



**WEST MIDLANDS ERDF LOCAL MANAGEMENT COMMITTEE 2007-13**

**September 2012**

**Item No. 6: Performance of Venture Capital and Gap Funding Projects**

**Objective:**

- i To provide more detailed information to allow the Local Management Committee to monitor the progress of Financial Engineering Instruments, in particular the Venture Capital/Loan Funds and other Access to Finance Initiatives which are considered to be an area of high risk and high impact to the programme.

**Recommendation:**

- i **LMC members note the contents of this paper.**
- ii **LMC members are requested to approve the use of additional funding in the AEGF into investments which have already received ERDF funding.**

**1. Background**

- 1.1 Financial Engineering Instruments (FEIs) are considered by the Commission to be one of the most innovative and potentially most risky areas of a Programme. For this reason, the Commission expects more detailed information to be provided to the Local Management Committee to enable them to monitor the progress of these projects.
- 1.2 FEIs contracted to date, which includes Venture Capital Funds and Community Development Financial Institutions (CDFI), equate to £22.46 million ERDF with a further £7 million in the process of approval or development (see tables 6.1 and 6.2).
- 1.2 In addition investment grant funding projects which are considered to be part of the Access to Finance suite of projects, provide some of the same lack of investment risk as the FEIs and consequently they have now been added to this report (see table 6.3). Investment grant funding projects represent £26 million ERDF within the programme. (Although strictly speaking an FEI, due to the nature of its investments in Urban Regeneration projects, the Jessica Fund has been added to the Gap funding project table).

**2. Programme Status**

- 2.1 Overall the Venture Capital Funds have been active and have had significant numbers of investments and made good progress against their targets

**Equity Funds**

**Advantage Early Stage Equity Fund (trading as Early Advantage)**

- 2.2 The fund has invested in line with its target value and is beginning to catch up with the target number of investments with a further 3 investments since the previous report.





#### **Advantage Growth Fund (trading as Exceed)**

- 2.3 This fund was highlighted in the Access to Finance paper to the last LMC. Concern was expressed that the Fund was significantly behind its investment profile, both in value and numbers of investments. A review jointly undertaken in conjunction with the private sector co-financer of the Fund (Lloyds Development Capital), has established that the current profile, imposed by Lloyds as a condition of co-financing, was over ambitious, and not achievable in the current economic climate. Lloyds have now agreed to a relaxation of this profile to a realistic level. The level of investments made to date and projected match the performance of other funds sponsored by Capital for Enterprise (CfeL) elsewhere in the country. All parties are now confident with the new investment profile, as achievement to date is 85% of the original profile submitted by the Fund Manager at application, and there has been a significant increase in the work in progress to date, to a current value of £3.7 million. Additional claims about to be submitted or in development to the value of £1.2 million should bring the Fund almost up to the original profile.

#### **Advantage Early Growth Fund Augmentation Fund**

- 2.4 This fund is fully invested. The Fund bid to the Priority 1 and 2 bidding round last year and was prioritized for further funding. The approval was dependent on the viability of the fund. The Fund had to meet various viability milestones including achieving its first profitable exit and reassurance on the continuance of the viability of the Fund Management Company. The Fund has now won the management of the Lachesis Fund in the East Midlands, and BIS/CfeL has confirmed that they will allow the Fund to continue until 31st of December 2015.
- 2.5 The Fund Manager has been challenged with providing a full Legacy Plan incorporating how the Fund will continue once the BIS/CfeL funds have been removed at the end of that period. We will be seeking approval from CfeL both, as part of the normal national venture capital fund approval process, and due to the potential affect on already invested BIS funds.
- 2.6 The LMC Sub group originally expressed concern about additional investments into companies which had previously received ERDF investment. Some of the proposed investments have not received investment this programme. A substantive case has been made that a number of investments have considerable interest from the private sector to for investments to grow it the companies to a specific target exit. However, these investments either need some ERDF funding to create the total package, or non investment by ERDF would result in the Fund being diluted down to a nominal value and would defeat the purpose of the original funding.
- 2.7 Therefore, it is recommended that the Fund be allowed to make these additional investments. Although we will not be able to count the SMEs supported as additional outputs, we are able to separately count any additional jobs created from the additional tranche of investment.

#### **Advantage Media Production Fund**

- 2.8 The has been in suspension since the transfer of the applicant Screen West Midlands to Creative England. No further investments could be made until a Project Engagement Visit had been made to the new applicant. This has now taken place and various issues requiring additional assurance are being clarified. Once these are in place, the Fund should be able to resume investments into a substantial backlog of investment proposals.

#### **Overall for the Equity Funds**

- 2.9 Each of the Equity Funds has reported a write down of their investments. In each case it relates to a single investment which is no longer expected to provide a return.





