

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2408

Title: Greater London Investment Fund – approval of EIB loan & financial guarantee.

Executive Summary:

SME Wholesale Finance London Limited (a GLA subsidiary trading as Funding London) was awarded £35 million from the European Regional Development Fund to combine with a £50 million loan from the European Investment Bank (EIB) and £22.5m from other sources including London Waste and Recycling Board (LWARB), to establish an investment fund. The fund will be delivered through, GLIF Limited (GLIF), set up (and wholly owned) by Funding London (as approved by MD2237). GLIF Articles of Association require it to seek the GLA's agreement to enter into a contract with EIB for any borrowing.

This MD also seeks an increase in the financial guarantee that the GLA will provide to Funding London, as originally approved in MD2367 to meet a condition attached to EIB's approval of the loan to GLIF. Additionally, a grant is also being sought from the GLA by LWARB in the unlikely event that returns attributable to LWARB's repayable grant are used entirely to repay EIB's loan.

Decision: It is requested that the Mayor approves that:

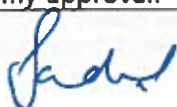
1. GLIF Limited (GLIF) enters into a finance contract and associated documentation with the European Investment Bank (EIB) for a loan of £50 million in relation to the provision of loan and equity finance for SMEs;
2. GLIF to become a limited partner in the three product sub-funds (one equity and two loan funds) which will be established as limited partnerships by GLIF's fund managers as detailed in MD2237;
3. The GLA will increase the GLA's financial guarantee to SME Wholesale Finance London Limited, as originally approved in MD2367, of GLIF's management costs (including EIB interest repayments, monitoring and commitment fees) and fees (if the initial amounts set aside by GLIF for this purpose have been used) from £1.2m to £7.2m and the authorisation for the Executive Director of Resources to provide such financial guarantee;
4. Repayments from the GLIF Fund to the London Waste and Recycling Board (LWARB) of up to £5.6 million, can be made before any GLIF Fund repayments are made to the GLA (including for ERDF and £4.5million allocated to GLIF);
5. In the event that insufficient returns from the GLIF fund are available to repay LWARB and notwithstanding the priority of repayments noted in paragraph 3 above, the GLA will provide grant funding of up to £5.6 million to LWARB; and
6. Funding for the amounts outlined in paragraph 3, 4 and 5 above will be provided from returns to the GLA associated with its original European Regional Development Fund investments in the London Green Fund.

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:

22/1/17

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

Decision required – supporting report

1. Introduction and background

- 1.1 The Greater London Authority (GLA) was designated as an Intermediate Body (IB), by the Ministry of Housing, Communities and Local Government (MHCLG), to manage London's allocation¹ from the 2014-20 European Regional Development Fund (ERDF) England Operational Programme (OP). This role was approved in MD1583.
- 1.2 MD2086 and MD2367 approved the award of £35 million from London's ERDF allocation to SME Wholesale Finance London Limited (trading as "Funding London") (a GLA subsidiary) to set up a fund (Greater London Investment Fund (GLIF)) to provide repayable finance for London's small and medium-sized enterprises (SMEs). The £35 million ERDF will be combined with £50 million from the European Investment Bank (EIB); £7 million from London Waste and Recycling Board (LWARB); £11 million of returns from previous funds managed by Funding London; and £4.5 million from the GLA.
- 1.3 As set out in MD2367, GLIF is being established using the 'fund of funds' model. In this model, the funding from 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) – see the diagram in Appendix 1. Funding London was granted approval, via MD2237, to establish a company limited by guarantee, GLIF Limited, that will operate solely as the fund of funds.

Agreement to conclude finance contract with EIB

- 1.4 The Articles of Association (AoA) for GLIF were approved through DD2251. The AoA requires GLIF to seek agreement from the GLA, via Mayoral approval, for any borrowing over the value of £150,000. As set out in previous mayoral decision documents, the loan funding from EIB is integral for GLIF and provides the match funding required by ERDF rules.
- 1.5 Following approval from EIB's management committee in October 2018, EIB issued a draft finance contract in late December 2018 for the £50 million loan. The EIB have advised that the terms and conditions of the loan are similar to those concluded with other entities that have set up similar investment funds using EIB loan finance within the last two years. The finance contract will include conditions to ensure that EIB's position is protected in the event of liquidation of GLIF before their loan is repaid. The finance contract proposes that this is done through associated documentation, which is likely to be either a trust being established in favour of EIB or some other form of security document. This may create a right to EIB, to GLIF's financial assets. This is being reviewed by GLIF's legal advisors and any issues raised by GLIF, GLA and Funding London will be dealt with before any such documentation is concluded.
- 1.6 Under the contract, a £50m loan will be provided directly to GLIF, in tranches to be agreed by both parties. This will be for the sole purpose of providing loan and equity finance (via the three sub-funds mentioned in paragraph 1.3) to London's SMEs, focusing on key sectors set out in the Mayor's Economic Development Strategy. The sub-funds will be managed by professional fund managers that have been procured by Funding London.

