

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2864

Title: Funding London Business Plan 2021-22

Executive summary:

Funding London (the trading name of SME Wholesale Finance (London) Limited) is an arm's-length entity of the Mayor of London, established for the purpose of providing and administering venture capital and loan funds to London-based small and medium-sized enterprises (SMEs).

As part of its governance arrangements with the Greater London Authority (GLA), Funding London is required to submit an annual business plan for approval. Following approval of the 2021-22 business plan by the Funding London Board in June 2021, this Mayoral Decision seeks formal Mayoral approval for the plan.

Decision:

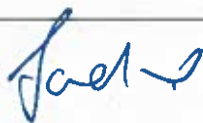
That the Mayor approves Funding London's 2021-22 business plan.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

25/11/21

PART I – NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1. Funding London is the trading name for SME Wholesale Finance (London) Limited. It was established in 2004 as an arm's-length entity by the former London Development Agency to support SME funding activities. Since it was founded, Funding London has channelled funding from the European Union and the UK through appointed fund managers to support sustainable and ambitious London small and medium-sized enterprises with loan and equity financing.
- 1.2. Funding London is a company limited by guarantee; in 2017, MD2086 approved the GLA becoming its sole company member and guarantor. As such, Funding London became a wholly owned GLA subsidiary. Pursuant to its Articles of Association, Funding London's nine directors are appointed by the Mayor, and the Mayor also directly appoints the company's Chair.
- 1.3. Funding London's Articles of Association govern the scope of its activities. Certain actions and decisions require GLA approval as 'matters requiring consent'. The consents are delineated under MD2146 into two types: 'Type 1', which are to be approved by the Mayor; and 'Type 2', which may be approved by other GLA staff under their general delegation. The business plan is approved on an annual basis as a Type 1 matter by the Mayor, after it has been reviewed and agreed by all board members. MD2676 approved Funding London's business plan for 2020-21.
- 1.4. Funding London tackles the hurdles that business founders and management teams must clear before securing growth capital. Many SMEs struggle to access the finance they need, due to the financing gap that prevails at the earlier stages of development, or the small size of the business. Funding London's resources help bridge this gap and allow sustainable growth. Returns generated from their funds are reinvested.
- 1.5. Since its inception Funding London has:
 - invested more than £79m across five equity funds and eight loan funds into 708 SMEs
 - overseen co-investment of £508m
 - created or safeguarded over 7,200 jobs.
- 1.6. Funding London has three active funds at present: the £100m Greater London Investment Fund (GLIF); the £23m London Co-investment Fund (LCIF); and the £13m MMC London Fund.
- 1.7. The COVID-19 pandemic has impacted Funding London in significant ways:
 - the delivery of its business support projects was moved online
 - reduced demand for GLIF investment limited the amounts that fund managers were able to invest during 2020. As a result, loan funds generated less interest income than budgeted, and this could potentially impact their cash position down the line.
- 1.8. The impact on the performance of its fund portfolios, however, has been limited. The majority of investee companies across all funds have demonstrated resilience and have been able to safeguard their activities.

2. Objectives and expected outcomes

- 2.1. The Funding London business plan for 2021-22 is attached at Appendix 1. GLA officers have assessed the business plan, and consider that it delivers value and meets Funding London's objectives as an organisation to promote and enable the development of a strong, sustainable and increasingly diverse economy across all parts of London.
- 2.2. The proposals outlined in the business plan are in line with the overarching vision and objectives of the Mayor's Economic Development Strategy, specifically its goals to promote growth, as well as the Recovery Missions of the London Recovery Programme, notably around helping get Londoners into good work. It also supports the Mayoral manifesto commitment to provide small businesses with support and access to finance.
- 2.3. The 2021-22 goals in relation to each of the three funds are detailed in the business plan at Appendix 1, and summarised below. In addition, there is a stand-alone scheme, the Investment Readiness Programme.

i) Greater London Investment Fund (GLIF)

- 2.4. The Greater London Investment Fund consists of three sub-funds¹ that invest loan and equity finance in SMEs operating in sectors that are important in enhancing London's competitiveness, including the circular economy. Funding London has agreed revised aggregate investment targets with the European Investment Bank². These revisions reflect the delays experienced in 2020 due to the pandemic, and the lower levels of demand that continued during the first half of 2021.
- 2.5. Funding London's work on GLIF will focus on supporting the three sub-fund managers to deliver the investment targets for 2021. Areas of focus include:
 - frequent and close contact with the fund managers to remain abreast of progress in deploying funds and addressing any new challenges encountered
 - a continuous review of market conditions (given the expected prevalence of uncertainty and disrupted market conditions during the first half of 2021 and beyond) to inform discussions with stakeholders
 - liaison with stakeholders to address issues as they arise, and ensure that contractual obligations are managed as efficiently as possible
 - the launch of initiatives to improve reach towards under-represented groups.
- 2.6. At the end of December 2020, GLIF had invested a total of £18.5m into 53 businesses. This was £12m below the expected figure, due to the challenges that the funds experienced during 2020.
- 2.7. Given the prolonged period of COVID-19 related restrictions in the UK, Funding London agreed that a further £5m could be lent from GLIF's loan funds under the government's Coronavirus Business Interruption Loan Scheme (CBILS) which provides an 80 per cent government-backed guarantee. This followed the government's decision to extend the deadline for lending under CBILS to 31 March 2021. In total, £11m of CBILS loans were approved by 31 May 2021. It was anticipated that most of the loans deployed during the first half of 2021 would be under CBILS.

