

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD3208

Title: GLIF - Replacement of ReLondon and European Investment Bank loan

Executive Summary:

SME Wholesale Finance (London) Limited (SMEWFL, a GLA subsidiary trading as Funding London) was awarded £35m by the GLA to combine with a £50m loan from the European Investment Bank (EIB) and £29.7m from other sources, including the London Waste and Recycling Board (also known as ReLondon), to establish an investment fund providing finance for small and medium-sized enterprises (SMEs). The fund is delivered through GLIF Limited (GLIF), established and wholly owned by Funding London.

During closer working between the GLA's investment subsidiaries, officers identified an opportunity to improve net investment returns through the early repayment of the EIB loan. The EIB loan, which attracts a high interest rate, could be replaced with a similar loan facility (to be financed by the GLA and/or the London Treasury Liquidity Fund (LTLF), the GLA Group's collective investment partnership), priced to reflect current market conditions. The making of such loans is subject to existing delegations, however, under their Articles of Association and related decisions, GLIF and Funding London require Mayoral approval for any new borrowing over £150,000.

ReLondon's contribution to GLIF was in the form of a repayable grant with repayments forecasted to be made in early 2029. As ReLondon's policy objective for GLIF has been met, recently ReLondon has been exploring options to realise returns sooner to continue supporting their aims. To that end, it is proposed that the GLA acquires ReLondon's entire interests in GLIF's investment funds for a consideration of £5.6m.

Decision:

That the Mayor:


1. Grants approval to SME Wholesale Finance (London) Limited (SMEWFL) and GLIF Limited (GLIF) to enter into contracts to borrow such sums from the GLA, the London Treasury Liquidity Fund (LTLF) and/or each other to refinance an existing £50m loan from the European Investment Bank (EIB) to GLIF in relation to the finance of small and medium-sized enterprises (SMEs).
2. Approves the acquisition by the GLA of the London Waste and Recycling Board's (LWARB) entire interests in GLIF's investment funds for a consideration of £5.6m.
3. Authorises the Chief Investment Officer to do all such things (including the finalisation, approval and execution of any documents or agreements) they consider necessary or desirable to give effect to the above.

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:

12/12/23

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

Decision required – supporting report

1. Introduction and background

- 1.1 Through MD2086 and MD2367 approvals were given to award £35m from London's European Regional Development Fund (ERDF) allocation to SME Wholesale Finance London Limited (SMEWFL, a GLA subsidiary trading as Funding London) to set up the Greater London Investment Fund that provides debt and equity finance for London's small and medium-sized enterprises (SMEs). The £35m ERDF allocation was combined with a £50m loan from the European Investment Bank (EIB); £7m repayable grant from the London Waste and Recycling Board (now known as ReLondon); and £11m of returns from previous funds managed by Funding London. The GLA also committed up to £11.7m for costs and fees.
- 1.2 As outlined in MD2367, the Greater London Investment Fund was to be established using a 'fund of funds' model. In this model, the commitments from the different sources are placed in a single legal entity (i.e. fund of funds) before being allocated to the three newly created sub-funds (one equity and two loan funds). Funding London was granted approval, via MD2237, to establish a company limited by guarantee, GLIF Limited (GLIF), which currently operates solely as the fund of funds.
- 1.3 The total amount for investment in SMEs from GLIF was set at £100m, with £45m allocated to the equity sub-fund (which included £14m ring-fenced for investing in businesses in the circular economy) and £27.5m to each of the loan sub-funds. As of 30 September 2023, GLIF has invested £79.2m, alongside £415.2m from private sector investors, into 153 businesses, leading to the creation of 2,494 jobs. Of the amount invested, 46.6 per cent was in businesses managed by underrepresented founders.
- 1.4 The EIB loan facility was provided under their UK SME Financial Instruments Programme. The agreement for this facility was concluded in January 2019, following approval through MD2408. The agreement includes a comprehensive set of undertakings and warranties to protect EIB, including a 'first charge' over all GLIF's assets. The agreement also provides for the possibility of early repayment; however, a small fee (of under £10k) may be payable.
- 1.5 During closer working between the GLA's investment subsidiaries, the Group Treasury unit has identified an opportunity to improve the net investment returns of GLIF by facilitating the early repayment of the EIB loan, which is subject to an interest rate which is high in relation to current market conditions and exceeds the GLA's general cost of capital. The EIB facility and existing loan would be replaced by a similar facility and loan (at prevailing commercial rates) from the GLA and/or the London Treasury Liquidity Fund (LTLF), the GLA Group's collective investment partnership. However, GLIF and Funding London require Mayoral approval for any new borrowing over £150,000, as stipulated in their Articles of Association and related decisions.
- 1.6 The contribution from ReLondon was allocated to GLIF's equity sub-fund to support investment in circular economy businesses, which is an important policy objective for ReLondon. ReLondon's contribution was not allocated to the loan sub-funds as their scope was wider than ReLondon's remit.
- 1.7 As mentioned in paragraph 1.4, EIB has the first call on GLIF's assets, which means they will be repaid, from returns generated from all three sub-funds, ahead of other contributors to GLIF, including ReLondon. This would continue until early 2029 when the EIB loan would be expected to be fully repaid. Given the possible length of time before any repayments would materialise, ReLondon started to explore options for realising repayments sooner, to continue the delivery of their various activities and programmes.
- 1.8 During the establishment of GLIF, ReLondon expressed concerns that their contribution could end up subsidising the loan sub-funds in the event that equity sub-fund investments succeeded but the loan sub-funds performed poorly. In such a case, returns from the equity sub-fund would be used firstly to