¹ London was allocated approximately €204 million from the 2014-20 European Regional Development Fund (ERDF) England Operational Programme for England. ERDF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions.

- 1.7 The EIB contract will cover the full ten-year period of GLIF, and repayment of the loan will be made from returns generated by the sub-funds. As a senior lender to GLIF, EIB will be repaid ahead of other contributors (as per paragraph 1.2).
- 1.8 The contract will be governed by Irish Law and be between EIB and GLIF; GLA will not be party to it. The contract is being reviewed by GLIF's legal advisors and the main issues raised by GLIF, GLA and Funding London are being dealt with. The contract will be discussed by GLIF's Board on 16th January 2019 and it is expected that they will approve it, subject to this MD.

Limited Partner - GLIF

- 1.9 In MD2237, it was noted that GLIF would be the entity that contracts directly with the sub-funds, once they are selected under the 'fund of fund' model as described at paragraph 1.3 above. The sub-funds will be established in the form of limited partnerships by the fund managers as is typical for such funds. GLIF will therefore need to become a limited partner in each sub-fund. GLIF's AoA require approval for GLIF to become a limited partner in any venture and this is being sought through this MD.

GLA guarantee for management costs and fees

- 1.10 MD2367 agreed that GLA will provide a financial guarantee to Funding London for GLIF's management costs and fees (including EIB's interest repayments, monitoring and commitment fees as referred to in Appendix 2 of MD2367), if needed, if the initial amounts set aside for this purpose were used in full. The guarantee came about because the EIB asked for GLIF's funding model to be amended with more conservative figures than forecast in GLIF's business plan as further described in paragraph 1.8 of MD 2367. GLIF's funding model was developed on the basis that management costs and fees would be paid mainly using interest returns generated by investments from the sub-funds. The changes to the model required by EIB meant that lower returns are now forecast, resulting in a forecast shortfall in the interest repayments to cover management costs and fees.
- 1.11 While the additional funding agreed by the GLA would reduce the potential forecast shortfall considerably, it did not eliminate the risk entirely as envisaged in the revised model. To this end GLA agreed, in MD2367 to a guarantee of up to £1.2 million to cover any further shortfall, during latter years of the ten-year period, if the sub-funds perform as poorly as envisaged by the worst-case scenario model. However, as part of EIB's management committee's consideration, their approval of the £50 million is conditional on the GLA's guarantee increasing to £7.2 million. This is because of the increased risk that they have attached to the fund due to potential macro-economic conditions.
- 1.12 While this is considerably more than the £1.2m originally approved in MD2367, we still do not believe this will be required as the sub-fund managers are required to operate on the basis of the figures that were included in their bids, which are closer to GLIF's original business plan. However, in the event that funding was actually needed, it would be found from returns associated with the GLA's original investment in the London Green Fund (LGF). We have started to receive returns from the LGF's successful investments and expect to receive over £35 million in coming years. If the guarantee is used, GLA will, if possible, seek to recoup the monies from Funding London, on commercial terms to be agreed at the time as such guarantee is called upon.
- 1.13 The EIB have confirmed since MD2367 that the EIB does not need to be an addressee of the financial guarantee, but require as a condition precedent to the EIB loan, a certified copy of the guarantee that the GLA provides to SMEWFL.

GLA grant for LWARB

- 1.14 The London Waste and Recycling Board (LWARB) contribution, which is a repayable grant to GLIF, will only be allocated to the equity sub-fund, which will have £14 million ring-fenced for investments

in circular-economy businesses; an important policy area for LWARB. LWARB's funding will not be allocated to the loan funds, as their scope is wider than LWARB's remit.

- 1.15 As mentioned in paragraph 1.7, repayment to EIB will be made before repayment to other contributors to GLIF. As EIB's repayments will be made from returns generated from all three sub-funds, LWARB has raised concerns that their contribution could end up cross-subsidising the loan sub-funds in the event that equity sub-fund investments succeeded, and loan sub-funds did not. In such a case, returns from the equity sub-fund would be used to repay EIB first; and LWARB would be at risk of not recouping their contribution in full.
- 1.16 However, it should be noted that this scenario could only occur if returns of both sub-loan funds were less than half their combined allocation of £55 million; with the equity sub-fund simultaneously returning amounts greater than £22.5 million. This is theoretically possible, but historic performance of Funding London's equity and loan funds suggests it is very unlikely.
- 1.17 Notwithstanding this, LWARB has asked that GLA mitigate this risk by providing a grant to cover the returns that would be due to them, up to a value of £5.6 million (representing their £7 million allocation less their contribution to costs and fees). As per paragraph 1.11, were this grant needed, it could be funded by from returns associated with ERDF contribution to the LGF.
- 1.18 It should be noted that GLIF will repay LWARB ahead of repaying the other contributors, namely Funding London and GLA (including for ERDF) if there is sufficient money to repay LWARB.