ii) LCIF London Co-Investment Fund (LCIF)

¹ The three sub-funds: The FSE Group's small and large loan funds; and MMC Ventures Limited's equity fund.

² The European Investment Bank has invested £50m in GLIF and is its largest contributor. In return for its contribution GLIF is contracted to achieve agreed investment targets.

- 2.8. The London Co-Investment Fund (LCIF) is a public/private venture capital fund. It was established in 2014 using £25m of London Economic Action Partnership funding to target start-up and seed stage equity investments in high growth SMEs in the Science, Digital and Technology sectors. The fund was fully invested in 2019 and permission was granted by the LEAP for LCIF to continue to make selective follow-on investments from returns. At the latest valuation date, the LCIF portfolio was valued at £36.2m (or 1.58 times the cost). The top 20 companies by value account for 60 per cent of the book value, with the next 20 companies accounting for a further 15 per cent.
- 2.9. At this point in the portfolio's lifetime, it is likely that a large proportion of the fund's returns will be generated by these top 40 companies. However, the team will focus on supporting and adding value across all remaining 124 companies in the LCIF portfolio.
- 2.10. During 2020, Funding London explored the possibility of releasing value from LCIF (on its own or combined with the MMC London Fund portfolio) through secondary transactions and/or other alternative routes. These options have been reported, for discussion, to the Funding London board and the LCIF Investment Advisory Committee, and remain under consideration.

iii) MMC London Fund

- 2.11. This fund was launched in 2013 and is managed by MMC Ventures Limited to provide equity finance for early stage London-based businesses that seek to generate significant levels of economic growth. There remain ten companies in the MMC London Fund portfolio, representing an aggregate book value of £26.4m. An important investment in the fund is Gousto, in which Funding London's shareholding has a carrying value of £16.7m. Having achieved a partial sale of 15 per cent of the fund's shareholding at the end of 2020, it is unlikely that there will be further opportunities for this fund during 2021.
- 2.12. Funding London has agreed to extend the fund period for a further two years initially, to 30 June 2023, to allow the fund manager to realise exits. Its focus, as the sole investor in the fund, is to explore opportunities to realise further investments, and Funding London will continue discussions with the fund manager, MMC Ventures.

Investment Readiness Programme

- 2.13. Funding London's Investment Readiness Programme is a stand-alone scheme delivered on behalf of the London Business Hub³. This is an intensive programme designed to support early-stage businesses to become investor-ready and access finance. Due to the impacts of COVID-19, the programme was modified to support businesses in building resilience. The programme has a particular focus on start-ups led by disabled, female and Black, Asian and Minority Ethnic entrepreneurs.

3. Equality comments

- 3.1. Under section 149 of the Equality Act 2010, as a public authority, the Mayor of London must have 'due regard' of the need to eliminate unlawful discrimination, harassment and victimisation; to advance equality of opportunity; and to foster good relations between people who have a protected characteristic and those who do not. This duty applies to the decisions that are the subject of this form.
- 3.2. The GLA as a public authority must comply with the Public Sector Equality Duty set out in section 149 (1) Equality Act 2010. This provides that, in the exercise of their functions, public authorities must have due regard to the need to:

³ The London Business Hub is one of the 38 LEP-led 'Growth Hubs' across England. It brings together information related to business support in one location, and provides free support and programmes to London-based SMEs.