repay EIB and ReLondon would be at risk of not recouping any of their contribution to the equity sub-fund. To mitigate this risk to ReLondon, approval was granted in MD2408 to set aside up to £5.6m (representing their £7m commitment less their contribution to costs and fees) to cover the returns that would have been due to them.

- 1.9 In MD2408, it was also agreed that the £5.6m amount would come from returns generated by the London Green Fund (LGF). As cash from LGF realisations is currently available and is being set aside until potentially 2029, it is proposed that this is immediately transferred to ReLondon, in exchange for GLA acquiring their interests in GLIF's investment funds.
- 1.10 Repaying EIB and acquiring ReLondon's interests in GLIF's investment funds will leave the GLA as sole ultimate beneficial owner of GLIF.

2. Objectives and expected outcomes

EIB loan facility replacement

- 2.1 To improve the overall net investment position of GLIF and thus the GLA as the ultimate beneficiary, it is proposed that the EIB loan facility is replaced with a similar facility, but with an interest rate reflecting that GLIF has been operating for four years and now has a more mature portfolio. As mentioned above, the financing for the new loan would come from the GLA and/or LTLF.
- 2.2 The new loan facility would be provided on similar terms to EIB's except that the margin would be lower, commensurate with the reduced risk of an established fund compared with a start-up. By 31 December 2023, GLIF will have drawn down a total of £40.35m from EIB, with the outstanding balance remaining of £21.94m. With the remaining commitment of £9.65m, the maximum borrowing from the GLA and/or LTLF would be £31.59m.
- 2.3 As noted in paragraph 1.5, Mayoral approval is required for any new borrowing over £150,000 by Funding London and GLIF. This decision will provide the relevant authority to Funding London and GLIF to conclude a new loan agreement with the GLA and/or LTLF. The GLA's Chief Investment Officer has already appropriate delegation (as per MD3128), with the agreement of the GLA's Chief Finance Officer, to invest GLA funds for this purpose. LTLF has independent governance (reflecting the interests of its other investors) for the allocation of its funds.
- 2.4 This course of action would see the GLA and/or LTLF (in which the GLA is invested) benefit from the interest received that would otherwise go to an external party, with the net saving (difference between loan interest and interest on cash to be deployed) estimated to be 2 per cent of the outstanding loan balance per annum (approximately £440k per annum). Moreover, since the EIB interest charge is significantly higher than the original amount GLIF budgeted for such costs, it is inevitable that a proportion of the GLA revenue cost of £7.2m set aside for extra interest costs and fees (as approved by MD2408) would need to be drawn. This proposal will offset that impact, and any unused amount from the £7.2m could be used for other purposes.
- 2.5 The GLA and/or LTLF would assume the same benefit as EIB of having first call on all returns. The early repayment of the EIB facility and this new borrowing will lower the interest rate GLIF is liable for, allowing for higher financial returns that can be used to support the next generation of high growth businesses.

Commitment of £5.6m to ReLondon

- 2.6 As mentioned above, the current loan arrangement gives EIB first call on GLIF's returns and as a result any repayments to the other contributors to GLIF, including ReLondon, would not be available until about early 2029, when the loan is currently expected to be fully repaid. Given that ReLondon's policy objective of investing in businesses in the circular economy has been met, recently they have been exploring options for realising some of GLIF's returns much sooner, to continue supporting their critical activities and programmes.