2. Objectives and expected outcomes

- 2.1 The adoption of the decisions above will enable GLIF to help drive economic growth and job creation in London. The overarching aim of GLIF is to provide finance for innovative SMEs to allow them to scale-up, achieve their growth ambitions and long-term sustainability. Through the sub-funds, GLIF will provide equity and loan finance to SMEs operating in sectors that are important in enhancing London's competitiveness, including the emerging circular economy. GLIF will provide finance to at least 220 SMEs, which should lead to the creation of approximately 3,400 new jobs in London.
- 2.2 A low carbon circular economy is one in which as much value as possible is extracted from resources, through their use and reuse. The Mayor's Environment Strategy highlighted the development of a low carbon circular economy as one of the strategic approaches to make the most of environmental opportunities now and in the future. GLIF will help to boost the circular economy by making at least £14 million available for businesses in this sector.
- 2.3 The investments from GLIF will be repayable and so, in addition to supporting economic growth and job creation, the fund will generate a financial return that can be reused to support the next generation of high growth businesses.

3. Equality comments

- 3.1 The principles and commitment outlined in the equality comments section in MD2237 and DD 2251 are still relevant for this MD. Specifically, GLIF and the organisations procured to manage the sub-funds will be required to promote equality in accordance with European Union and national requirements in targeting investments to businesses.
- 3.2 The GLA as a public authority must comply with the Public Sector Equality Duty set out in section 149 (1) of the Equality Act 2010. This provides that, in the exercise of their functions, public authorities must have due regard to the need to:

- 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; and
- 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 This duty applies to GLA's role as an ERDF Intermediate Body and means that delivery of the OP must consider the needs of all individuals and have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people. The activities of GLIF will focus on businesses rather than directly on people. However, the ERDF funding agreement require 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 not².
- 3.5 The current ERDF funding agreement also includes 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.

4. Other considerations

a) Key Risks and Issues

- 4.1 As this MD will enable the implementation of the decisions in MD2237 the risk and issues highlighted therein are almost the same. In summary, these are:

a) Uncertainty about timing and value of returns: GLIF will operate on the basis that management costs and fees will largely be financed from interest repayments but as the timings and values of these repayments are uncertain at this stage, there is a risk that the fees gap may be larger. This may result in Funding London approaching the GLA for further support to smoothen its cash flow and/or increase the guarantee.

To help mitigate this, GLA officers will work with Funding London to ensure that the fund managers deliver the proposals that were included in their bids. EIB will also take a more active monitoring role by being an observer on the advisory committee of the sub-funds.

b) Reputation: GLIF will be a wholly-owned subsidiary of Funding London, which is itself a subsidiary of the GLA. As such, the GLA will be closely associated with GLIF and its activities. To manage any reputational risks of this association, relevant provisions to allow GLA to have proper oversight has been include in the Articles of Association for GLIF Limited. This has been supplemented by the contractual controls in the ERDF agreement.

² Protected characteristics under the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status (the duty in respect of this last characteristic is to eliminate unlawful discrimination only). This may involve, in particular, removing or minimising any disadvantage suffered by those who share a relevant protected characteristic, taking steps to meet the needs of such people; and encouraging them to participate in public life, or in any other activity where their participation is disproportionately low, including tackling prejudice and promoting understanding. In certain circumstances compliance with the Act may involve treating people with a protected characteristic more favourably than those without the characteristic.

c) Financial Consolidation: Funding London is a wholly-owned subsidiary of GLA, and its accounts and those of GLIF Limited will be consolidated within GLA's accounts. This means any debt, either existing or new will be included on the GLA's balance sheet; and the GLA will need to assess any financial risk if and when they arise.

