

From: Stephanie Holt-Castle, Director of Growth and Communities

To: Derek Murphy, Cabinet Member for Economic Development

Subject: KCC Equity Investments: New Investment Trust

Key decision 22/00070

Classification: **Unrestricted**

**Electoral Division:** All

**Summary:** Kent County Council currently manages the Discovery Park Technology Investment Fund (DPTI) and the Kent Life Science Fund (KLS) equity schemes and is now seeking approval to sell the KCC shares held within these portfolios in exchange for shares in a new listed Investment Trust company. Proceeds from the sale of the KCC shares will be re-invested in local companies.

**Recommendation(s):**

The Cabinet Member for Economic Development is asked to agree to delegate the authority to the Director of Growth and Communities:

1. To enter into the relevant contracts and legal agreements required to implement this decision allowing KCC to sell shares in unlisted companies within the Discovery Park Technology Investment Fund (DPTI) and the Kent Life Science Fund (KLS) in exchanged for shares in a new listed Investment Trust company, only when market conditions are favourable and KCC has reviewed the Listing and Prospectus documents.
2. To enter into the relevant contracts and legal agreements required to close the DPTI and the KLS.
3. To ensure that the proceeds from the sale of KCC shares in the new listed Investment Company will be re-invested in local companies via the Kent and Medway Business Fund (KMBF).

Proposed Record of Decision is attached as Appendix A

## 1. Introduction

- 1.1 Kent County Council currently has three equity schemes. All three schemes are funded from the £55 million allocated from the Government's Regional Growth Fund to KCC between 2011 and 2014. The 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).
- 1.2 These schemes operated from November 2011 to January 2016, offering companies grants, loans, and equity investments.

- 1.3 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 businesses across Kent and Medway. Most funding recipients receive 0% interest loans, with a repayment period of up to five years.
- 1.4 Since 2013, KCC effected its purchase of shares through three equity schemes. These are:
- KCC RGF Bespoke Equity Fund (KRBEF) - £3.9 million has been invested in the unlisted equity of 11 companies located across Kent. These investments were funded from the Expansion East Kent, Tiger and Escalate RGF programmes. £0.4 million has been returned to KCC following a sale of shares. Two companies have failed and £1.2 million has been written-off. A further company is dormant. The shareholding in the 8 remaining companies in the portfolio was valued at £2.0 million as of 31 March 2022.
  - Discovery Park Technology Investment Fund (DPTI) - £5.2 million investment has been made in the unlisted equity of 9 companies located in Discovery Park in East Kent. These investments were funded from the Expansion East Kent programme. One company has failed and the investment of £0.6 million has been written off. The shareholding in the 8 remaining companies in the fund was valued at £5.7 million as of 31 March 2022.
  - Kent Life Science Fund (KLS) - To date KCC has invested £4.3 million in the unlisted equity of 9 companies via the Kent Life Science Fund. These investments are funded from the Kent and Medway Business Fund. One company has failed and the investment of £0.5 million has been written off. The shareholding in remaining 8 companies in the fund was valued at £5.9 million as of 31 March 2022.
- 1.5 KCC is seeking to end the current DPTI and KLS arrangements and replace these with a shareholding in a newly listed UK Investment Trust company (to be listed on the main market of the London Stock Exchange (LSE)). Under this proposal the new Investment Trust company will make an offer to KCC to purchase its shares currently held within the DPTI and KLS equity portfolios in exchange for shares in the new Public Limited company. It should be noted that this entity will be a UK limited liability company: the name 'trust' is used for historical reasons and allows HMRC to award the entity a certain tax status, for example they are subject to Corporation Tax on their income but are not subject to tax on chargeable gains.
- 1.6 Before committing itself to this transaction, KCC will obtain an independent valuation of the shares to be sold. KCC's commitment will be conditional on the flotation going ahead as planned, and satisfaction that the commercial terms are acceptable considering the evidence that shares in Investment Trust companies usually trade at a discount to the value of their underlying investments. There will be no requirement for KCC to invest further in the shares of this Investment Trust company.
- 1.7 The listing of the new Investment Trust company will allow other investors to purchase shares in the Investment Trust company. The Investment Trust will

aim to raise £150 million on flotation, primarily from large UK institutional investors.

- 1.8 KCC believes a new Investment Trust company will be attractive for institutional investors whose mandates preclude them from investing into a private fund structure such as the DPTI and KLS Funds. The London listing will also offer liquidity, enabling investors to buy and sell shares on the London Stock Exchange. The new company is likely to invest in later stage deals where the market considers there to be considerable value and target a double-digit annual return over the medium term, only paying dividends to preserve HMRC Investment Trust status. Returns will be targeted within a 2–3-year period rather than the 7–10-year period envisaged under the existing DPTI and KLS equity portfolios.
- 1.9 With an increased amount of capital, the Investment Trust company will be able to make further investment available to support the companies whose shares were formerly part of the DPTI and KLS equity portfolios as well as enabling KCC to make full or partial exits earlier than currently envisaged.
- 1.10 Future investments of the Investment Trust company are unlikely to be limited geographically to Kent and Medway. Nor will the company necessarily be restricted to KCC's ethical investment guidelines, KCC will therefore make it clear that it will only retain a shareholding in the new Investment Trust company for as long these guidelines are followed. While KCC would become as minority shareholder in the Investment Trust company this would be balanced against the benefit of an early financial returns to KCC. All proceeds from the sale of shares will be re-invested in local companies via the Kent and Medway Business Fund (KMBF).