- 2.7 To facilitate this, it is proposed that the £5.6m set aside to pay ReLondon, if they are unable to get returns from the GLIF's equity sub-fund due to the poor performance of the GLIF's loan sub-funds, should be made available to them straightaway. However, ReLondon would assign its interests in GLIF's investment funds, and specifically its interest in the equity sub-fund, to the GLA. This would result in the GLA being entitled to any future returns from the equity sub-fund that would have been paid to ReLondon. The GLA would not need to make any further contribution to GLIF for such purposes, as the £7m originally committed by ReLondon has been paid in full.
- 2.8 This proposal has been agreed, in principle, by ReLondon's Board and for this to take effect, the agreements that ReLondon has with GLIF will need to be novated to the GLA. Assuming Mayoral approval is granted, the relevant documentation will be concluded by the Chief Investment Officer with advice from TfL Legal.
- 2.9 The £5.6m amount is a contingent amount that was set aside from returns already generated from the LGF. As such, this would have remained unused until early 2029 or such time as it could be demonstrated that it was no longer needed. Therefore, making the funding available to ReLondon allows it to be utilised immediately for delivering programmes and activities that are important in meeting Mayoral priorities.
- 2.10 The GLIF's share of the equity sub-fund is progressing well and, at 30th September 2023, it had a valuation of £99.2m, which is more than twice the amount allocated to it. Assuming the equity sub-fund continues to perform well, it should more than cover the repayment of the £5.6m amount and potentially generate additional returns for the GLA.

3. Equality comments

- 3.1 Under section 149 of the Equality Act 2010, as a public authority, the GLA is subject to the public sector equality duty and must have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation
 - advance equality of opportunity between people who share a relevant protected characteristic and those who do not
 - foster good relations between people who share a relevant protected characteristic and those who do not.
- 3.2 Protected characteristics under section 4 of the Equality Act are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sex orientation, and marriage or civil partnership status (all except the last being "relevant" protected characteristics).
- 3.3 The activities of GLIF will focus on businesses rather than directly on people. However, the ERDF funding agreement requires Funding London, GLIF and the sub-fund managers to take steps to both 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.
- 3.4 The current ERDF funding agreement also included a requirement for Funding London to produce a detailed action plan, in consultation with the GLA, to raise awareness and increase take up of GLIF's investments from businesses run by people from underrepresented and/or protected groups. As mentioned in paragraph 1.3 over 46.6 per cent of GLIF's investment is in businesses managed by underrepresented founders.
- 3.5 These requirements will be unchanged by the approval and implementation of this decision, which therefore will have no negative impacts on any group with a protected characteristic.

4. Other considerations

Key risks and issues

- 4.1 GLIF is a wholly owned subsidiary of Funding London, which is itself a subsidiary of the GLA. As such, the GLA is closely associated with GLIF and its activities. To manage any reputational risks of this association, relevant provisions to allow the GLA to have proper oversight were included in the Articles of Association of GLIF and related decisions. This was supplemented by the contractual controls in the ERDF and GLA agreements. Additionally, Funding London and GLIF are administered by staff of London Treasury Limited (LTL, another GLA subsidiary), which is managed by the GLA's Chief Investment Officer.
- 4.2 The repayment of the EIB loan would place some additional risk onto the GLA balance sheet, in the sense that the GLA would bear all the losses that would be incurred if GLIF returns are realised for less than 50 per cent of cost; however, in any scenario where the realised amount is more than 50 per cent of cost, the GLA would benefit from the interest saved. At 30th September 2023, GLIF's investments were valued at £128.5m (205 per cent of cost) so are substantially covering the outstanding loan balance. Moreover, a significant proportion of the GLIF's underlying loan portfolio is covered by a UK Government guarantee, which will provide additional assurance.
- 4.3 The current value of the GLIF's investments and the UK Government guarantee for the loan sub-funds as noted above should minimise the likelihood of returns not being paid from the equity sub-fund as envisaged in paragraph 1.8. This should therefore enable some repayment against the interests assumed from ReLondon.