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- 2.10 Characteristically with early stage equity, there has been little to report reference jobs created as the founders attempt to grow the business for some time before taking on staff. Sufficient progress has now been made in the 62 SMEs which have received investment to date, to yield 127 new jobs of which 48% have been filled by female staff and safeguard 325 staff of which 27% are female.

### **In Development**

- 2.11 The Mercia Fund has been approved for £1.08 million ERDF investment matched with a mixture of £550k university public match and £530k co-investment private match. The agreement of the Funding Agreement has taken longer than expected to agree due to the complexity of these arrangements but, this it is anticipated that this will be finalized by mid-September.
- 2.12 The Jessica Fund was approved on the 19<sup>th</sup> January 2012, and has now chosen a Fund Manager. A variety of legal processes have been necessary pre-conditions of contract, including the creation of a special purpose vehicle to be the Fund General Partner. Finalizing agreements has proved challenging and has so far delayed the signing of the contract and the launching of the Fund.

### **Small Loan Finance**

- 2.13 The existing Community Development Finance projects completed in March 2012. **The Prince's Trust** via their 1830 project gained approval for additional funding which has been consolidated in the following tables.
- 2.14 The final level of bad debts has ranged from a fraction of a percent up to 15%, which is still considered to excellent for the type of investments made. 1,674 jobs were created of which 40% were filled by female employees. 1807 jobs were safeguarded of which 33% were held by female employees. Overall 1321 SMEs have so far been supported by these initiatives.

### **In Development**

- 2.15 The last Priority 2 bidding round was targeted at small business loan activity and closed in May. Members will recall that only one proposal was submitted under the call and that it was endorsed by the LMSC panel. The proposal covered Worcestershire, Shropshire and Staffordshire. However, as the project has developed to full, Staffordshire Council have decided that it is more practical to manage and procure their loan activity separately. As each loan fund must cover a minimum of one LEP area this means that coverage will be extended to include Stoke on Trent City Council to enable provision across the whole Stoke and Staffordshire Local Enterprise Partnership area. The total amount of capital endorsed at Outline (£2.5m) has been split across these two applications.

### **Planned Audits**

- 2.16 The Advantage Early Growth Fund Augmentation is currently the subject of an Article 16 audit. The Advantage Media Production Fund will be the subject of a specific Legacy audit by the Audit Authority from the middle of September. The European Court of Auditors is currently in the country and to date had not chosen a Fund from the West Midlands to audit.

## **3. Investment Grant Projects**

### **Overview**

- 3.1 Due to the high risk of non-investment in projects of this type, the investment grant projects have been added to this report for information. Currently, most investment grant projects are in their very early stages and have made little or no investment. Not all the relevant information is yet available. It is expected that this report will be expanded on future agendas. Other than the SUD Revitalising project, most projects have made few investments at this





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stage and are slipping between 50 and 92% from their original profiles. There can be no confidence at this stage that forecast ERDF will be spent this year and this will have a significant impact on Priority 3 in particular and the programme as a whole, potentially compromising the achievement of N + 2 for the year. Revised profiles are currently being developed for all these projects. Further detail of the potential impact can be found in the Spend Position Paper elsewhere on the Agenda.

### **Progress of specific projects**

- 3.2 The SUD Revitalising project has completed and was almost fully invested. 21 SMEs were supported, 30 jobs were created and 42 jobs were safeguarded.
- 3.3 The Dudley THI project was contract in July 2011 but had to undergo a major revision when it was determined that a number of their intended projects were in fact ineligible. Consequently the smaller project was re-contracting in March 2012. To date no investments have been claimed for on this project.
- 3.4 The Burslem Building Improvement Project was contracted in March 2011 but has been delayed awaiting a bid for additional match from the Heritage Lottery Fund which has delayed the allocation of funding. They have now just made their first investment.
- 3.5 As of yet investing in Enterprise Jewellery Quarter, Investing in Enterprise Space and Tyseley Key Opportunities Programme, all contracted at the beginning of 2012, have only claimed management and administration costs and made no investments. They are unlikely to provide any significant input to N + 2 this ERDF year.
- 3.6 Tyseley Property Assistance has made two investments and is 50% behind its current profile.
- 3.7 Shropshire and Herefordshire Enterprise Business Growth have been contracted for one year and have made 12 investments to date. They are considered to be in line with their investment profile.
- 3.8 Coventry and Warwickshire Enterprise Business Growth project has reported a slow build up of the start up grants due to the need to build up a pipeline of clients. Although the actual expenditure to date is £291,720, commitments have been made to 14 SMEs to the value of £3.7 million, which should create 157.5 jobs.
- 3.9 The Grants for Business Investment Project substantially altered its profile. It is currently awaiting a claim from a major investment which had completed but not yet claimed. Some claims have been received but not yet processed for other investments. Significant commitments which have not yet claimed are being investigated, but it is now considered likely that the final level of grant will be £2 million less than the £9 million contracted. Following the closure of the RDA, no new commitments were permitted to be made beyond December 2010. However, due to the state aid notification, the level of grant payment is dependent on the timing of the SME expenditure which can take place over a number of years.

