investment before 3 to 5 years.
- The exit strategy is different for each company.
- There are early signs of increased value of shareholdings in some of the investments.
- The Investment Advisory Board receives quarterly reports on the performance of all the companies.
- An annual report is provided to the Governance and Audit Trading and Activities Committee.

## 6. Recommendation

To note the report for assurance.

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