

**REQUEST FOR MAYORAL DECISION – MD1447**

**Title: Funding London Business Plan 2014/15 and Governance Changes**

[Funding London is the new trading name of SME Wholesale Finance London Ltd]

**Executive Summary:**

In March 2014, the Investment and Performance Board (IPB) proposed that the GLA seek a number of governance changes for Funding London (the new trading name of SME Wholesale Finance London Limited (SMEWFL)). As part of these governance changes, it was agreed that Funding London would submit annual business plans detailing aims, objectives and delivery timescales in which of key work streams for the upcoming financial year, bringing it in line with other organisations the GLA has an interest. Changes to the Articles of Association to afford a better balance between enabling operational autonomy and protecting the GLA's interests were also proposed and it was agreed that SMEWFL would propose a suitably qualified new Chair to take over from the retiring Chair.

The attached business plan was approved, subject to Mayoral approval, by the SMEWFL Board on 25 July 2014 and endorsed by IPB on 16 September 2014. Following a shortlisting process and due to his thorough understanding of the London Enterprise Panel's priorities regarding SMEs, as well as his knowledge of SME equity and loan finance, Harvey McGrath is proposed as the new Chair of the SMEWFL Board.

**Decision:**

That the Mayor:

1. Approves the changes proposed to Funding London's Articles of Association.
2. Consents to the choice of appointment (by Funding London) of Harvey McGrath as the new Chair of Funding London; and
3. Approves the Funding London Business Plan 2014-15.

**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:**

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

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1. SMEWFL was established in 2004 with Mayoral approval (MA 1377) for the purpose of providing and administering venture capital and loan funds to London based SMEs which found it difficult to access traditional sources of finance. One of the explicit aims of setting up SMEWFL was that it would enable the repayments from venture capital and loan fund investments to be held in a permanent legal vehicle dedicated to the purpose of reinvesting the legacy for similar needs in the future.
- 1.2. SMEWFL is a company limited by guarantee under the Companies Act 2006. SMEWFL has six members, each of which may nominate a Director to serve on the company Board. The GLA is a member of the company, having taken over the LDA's membership, and the current nominated Director is Andrew Collinge, Assistant Director Intelligence.
- 1.3. Along with the LDA's membership in SMEWFL, all the LDA's rights and obligations under the grant agreements detailed below were transferred to the Greater London Authority (GLA) under the Transfer Scheme 2012 which came into force on 31 March 2012.
- 1.4. The objectives of SMEWFL are to:
  - Invest in, or give financial support to, and assist SMEs based in London to enable them to secure finance and investment to facilitate their growth;
  - Establish investment funds to provide loan or equity finance, or other financial support, to London based SMEs;
  - Carry out activities to support the Mayor's Economic Development Strategy.
  - Undertake activity conducive and ancillary to Objects 1- 3.
- 1.5. SMEWFL's achievements to date include:
  - More than £28m invested by three equity and four loan funds into nearly 400 SME's;
  - Co-investment multiple for venture funds at 3.8 times enabling a total of £66m to be invested in small businesses; and
  - More than 2,000 jobs created or safeguarded.
- 1.6. In March 2014, IPB approved in principle proposals to strengthen the current GLA oversight arrangements, and to seek changes to SMEWFL's Articles of Association and the membership of the Company to afford a better balance between enabling greater operational autonomy for SMEWFL and protecting the GLA's interests in relation to former and future investments. The proposed changes are highlighted in Appendix 2 – the draft Funding London's Articles of Association.
- 1.7. As part of these governance changes, officers also thought it prudent to bring SMEWFL in line with other organisations that the GLA has an interest in and to submit annual business plans detailing aims, objectives and delivery timescales of key work streams for the upcoming financial year.

- 1.8. In April 2014, SMEWFL adopted 'Funding London' as their new trading name.
- 1.9. There are two main live fund programmes that Funding London currently administer that the GLA has an interest in; the London Co-Investment Fund and the MMC fund.

