

BIRMINGHAM CITY COUNCIL**PUBLIC REPORT**

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| Joint Report to: | DEPUTY LEADER AND STRATEGIC DIRECTOR - FINANCE AND LEGAL | |
| Report of: | Strategic Director Major Projects | |
| Date of Decision: | 19 May 2016 | |
| SUBJECT: | BIRMINGHAM CREATIVE EQUITY FUND – INVESTMENT STRATEGY | |
| Key Decision: No | Relevant Forward Plan Ref: | |
| If not in the Forward Plan: (please "X" box) | Chief Executive approved | |
| | O&S Chairman approved | |
| Relevant Cabinet Member(s): | Cllr Ian Ward – Deputy Leader | |
| Relevant O&S Chairman: | Cllr Aikhlaq – Corporate Resources and Governance | |
| Wards affected: | ALL | |

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| 1. Purpose of report: |
| <p>1.1 To approve up to £0.5m investment from the council's Creative Equity fund in a national SEIS (Seed Enterprise Investment Scheme) managed by joint venture partners Ascension Ventures and to note progress made by AV managing the council's existing Creative portfolio.</p> <p>1.2 To endorse the intention of a previous decision of Cabinet concerning fund management payment to AV, noting that the structure under which the decision was originally proposed has been delayed in implementation.</p> <p>1.3 To note that a report on the private agenda contains the commercial detail pertaining to these decisions.</p> |

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| 2. Decision(s) recommended: |
| <p>That the Deputy Leader and the Strategic Director Finance and Legal:</p> <p>2.1 Approve the allocation of up to £0.5m from the council's Creative Equity Fund into an SEIS fund managed by Ascension Ventures, a company in which BCC holds 40% of ordinary share capital.</p> <p>2.2 Endorse the implementation of a process of reward for the AV fund managers in line with the intention of Cabinet on 19 June 2015 on both the existing investments under their management and the funds to be invested in the SEIS .</p> <p>2.3 Authorise the Acting City Solicitor to negotiate, execute and complete all relevant documentation to give effect to the above recommendations.</p> <p>2.4 Note that the cabinet report of 12 December 2011 approved the business case and prudential borrowing for the Creative Industries equity fund of £5m.</p> |

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| 3. | Consultation |
| 3.1 | <p><u>Internal</u> Cllr Brew, Director of Finance Birmingham has been consulted on the report and supports the proposed investment. Officers from Corporate Finance, Legal & Democratic Services have been involved in the development of the report. Appointed directors to the company are the Deputy Leader Cllr Ian Ward, Cllr Brew, Strategic Director Major Projects and Programmes and the Assistant Director Finance - Economy.</p> |
| 3.2 | <p><u>External</u>: none</p> |
| 4. | Compliance Issues: |
| 4.1 | <p><u>Are the recommended decisions consistent with the Council's policies, plans and strategies?</u></p> <p>This proposal supports the Council Business Plan 2016+, including the key outcome 'A prosperous city' and key themes 'Infrastructure, development and Smart City' and 'Regional capital and reputation.'</p> |
| 4.2 | <u>Financial Implications:</u> |
| 4.2.1 | <p>Cabinet approved a £5m Creative Industries Equity Fund in December 2011. To date £2.4m has been invested and £2.6m remains. This report will allocate up to £0.5m of this fund into the SEIS for investment into the digital media sector.</p> |
| 4.2.2 | <p>BCC will incur borrowing costs on the £0.5m in the same way as costs are incurred for all equity investments. These costs and the initial investment are repaid over an estimated life of 20 years, however any dividends or sale proceeds will write down these costs sooner. Growth on investments is retained in an earmarked reserve, losses are written down by this reserve. The investment reserve comprises revenue interest and capital or revenue returns retained over and above costs incurred across the council's portfolio of debt and equity funds (interest, BCC borrowing repayments and bad debts written off). This fund has a current balance of £0.148m.</p> |
| 4.2.3 | <p>For the SEIS 3 fund, the fund manager will receive a share of the uplift in the full portfolio, but also will share any losses across the SEIS 3 portfolio. Whether this would benefit BCC or not cannot be foreseen. As with all of the council's financial instruments, there is the risk of loss.</p> |
| 4.2.4 | <p>The fund will comprise a number of private joint investors and the total fund will be invested nationally. This is the third SEIS fund managed by Ascension Ventures (AV), previously SEIS 2 invested 37% of its fund in Birmingham, SEIS 1 invested 23% in Birmingham although this predates the joint venture with BCC. All investments from these 2 funds remain under management and therefore the final performance is not yet known and whilst SEI S 1 has seen some losses, overall its net position is a gain. SEIS 3 aims to raise a minimum of £1.4m, BCC's investment will bring the total to this amount.</p> |

4.3 Legal Implications: Under the general power of competence contained in Section 1 of the Localism Act 2011, the Council has the power to enter into the arrangements as set out in this report. The BCC funds are all lent or invested at commercial rates. Under section 95 of the LGA 2003, relevant authorities have the power to engage in entrepreneurial commercial trading with private bodies and persons.

4.4 Public Sector Equality Duty: (see separate guidance note)

The funds under management are targeted at a wide range of companies that meet the individual funds aims of increasing economic growth and job creation within Birmingham or the applicable geography of the fund. An Equality Analysis was completed as part of each fund creation or accountable body approval report and none have identified any issues of concern in relation to the Equality Act 2010.