Links to Mayoral strategies and priorities

- 4.4 The approval of this Mayoral Decision will enable GLIF to continue addressing the SME finance gap in London. As such, it is in line with the overarching vision and objectives outlined in the Mayor's Economic Development Strategy (EDS), particularly supporting enterprises and strengthening entrepreneurship. It will continue to focus on the key sectors that are important for London's growth and development.
- 4.5 GLIF will also support the Mayor's ambition of London becoming a net zero-carbon city by 2030 by providing early stage finance to circular economy businesses, which can drive reduction in emissions by transforming how we make, use and dispose of goods.
- 4.6 Allowing ReLondon to realise its interests in GLIF's investment funds ahead of schedule will allow it to enhance its critical support to London boroughs, the GLA and London Councils in the reduction of waste, increased recycling and implementation of circular economy approaches that tackle consumption-based emissions.
- 4.7 There are no conflicts of interest to note for any of the officers involved in the drafting or clearance of this decision form.

5 Financial comments

- 5.1 Approval is being sought to allow Funding London and GLIF to enter into a new loan agreement(s) to refinance an existing GLIF loan with EIB, without taking on additional borrowing (over and above the existing EIB loan commitment). This aspect of the decision does not require any funding commitments or expenditure from the GLA.
- 5.2 Also, approval is requested for a payment by the GLA of £5.6m to ReLondon to support its work to improve waste and resource management and to transform the city into a low-carbon circular economy. In exchange, the GLA will take over ReLondon's interests in GLIF's investment funds. This payment will come from GLA cash balances linked to investments returned from the LGF (specifically

returns associated with ERDF monies, which are ringfenced for reinvestment); there is no direct budgetary impact for the GLA in relation to the payment.

- 5.3 The principal financial benefits and costs are discussed in the expected outcomes section above. Looking at the GLA and its subsidiaries as a whole, the significant net saving arising from the difference in interest payable to EIB versus interest receivable on general cash balances make a compelling case for the proposals. There is a negative impact on liquidity, arising from switching short term cash investments to the longer term (and uncertain) maturity profile of GLIF but this is immaterial given the GLA's overall cash position and is consistent with the parameters laid out in the GLA's Treasury Management Strategy Statement.
- 5.4 Removing the EIB loan does increase the maximum potential loss for the GLA were GLIF's portfolio to be substantively written off, but at its current stage of maturity and taking into account the underlying UK Government guarantee, this seems extremely remote.
- 5.5 While acquiring ReLondon's interests increases the GLA's direct exposure to GLIF's investment funds, it makes no difference to downside risk, due to the commitments made in MD2408; conversely the proposed action will increase the GLA's share of any positive returns from the equity sub-fund.

6 Legal comments

- 6.1 The decisions requested of the Mayor concern the GLA's principal purposes, under section 30 of the Greater London Authority Act 1999. These are to promote economic development and wealth creation, promote social development, and the improvement of the environment, all in Greater London. The GLA has the power to do anything which it considers will further any one of more of its principal purposes. Under section 34 (1) the GLA may do anything it considers will facilitate or is conducive or incidental to the exercise of the section 30 principal purposes. The GLA entering into contracts with SMEWFL and GLIF to refinance the EIB loan and the GLA acquiring ReLondon's interests in GLIF's investment funds fall within these principal purposes. The GLA has powers to invest for the purposes of its functions and/or the prudential management of its financial affairs pursuant to section 12 of the Local Government Act 2003.
- 6.2 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 to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and persons who share a relevant protected characteristic 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.
- 6.3 Officers must ensure that legal advice is sought so that appropriate documentation is put in place between the GLA and ReLondon before the GLA acquires ReLondon's interests in GLIF's investment funds. Likewise, officers must ensure that legal advice is sought so that appropriate documentation is put in place between the GLA (and/or LTLF) and SMEWFL and/or GLIF to effect the new loan arrangements, which will facilitate the early repayment of the EIB loan. The terms of the loan arrangement between the GLA and SMEWFL (and/or LTLF) and SMEWFL and/or GLIF and acquisition of ReLondon's interests in GLIF's investment funds must be designed to ensure they are compliant with subsidy control principles.

7 Planned delivery approach and next steps

Activity	Timeline
GLA and/or LTLF approval for the new loan facility to replace the EIB loan	December 2023
New loan agreement concluded, and EIB loan repaid	January-February 2024

ReLondon agreements with GLIF novated to the GLA	January-February 2024
Commitment of £5.6m paid to ReLondon	By March 2024

Appendices and supporting papers:

None.

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 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:

Kenroy Quellenec-Reid has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

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

✓

Mayoral Adviser:

David Bellamy 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 11 December 2023.

✓

INTERIM CHIEF FINANCE OFFICER:

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

Signature:



Date:

11/12/2023

CHIEF OF STAFF:

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

Signature:



Date:

11/12/2023