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 3.3. The obligation in section 149(1) is placed upon the Mayor, as decision-maker. Due regard must be given at the time a decision is being considered. The duty is non-delegable and must be exercised with an open mind.
- 3.4. As GLIF is backed by the European Regional Development Fund, this duty applies to GLA's continued role as an Intermediate Body⁴. This means that the GLA must meet the requirements of the 'Operational Programme' document in respect of ERDF (which set out the EU and government's requirements for ERDF across England). This includes considering the needs of all individuals, and have due regard of the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people. GLIF activities focus on businesses rather than directly on people. However, the ERDF funding requires that Funding London, GLIF and its sub-fund managers to take steps to: prevent discrimination based on racial or ethnic origin, religion or belief, disability, age or sexual orientation, during the development and implementation of the funds; and advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. From 2021, 20 per cent (£20m) of the £100m GLIF fund is being targeted at under-represented groups as these groups face barriers for accessing finance.
- 3.5. An LCIF portfolio analysis in late 2019 identified that 22 per cent of LCIF-backed companies were founded by females, and 20 per cent of founders were from a Black, Asian or Minority Ethnic background. Funding London recognise the importance of furthering the inclusivity agenda. It agrees that the fund and its partners should continue to demonstrate improving levels of engagement with founders who are women, Black, Asian and Minority Ethnic, and disabled, by working with organisations that specifically engage with disadvantaged groups.

4. Other considerations

- 4.1. The proposals outlined in the business plan are in line with the overarching vision and objectives in the Mayor's Economic Development Strategy, specifically on its goals to promote business growth, as well as with relevant missions in the London Recovery Programme. The proposals are also aligned to the Mayoral manifesto commitment to provide support to London's businesses. The business plan is aligned with the London Economic Action Partnership's core objective of supporting enterprise and entrepreneurship in London.
- 4.2. The GLA's Head of Enterprise is a non-executive director on the Funding London board. However, this officer has not been involved in the drafting or clearance of this report. No officers involved in the drafting or clearance of the report have any actual or perceived conflicts of interest.
- 4.3. Delivery risks have been considered as part of the plan alongside mitigation measures.

⁴ GLIF was developed as a result of the Greater London Authority (GLA) being designated an 'Intermediate Body' in 2015, by what was then known as the Department for Communities and Local Government. This designation allowed the GLA to manage London's allocation of the England-wide European Regional Development Fund (ERDF). From this allocation, £35m ERDF was ring-fenced to establish GLIF.

5. Financial comments

- 5.1. Funding London, formally known as SME Wholesale Finance (London) Limited, became a subsidiary company of the GLA in 2017. Therefore, any actions by the entity must go through the Authority's decision-making process. As such, approval is being sought for Funding London's 2020-21 business plan.
- 5.2. Funding London was acquired with the intention of the entity becoming self-sufficient through the interest charged on loans and fees. The Authority has helped fill the funding gap in the early years of GLIF by committing £4.5m to expenses (MD2237 and MD2367) with a view that this will be repaid from future returns generated from investments.
- 5.3. A guarantee of £7.2m has been issued by the GLA, to cover any European Investment Bank loan interest and costs for GLIF, should the fund perform poorly. If this guarantee is called upon, any costs would be funded from returns to the GLA from the London Green Fund⁵, of which £7.2m has been approved via MD2408.

6. Legal comments

- 6.1. The foregoing sections of this report indicate that the decisions requested of the Mayor fall within the GLA's statutory powers under section 30 of the Greater London Authority Act 1999 (GLAA) to do such things considered to further the promotion of economic development and wealth creation in Greater London.
- 6.2. Section 34 of the GLAA also provides that the GLA may do anything that is calculated to facilitate, or is conducive or incidental to, the exercise of any functions of the GLA. In formulating the proposals in respect of which a decision is sought, officers have complied with the Authority's related statutory duties under the GLAA to:
 - pay due regard to the principle that there should be equality of opportunity for all people
 - consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom
 - consider whether consultation is appropriate.
- 6.3. In taking the decisions requested, the Mayor must have due regard to the Public Sector Equality Duty, namely the need to: eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010; and advance equality of opportunity and foster good relations between persons who share a relevant protected characteristic (race, disability, gender, age, sex, sexual orientation, religion or belief, pregnancy and maternity, and gender reassignment) and persons who do not share it (section 149 of the Equality Act 2010). To this end, the Mayor should have particular regard to section 3 (above) of this report.
- 6.4. If the Mayor is minded to make the decisions in respect of which approval is sought officers must ensure that they continue to manage the GLA's relationship with Funding London in accordance with the agreements in place between them.

⁵ The London Green Fund is an umbrella £110m fund which covers three sub-funds: waste-management, decentralised energy, energy-efficiency schemes. It launched in 2009 and provided loan and equity finance. The funds are still active today.

Appendices and supporting papers:
Appendix 1: Funding London Business Plan 2021-22

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

Part 1 – Deferral

Is the publication of Part 1 of this approval to be deferred? NO

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under the FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Binal Cadieu has drafted this report in accordance with GLA procedures and confirms the following: ✓

Sponsoring Director:

Phil Graham has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities. ✓

Mayoral Adviser:

Rajesh Agrawal has been consulted about the proposal and agrees the recommendations. ✓

Advice:

The Finance and Legal teams have commented on this proposal. ✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 1 November 2021. ✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature 

Date 02/11/21

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor.

Signature 

Date 21/11/21