## **2. Background, Options & Risks**

- 2.1 The DPTI and KLS are currently managed on behalf of KCC via legal agreements with NCL Technology Ventures Ltd.
- 2.2 KCC and NCL have discussed the options set out in this report and have concluded jointly that the actions proposed will ensure financial savings to KMBF, early exit from KCC previous equity investments, provide funds for re-investment for the benefit of Kent and Medway, and ensure that companies in receipt of KCC's previous investment can obtain additional finance for the next stage of their development.
- 2.3 **Options** - KCC has reviewed other options, the reasons for not progressing with these options is set out below:
  - a) Retaining the current DPTI and KLS equity portfolio arrangements would:
    - Continue to commit KCC to spending £0.3 million a year on administration costs for the next 3-5 years;
    - Not offer an opportunity to exit from these investments earlier; and
    - Severely limit the opportunity to make additional investments in the companies in the portfolio.

b) Selling the current DPTI and KLS equity portfolio shares via an alternative arrangement would:

- Not offer an opportunity to exit from these investments earlier as the diverse portfolio is unlikely to attract buyers and selling the shares in individual companies would take a longer time than the preferred option.

2.4 **Risks** – The main risk of proceeding with the transfer of shares to the Investment Company is that following Listing, stock market conditions deteriorate significantly and the value of KCC's shareholding in the new company becomes much lower than anticipated. On the other hand, the shares may rise in value. It is not possible for KCC to mitigate these market risks other than by keeping a close watch on the share value and deciding on an appropriate time to exit. KCC will not conclude any sale unless the price is favourable and KCC has reviewed the Listing stock market conditions. The other risks if KCC does not progress with the course of action recommended in this paper is that there will be no financial savings to KMBF, the opportunity for early exit from KCC previous equity investments will be more limited, the ability to provide funds for re-investment for the benefit of Kent and Medway will be restricted, and the scope for additional investment to companies within DPTI and KLS portfolios will be limited.

### 3. Financial Implications

- 3.1 The current annual cost of the administration of the DPTI and KLS equity portfolio is £300,000 drawn from KMBF. The new annual cost under the new arrangements will be zero, releasing KMBF funds for re-investment in local businesses.
- 3.2 The most recent valuation in March 2022 valued the KCC shareholding in the DPTI at £5.7 million and the KLS at £5.9 million.
- 3.3 KCC is currently responsible for the recovery of these equity investments, if these funds cannot be recovered, KCC is not responsible for any subsequent bad debt.
- 3.4 Once the new Investment Trust is established KCC will not be involved in the day-to-day administration of the Investment Trust. KCC will have no responsibility for the recovery of outstanding investments and will not be responsible for any subsequent bad debts.
- 3.5 Returns from the sale of shares or dividends in the Investment Trust company is expected to be within one and three years, according to market conditions. All sale proceeds must be returned to the KMBF and cannot be used for other KCC purposes. The current KMBF scheme will end on the 31 March 2023. KCC is currently in negotiation with BEIS concerning an extension of the existing contract or the funds currently being managed by KCC being endowed to the Council. This will be covered by a separate Key decision.

### 4. Legal implications

- 4.1 During the time that the transfer of shares to the new Investment Trust take place, NCL will continue to act on behalf of KCC is managing the DPTI and KLS

portfolios. Once the share transfer takes place the legal agreements with NCL will terminate.

- 4.2 KCC established an Investment Advisory Board to assist in making funding recommendations related to the DPTI and KLS. This Board consists of KCC Members, Members from other local authorities and the private sector. This Board will continue to advise on loans and convertible loans offered by the KMBF.
- 4.3 KCC has commissioned external legal, commercial and tax advisors to look at technical issues related to the sale and transfer of shares. Invicta Law Ltd will continue to provide advice on contracts, insolvency issues and work with the KCC Business Investment Team to recover the maximum amount of investment value until the sale and transfer of shares is concluded. KCC Internal Audit will oversee the investment procedures and processes and advice on other matters related to the use of the funds.
- 4.4 Once the shares held in the DPTI and the KLS are exchanged for shares in a new listed Investment Trust company, KCC will not be liable for any of the outstanding unrecovered investments. 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. Other corporate implications**

- 6.1 This decision does not have an impact in other areas of the Council's work.

## **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 enter into the relevant contracts and legal agreements required to implement this decision allowing KCC to sell shares in unlisted companies within the Discovery Park Technology Investment Fund (DPTI) and the Kent Life Science Fund (KLS) in exchanged for shares in a new listed Investment Trust company, only when market conditions are favourable and KCC has reviewed the Listing and Prospectus documents.
- 8.2 To enter into the relevant contracts and legal agreements required to close the DPTI and the KLS.
- 8.3 To ensure that the proceeds from the sale of KCC shares in the new listed Investment Company will be re-invested in local companies via the Kent and Medway Business Fund (KMBF).

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

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Proposed Record of Decision is attached as Appendix A.

## **10. Background documents**

- Appendix A – Proposed Record of Decision
- Appendix B – EqlA

## **11. Contact details**

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