5. Relevant background/chronology of key events:

5.1 Ascension Ventures (AV) was a London based investment firm, now based in Birmingham, backing early-stage companies in the Technology & Digital Media sectors. It was established in 2012 and was the first ever Seed Enterprise Investment Scheme (SEIS). SEIS and EIS (Enterprise Investment Scheme) is an initiative created by Her Majesty's Revenue and Customs (HMRC) to provide favourable tax incentives to encourage High Net Worth Individuals (HNWIs) to invest personal funds in early stage businesses.

5.2

AV is playing a key role in attracting high quality businesses into Birmingham, whilst ensuring the current Birmingham based businesses stay in the city and have the means to grow and flourish. The investment strategy for AV enables it to maintain a national status and brand with private sector investors, which is key to AV's long-term growth and value creation (BCC has invested previously with this company and holds 40% of the equity in AV). This is important whilst continuing to highlight that AV as a nationwide brand is based and grown out of Birmingham, and increasing the reputation of Birmingham as innovators and facilitators of investments into early-stage tech businesses and ecosystems.

This report recommends the investment of up to £0.5m from the council's Creative Investment Fund into the AV SEIS 3 fund aimed at the digital media sector. If the full £1.5m fund is raised it is highly likely, based on previous performance and the rise in the digital media reputation of Birmingham that at least £0.35m - £0.56m will be invested in Birmingham but this cannot be guaranteed.

Uplift from the full SEIS portfolio will be shared across investors including BCC. It is impossible to tell whether this national portfolio approach would benefit the council, that would depend upon the relative strength of the Birmingham based companies compared to those made across the rest of the country, it does provide a risk share and reduces the risk of exposure to any one high value investment.

6. Evaluation of alternative option(s):

- 6.1 Not to invest in the SEIS Fund. BCC would lose the opportunity to share in any success of a large scale creative investment fund and potentially drive increased investment to Birmingham and the West Midlands. The council would retain its own Creative Investment Fund but may need to find alternate investment specialists through Finance Birmingham to avoid the risk of AV “cherry picking” investments located in Birmingham across their funds (an FCA good practice recommendation).

7. Reasons for Decision(s):

- 7.1 By completing this investment into the AV’s £1.5m SIES 3Fund, BCC will be continuing to support the early stage sector with the potential for meaningful returns. In addition, the fund will accelerate BCC’s objective of supporting Birmingham’s early stage businesses from an infrastructure and investment perspective.7.2 To provide a fair payment to fund managers as intended by Cabinet, but prevented through delays in company structure implementation.

Signatures

Date

Cllr Ian Ward
Deputy Leader

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Jon Warlow
Strategic Director Finance and Legal

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List of Background Documents used to compile this Report:

1. Relevant Officer's file(s) on the matter, save for confidential documents
2. 29 June 2015 Cabinet report – Finance Birmingham update and structure
3. 8 December 2014 Cabinet report – Finance Birmingham update and structure

List of Appendices accompanying this Report (if any):

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| Report Version | 1.0 | Dated | 09/06/16 |
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PROTOCOL PUBLIC SECTOR EQUALITY DUTY

- 1 The public sector equality duty drives the need for equality assessments (Initial and Full). An initial assessment should, be prepared from the outset based upon available knowledge and information.
- 2 If there is no adverse impact then that fact should be stated within the Report at section 4.4 and the initial assessment document appended to the Report duly signed and dated. A summary of the statutory duty is annexed to this Protocol and should be referred to in the standard section (4.4) of executive reports for decision and then attached in an appendix; the term 'adverse impact' refers to any decision-making by the Council which can be judged as likely to be contrary in whole or in part to the equality duty.
- 3 A full assessment should be prepared where necessary and consultation should then take place.
- 4 Consultation should address any possible adverse impact upon service users, providers and those within the scope of the report; questions need to assist to identify adverse impact which might be contrary to the equality duty and engage all such persons in a dialogue which might identify ways in which any adverse impact might be avoided or, if avoidance is not possible, reduced.
- 5 Responses to the consultation should be analysed in order to identify:
 - (a) whether there is adverse impact upon persons within the protected categories
 - (b) what is the nature of this adverse impact
 - (c) whether the adverse impact can be avoided and at what cost – and if not –
 - (d) what mitigating actions can be taken and at what cost
- 6 The impact assessment carried out at the outset will need to be amended to have due regard to the matters in (4) above.
- 7 Where there is adverse impact the final Report should contain:
 - a summary of the adverse impact and any possible mitigating actions (in section 4.4 or an appendix if necessary)
 - the full equality impact assessment (as an appendix)
 - the equality duty – see page 9 (as an appendix).

Equality Act 2010

The Executive must have due regard to the public sector equality duty when considering Council reports for decision.

The public sector equality duty is as follows:

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| 1 | <p>The Council must, in the exercise of its functions, have due regard to the need to:</p> <ul style="list-style-type: none"> (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by the Equality Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it. |
| 2 | <p>Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:</p> <ul style="list-style-type: none"> (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic; (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low. |
| 3 | <p>The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.</p> |
| 4 | <p>Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:</p> <ul style="list-style-type: none"> (a) tackle prejudice, and (b) promote understanding. |
| 5 | <p>The relevant protected characteristics are:</p> <ul style="list-style-type: none"> (a) age (b) disability (c) gender reassignment (d) pregnancy and maternity (e) race (f) religion or belief (g) sex (h) sexual orientation |