#### The London Co-Investment Fund

- 1.10. In March 2014, the IPB agreed expenditure of £25m from the Growing Places Fund (GPF) allocation to the London Enterprise Panel (LEP), for a finance fund for London SMEs in line with its Jobs and Growth Plan.
- 1.11. MD 1345 set out how the fund will be delivered through a London Co-Investment Fund (LCIF) that will leverage equity investments into early stage growth SMEs as they emerge from private accelerators, incubators and support programmes and sought formal approval to enter into a funding agreement with repayment terms with SMEWFL to provide £25m of capital funding in 2014/15 (£4.12m), 2015/16 (£8.13m), 2016/17 (£8.15m), 2017/18 (£4.05m) and future years (£0.55m) to deliver the LCIF.
- 1.12. The aims of the LCIF are as follows:
- To invest approx. £23m into high-growth early stage Science, Digital and Technology businesses in London during a three-year period;
  - To leverage £2.9 of private sector for every £1 pound invested by LCIF across the fund;
  - To generate 2,653 jobs as a result of the investments being made and to eventually generate £130m of GVA per annum by Year 8 of the fund;
  - To maximise returns from exits to enable further investment in later years.

#### MMC London Fund

- 1.13. The MMC London Fund was established in October 2012 with the mandate to make investments in early stage SMEs seeking finance to support a high growth strategy. The fund is financed via a £9m grant from the ERDF 2007-2013 Programme and c. £5m of early returns from SMEWFL's previous funds.
- 1.14. To date, the MMC London Fund has invested £8m in 17 high-growth early stage businesses in London. Investments are typically between £200,000 and £500,000 per round and it is expected that each portfolio company will require between two to four investment rounds. The companies operate in seven sectors of the economy: financial, IT, digital, creative, leisure, health and education.
- 1.15. The following outputs have been achieved to date:
- A further £40m co-invested alongside our £8m, generating a co-investment multiple of 5 times
  - 243 jobs created
  - 192 jobs safeguarded

#### Governance changes

- 1.16 This is a period of considerable change within Funding London, both in terms of internal change and external opportunities. The former Chair has recently retired and another Board position is currently vacant. In partnership with Capital Enterprise, as part of the LCIF consortium, SMEWFL launched a £25m (GLA funded) Co-investment Fund in London in December 2014. The organisation is also well placed to position itself for future funding through the ERDF 2014-20 funding round. Therefore this is an opportune time to review

the board and company membership and the appropriateness of the current Articles of Association.

- 1.17 It is felt that a new Chair, more in tune with the Mayor and the LEP's priorities regarding SMEs, as well as having knowledge of SME equity and loan finance, would provide a more focused steer for SMEWFL. In addition, being more closely associated with the GLA, the LEP and the Mayor of London brand, through the Chair, would allow SMEWFL to capitalise on the strength of the brand thus potentially attracting additional leverage and a wider range of Directors and of member organisations. The intention is that, once appointed, the composition of the current board will be shaped by the new Chair and the Chief Executive of SMEWFL.
- 1.18 After a shortlisting process, Harvey McGrath was identified as being best suited to the position due to his level of experience, relevant knowledge and standing in the finance arena. Harvey is currently Co-chair of the Mayor of London's London Enterprise Panel, and Chairman of Governors of Birkbeck College, University of London. He is the former Chairman of Prudential plc, Man Group plc, the London Development Agency and London First, the capital's influential business campaign group. Harvey also stood as a director of Gateway to London, the inward investment agency for the Thames Gateway and Chairman of the East London Business Alliance, a partnership of substantial businesses engaged in the social and economic regeneration of East London.
- 1.19 As part of the governance review, it was also felt that SMEWFL have a considerable number of matters that require consent from the GLA before proceeding with operational activities. Reducing the volume of matters requiring consent would remove an additional layer of bureaucracy to the decision making process and allow SMEWFL to react quickly to new opportunities. Working in partnership with GLA officers and the Chief Executive of SMEWFL, the number and type of company reserved matters requiring GLA consent have been streamlined.
- 1.20 GLA Officers are working with legal and finance colleagues to ensure the necessary legal agreements and project management arrangements remain in place to protect the GLA's interests with respect to the use of the legacy receipts from previous LDA/GLA funding and to ensure an appropriate balance between enabling SMEWFL to operate more efficiently and protecting the GLA's interests.

## **2. Objectives and expected outcomes**

- 2.1. Funding London's vision is to be the catalyst for growth businesses within the capital by:
  - Providing strategic funding and independent support for early stage businesses within the London ecosystem;
  - Enabling sustainable growth opportunities for small businesses;
  - Supporting best of breed fund managers to deliver investment to small businesses; and
  - Reinvesting success, fuelling the continuous fund provision to support the next generation of high growth businesses.
- 2.2. Their medium term objective is to generate opportunities to diversify their activities by publicising the impact of their funds and their successes and promoting and leveraging their knowledge and expertise into other areas of the funding ecosystem.