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**Table 6.1 - West Midlands Venture Capital Funds**

Description	Advantage Media Production Fund	Advantage Early Stage Fund	Exceed	Advantage Early Growth Fund Extension
<b>Total Fund including co- investment</b>	£3,000,000	£8,000,000 + 8,000,000 Match	£18,400,000	£1,318,000 £1,318,000 + Match
ERDF	£1,500,000	£4,000,000	£ 7,500,000	£1,318,000
AWM	£1,000,000	£4,000,000	£ 1,700,000	
Private	£ 500,000	£8,000,000	£ 9,200,000	£ 5,844,747
<b>Total Funds Drawn down</b>	£3,000,000	£20,454,734	£10,639,308	£ 7,162,747
ERDF	£1,500,000	£ 4,000,000	£ 5,069,654	£ 1,318,000
AWM	£1,000,000	£ 4,000,000	£ 1,700,085	£
Private	£ 500,000	£12,454,734	£ 3,869,569	£ 5,844,747
<b>Number SMEs Invested in</b>	9	21	15	17
<b>Cost of Investments</b>	£2,490,200	£ 15,416,747	£ 5,423,328	£ 7,162,433
ERDF	£ 1,194,120	£ 2,962,013	£ 2,711,664	£ 1,317,686
AWM	£ 796,080	£	£	
Private	£ 500,000	£12,454,734	£ 2,711,664	£ 5,844,747
<b>Current Value of Investments Made</b>	£32,684,326	£12,010,181	£ 4,550,654	£ 6,580,230
<b>Written Down Investments</b>	<b>£ 31,450</b>	<b>£ 2,180,653</b>	<b>£ 577,492</b>	<b>£ 346,548</b>
<b>Set up costs</b>		£ 69,158	£ 71,850	
Management Fees	N/A	£ 722,417	£ 1,009,059	N/A
<b>Investments by Stage</b>				
Start Up	9	17	5	
Early Development		3	10	17
Seed		1		
<b>Of which Female Led</b>	1	3		3
<b>ERDF Recoupment</b>	67,898			
<b>Investments by Sector</b>				
Media	£2,490,200	£	£	
Healthcare		£	£ 1,234,192	
Medical Instruments		£ 4,034,482	£ 568,279	£ 2,449,906
Transport/Telecommunication		£ 4,415,905		£ 151,700
Manufacturing		£ 6,966,360	£ 1,051,790	
Real Estate, Renting			£2,319,057	£ 2,900,827
Public Administration			£ 250,010	£ 1,660,000
Other Services				
<b>Jobs Created</b>		68.2	33	28
Male		44.9	7	16.5
Female		23.3	26	11.5
<b>Jobs Safeguarded</b>		60	129	136
Male		47.4	112	77
Female		12.6	17	59





**Table 6.2 - West Midlands Community Development Finance Institutions**

Description	Princes Trust	Marches Reinvest Trust	Coventry & Warks Reinvestment Trust	Aston Reinvestment Trust	Black Country Reinvestment Trust
<b>Total Fund</b>	£4,316,533	£ 2,641,334	£ 1,282,530	£ 2,721,600	£6,542,000
ERDF	£ 1,981,443	£ 1,259,943	£ 593,571	£ 1,254,976	£ 3,051,798
AWM/Other public	£ 594,132	£ 694,609	£ 148,333	£ 545,871	£ 1,769,202
Private	£ 1,740,958	£ 686,782	£ 540,626	£ 920,753	£ 1,721,000
<b>Number SMEs Invested in</b>	798	101	74	119	229
<b>Cost of Investments</b>	£ 3,024,278	£2,718,515	£ 1,156,529	£ 2,474,797	£6,522,000
ERDF	£ 1,335,308	£ 1,262,662	£ 530,570	£ 1,131,573	£ 3,041,798
AWM /Other public	£ 553,806	£ 37,492	£ 148,334	£ 545,871	£ 1,743,702
Private	£ 1,135,164	£ 718,361	£ 477,625	£ 797,353	£ 1,736,500
<b>Current Value of Investments Made</b>	£ 2,640,074	£ 1,634,453	£ 742,359	£ 1,579,856	£4,125,628
<b>Investments by Stage</b>					
Start Up	798	30	33	21	19
Early Development		31	0	50	
Development		40	41	48	210
<b>Of which Female Led</b>	340	14	21	27	68
<b>Investments by Sector</b>					
Media	£ 28,300	£ 6,000	£ 30,746	£ 100,175	£ 264,000
Healthcare	£ 43,500	£ 87,900	£ 65,188	£	£ 136,000
Telecom/finance	£ 51,300	£ 62,500	£ 104,428	£ 159,250	£ 334,500
Service	£ 719,178	£ 28,290			
Manufacturing	£ 97,550	£ 579,700	£ 275,877	£ 544,200	£ 1,378,500
Social Enterprise	£ 1,561,700	£ 176,032	£ 51,516	£ 245,300	£ 436,000
Education/public	£		£ 1,500		
Hotels/Restaurants	£ 28,500	£ 421,000	£ 104,400	£ 307,600	
Construction/Real	£ 325,450	£ 157,000	£ 192,000	£ 790,122	£ 1,448,000
<b>Wholesale/Retail</b>	£ 168,800	£ 1,200,093	£ 330,874	£ 328,150	£2,525,000
<b>Jobs Created</b>	847	100.5	122.0	386	218.5
Male	508	53.5	62.0	237	138.5
Female	339	47.0	60.0	149	80
<b>Jobs Safeguarded</b>	275	112	26	563	831.5
Male	156	92	13	288	663
Female	119	20	13	275	168.5
<b>SMEs ceased Trading</b>	<b>61</b>	<b>5</b>	<b>13</b>	<b>13</b>	<b>31</b>
<b>Realisations</b>	£271,555	£1,043,485	£457,000	£517,333	£1,697,072
<b>Default to Date</b>	<b>£112,650</b>	<b>£ 40,577</b>	<b>£ 2,170</b>	<b>£377,608</b>	<b>£ 699,299</b>