- 4.2 Funding London is now a 'Regulated Company' of the GLA under the Local Authorities (Companies) Order 1995 and so is GLIF Limited, as its wholly owned subsidiary. As such, it will be subject to legislative requirements, such as application of the Freedom of Information Act 2000, access to the GLA's auditors and identification of the GLA as the controlling authority on its business communications.
- 4.3 The UK Government has confirmed it will continue to implement EU funded programmes beyond Brexit for their full term, until December 2023, even in the event of 'no-deal' with the EU. As such, ERDF or a replacement will still be available after the UK's expected departure from the EU.

b) Links to Mayoral Strategies

- 4.4 The approval of the decisions in this MD will enable GLIF to help to address 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). It will also help to achieve the Mayor's ambition of London becoming a zero-carbon city by 2050, as set out in the Environment Strategy, by providing early stage finance to circular economy businesses.

c) Impact assessments and consultations

- 4.5 EU regulations require that 'ex ante' assessments are carried out in respect of ERDF-backed investment funds to demonstrate market failures and funding needs. Initial work was carried out by Regeneris Consulting Ltd, in conjunction with EIB, and further work was done by PwC on circular economy businesses. The 'ex ante' assessments also included a review of current finance provisions and detailed consultation with key stakeholders and market players.

5. Financial comments

- 5.1 MD2237 approved the establishment of Greater London Investment Fund Limited (GLIF Ltd) which is a wholly owned subsidiary of SME Wholesale Finance London Limited (trading as "Funding London") to operate solely as a funds of funds.
- 5.2 MD2367 noted and approved details of the GLIF Funds of Funds model which consists of £35m from London's ERDF allocation to SME Wholesale Finance London Limited, £50m from the European Investment Bank (EIB), £7m from London Waste and Recycling Board (LWARB); £11m of returns from previous funds managed by Funding London; and £4.5m funding from the returns to the GLA associated with the original 2007-2013 ERDF allocation funds.
- 5.3 MD2367 noted the possibility to draw down (to cover any management cost and fees gap), a further £1.2 million from the returns to the GLA associated with the original 2007-2013 ERDF allocation funds. This was referred to as the GLA guarantee under paragraph 1.16 within the body of MD2367.
- 5.4 This MD is seeking approval for the GLA guarantee to cover management cost and fees gap to be increased by £6m (making the overall guarantee £7.2m). This guarantee is to be allocated from future ERDF investment returns.

GLIF Ltd (Fund of Funds)	MD reference	£m
ERDF allocation	MD2086	32.00
EIB	MD2237	50.00
LWARB	MD2237	7.00
LF returns from previous investment	MD2237	11.00
Allocation of ERDF returns 2007-2013	MD2237	2.50
Agreed Funding London total	2nd Mar 2018	102.50
Additional ERDF allocation	MD2367	3.00
Allocation of ERDF returns 2007-2013 to fund gap in management cost	MD2367	2.00
Allocation of ERDF returns 2007-2013 as guarantee fund	MD2367	1.20
Revised agreed Funding London total	25th Sep 2018	108.70
Allocation of ERDF future returns as guarantee fund	This MD	6.00
Revised agreed Funding London total	As dated	114.70

- 5.5 In addition, this MD seeks approval of up to £5.6m funding allocation from the ERDF investment returns fund made available to LWARB in the event that returns are not available within the GLIF Funds.
- 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 providing financial guarantees facilitates the promotion of economic development and wealth creation as the investment activities of GLIF; namely investing in SMEs in London falls within these principal purposes.
- 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 The terms of the financial guarantee by GLA to SMEWFL will be designed to ensure it is compliant with state aid rules. Officers must ensure a legal review of the financial guarantee is conducted before this is entered into.
- 6.4 Paragraphs 1.13-1.17 above indicate that the contribution of up to £5.6 million to LWARB amounts to the provision of grant funding and not payment for services. The terms of the grant will be designed to ensure it is compliant with state aid rules. Officer must ensure that legal advice is sought so that the appropriate agreement is put in place between the GLA and LWARB before any commitment to fund is made.
- 6.5 GLIF must ensure that they are capable of complying with the terms of the EIB finance contract and all associated documentation before such contract and associated documentation is entered into.

7. Planned delivery approach and next steps

7.1 The following key activities will lead to the establishment of GLIF's sub-fund:

Activity	Timeline
GLIF signs finance contract with EIB	31 January 2019
GLIF contracts with fund management organisations	February 2019
GLIF Sub-funds' Launch	March 2019

Appendices and supporting papers:

Appendix 1: Greater London Investment Fund (GLIF) structure and funding

Background Papers:

MD2367
MD2237
MD2086
MD1583

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) 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 approval or on the defer date.

Part 1 Deferral:

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

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be 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:

✓

Assistant Director/Head of Service:

Alex Conway has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

Lucy Owen 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 the 21st January 2019

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. J. Allen

Date

21.1.19

CHIEF OF STAFF:

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

Signature

D. Bellamy

Date

21/1/2019.