2.3. Funding London's key activities for 2014/15 are split into the three programmes below:

*The London Co-Investment Fund*

2.4. In November 2014, Funding London procured six co-investment partners for the LCIF and recruited an operational team. The fund was launched in early December and made its first investment January 2015.

2.5. The LCIF marks a first step towards diversification as it will enable Funding London to build a track record of direct investment. Depending on the final number and type of co-investment partners selected, the LCIF expects to build a portfolio of up to 210 businesses in the first three years of the fund, based on an average investment per company of c. £109k.

*MMC London Fund*

2.6. The MMC London Fund aims to build a portfolio of at least 18 companies by 31 December 2015. At 1 January 2015, the fund manager had invested in 17 companies towards this target.

*2004-5 Funds and other strands*

2.7. Other activities for 2014/15 include:

- Maximising the net returns from the 2004-5 funds coming to a close, including the Objective 2 Loan Funds, the Economic Recovery Loan Fund, the London Technology Fund and the Creative Capital Fund;
- Review of membership structure and appointment of new Chair;
- Rebranding under the Funding London banner and launching website;
- Exploring the potential for a Local Impact Fund for London.

### **3. Equality comments**

3.1. No adverse impacts are identified and positive contributions to equality are built into the proposal.

3.2. The funding agreements between the GLA and SMEWFL place a duty on SMEWFL to pay due regard to the need to promote equality of opportunity for all persons irrespective of their race, sex, disability, age, sexual orientation or religion, to eliminate unlawful discrimination; and to promote good relations between persons of different racial groups, religious beliefs and sexual orientation.

### **4. Other considerations**

4.1. The proposals are in line with the overarching vision and objectives of the Mayor's Economic Development Strategy (EDS) and the London Enterprise Panel's Jobs and Growth Plan.

4.2. The second objective of the EDS sets out the Mayor's intention to ensure that London has the most competitive business environment in the world by providing support for innovative activities, fostering entrepreneurial skills, and helping business access funding.

4.3. Similarly the Funding London Business Plan is in line with the LEP's third strategic objective:

- For the capital to be recognised globally as world leading hub for science, technology and innovation; creating new jobs and growth and supporting London's businesses.

## 5. Financial comments

- 5.1. The GLA continues to closely monitor the activities of Funding London, which is a company limited by guarantee but with a close association to the GLA; exposing the Authority to the risk of having to meet any potential future funding shortfalls. Any future GLA funding contributions will be subject to the Authority's decision-making process.

## 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 one or more of its principal purposes. One of its principal purposes is the promotion of economic development and wealth creation in Greater London. Section 34 of the GLAA also provides that the GLA may do anything which 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:

- 6.1.1 pay due regard to the principle that there should be equality of opportunity for all people;
- 6.1.2 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; and
- 6.1.3 consider whether consultation is appropriate..

6.2 If the Mayor is minded to make the decisions in respect of which approval is sought officers must ensure that:

- 6.2.1 all appropriate steps are taken to facilitate Funding London's agreement to and documentation of the proposed changes to its articles of association and appointment to Chair; and
- 6.2.2. they continue to manage the GLA's relationship with Funding London in accordance with the agreements in place between them.

## 7. Investment & Performance Board

IPB endorsed the business plan on 16 September 2014.

## 8. Planned delivery approach and next steps

Activity	Timeline
Review of delivery against Business Plan	Quarterly
Annual refresh of Business Plan	March 2015

### Appendices and supporting papers:

Appendix 1: Funding London Business Plan 2014/15

Appendix 2: Draft Funding London's Articles of Association

**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? Yes**

If YES, for what reason: Until the Articles of Association are published by Companies House

Until what date: Expected date of 28 March 2015

**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:**

Nabeel Khan has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

**Assistant Director/Head of Service:**

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

✓

**Sponsoring Director:**

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

✓

**Mayoral Adviser:**

Kit Malthouse has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**EXECUTIVE DIRECTOR, RESOURCES:**

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

**Signature**

**Date**

**CHIEF OF STAFF:**

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

**Signature**

**Date**