**Table 6.3 – Gap Funding Schemes**

Project Name	Dudley THI	SUD Revitalising	Burslem Building Improve	Investing in Enterprise Jewellery Q/ Digbeth	Investment Enterprise Space A31/A34/74	Tyseley Key Opportunities Programme
<b>ERDF</b>	£500,000	£1,210,000	£1,270,058	£4,000,000	£2,499,976	£2,000,000
<b>Public Match</b>	£500,000	£1,113,037	£600,000	£171,064	£145,326	£145,326
<b>Private Match</b>		£96,963	£970,000	£7,017,623	£2,645,302	£4,436,012
<b>Total Value</b>	£1,000,000	£2,420,000	£2,840,058	£11,188,687	£5,290,604	£6,581,338
<b>Cost of Invest</b>	0	£2,381,826	£362,020	0	0	0
<b>ERDF</b>		£1,190,913	£128,545			
<b>Public</b>		£1,113.037				
<b>Private</b>		£ 77,876	£233,475			
<b>SME</b>		21	1			
<b>Female Led</b>						
<b>Manufacturing</b>						
<b>Other Services</b>		£2,381,826				
<b>Media</b>						
<b>Telecoms</b>						
<b>Real Estate</b>						
<b>Construction</b>						
<b>Social Enterprise</b>			£362,020			
<b>Transport</b>						
<b>Jobs Created</b>		30	8			
<b>Job Safeguarded</b>		42				





**Table 6.3 – Gap Funding Schemes (continued)**

<b>Project Name</b>	<b>Tyseley Property Assistance</b>	<b>JESSICA *</b>	<b>Shropshire &amp; Hereford Enterprise Fund</b>	<b>C &amp; W Enterprise Business Growth</b>	<b>Grants for Business Investment</b>
<b>ERDF</b>	£1,157,152	£10,782,000	£1,131,000	£3,355,588	£8,998,684
<b>Public Match</b>	£369,652	£10,782,000	£126,000	£918,227	
<b>Private Match</b>	£787,500		£1,005,000	£9,742,764	£40,994,007
<b>Total Value</b>	£2,314,304	£21,564,000	£2,262,000	£14,016,579	£49,992,691
<b>Cost of Invest</b>	£ 450,000	0	£125,224	£ 291,720	£14,534,118
<b>ERDF</b>	£ 200,000		£ 62,612	£ 69,420	£2,591,746
<b>Public</b>			£		
<b>Private</b>	£ 250,000		£ 62,612	£ 222,300	£11,942,372
<b>SME</b>	2		12	4	29
<b>Female Led</b>				2	
<b>Manufacturing</b>	£ 450,000		£ 78,460	£	
<b>Other Services</b>			£ 32,064	£235,420	
<b>Media</b>			£ 10,000		
<b>Telecoms</b>			£ 3,000		
<b>Real Estate</b>			£ 1,700		
<b>Construction</b>					
<b>Social Enterprise</b>					
<b>Transport</b>				£ 56,300	
<b>Jobs Created</b>	8		15.5		277
<b>Job Safeguarded</b>	64				96.5

\* JESSICA – Strictly speaking this is an FEI rather than an investment grant funding project. The beneficiaries of the fund are urban regeneration gap funding projects. Accordingly, it is more appropriate the fund is grouped with the gap funding projects.

