

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD2976

### Title: London Co-Investment Fund: Business Plan 2022-23 and Use of Proceeds

#### Executive summary:

Funding London (the trading name of SME Wholesale Finance (London) Limited), a wholly owned subsidiary of the Greater London Authority (GLA) that operates as an arm's-length entity, was 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 GLA, Funding London is required to submit an annual business plan for approval. Following approval of the 2022-23 business plan by the Funding London Board in March 2022, this Mayoral Decision form (MD) seeks the Mayor's approval of the plan.

This MD also seeks the Mayor's approval for Funding London, acting via the London Co-Investment Fund LLP (LCIF) to continue the reinvestment of proceeds from the returns generated by the LCIF, further to MD2752.

#### Decision:

That the Mayor approves:

- i. Funding London's 2022-23 business plan
- ii. Funding London (acting via the LCIF) to continue to reinvest returns generated from the LCIF until 30 June 2023, with a cumulative value not exceeding £10m, back into the existing portfolio companies as 'follow-on' funding, extending the arrangements approved by the Mayor under cover of MD2752.

#### 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:

16/5/22

## **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 SMEs 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, who also directly appoints the company's chair.
- 1.3. Funding London's Articles of Association mandate that that no action or decision relating to certain matters are taken without the prior agreement of the GLA. 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 Funding London board members. The Mayor approved Funding London's previous business plan for 2021–22 under cover of MD2864.
- 1.4. Funding London seeks to address 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 enable sustainable growth. Returns generated from their funds are reinvested. Since its inception, Funding London has:
  - invested more than £100m across five equity funds and eight loan funds into 743 SMEs
  - overseen co-investment of £630m – a multiple of 6.3
  - created or safeguarded over 8,000 jobs.
- 1.5. Funding London has three active funds at present: the £100m Greater London Investment Fund (GLIF); the £23m LCIF; and the £13m MMC London Fund.
- 1.6. Funding London's priorities for the year to 31 March 2023 are to:
  - continue to provide support to businesses via the government's Recovery Loan Scheme (established as a result of the Covid-19 pandemic)
  - support its fund managers to maintain levels of investment as demand for growth funding emerges following the end of the government-backed loan schemes in June 2022
  - renew the search for options to continue supporting the LCIF portfolio and to expand its activities
  - explore options for liquidity in its closed funds as and when appropriate
  - launch the new Investment Ready Programme
  - seek other opportunities to bid for business support projects and to support London's Covid-19 Recovery Plan.

- 1.7. During 2022-23, as part of the GLA's wider business support review,<sup>1</sup> GLA is considering Funding London's role in its continued support for small businesses seeking to access finance.

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

### Business Plan

- 2.1. The Funding London business plan for 2022-23 is attached at Appendix 1. GLA officers have assessed it, and consider that it delivers value and meets Funding London's objectives as an organisation – namely, 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. They are also in line with the Recovery Missions of the London Covid-19 Recovery Programme, notably around helping get Londoners into good work. Additionally, it supports the GLA's commitment to provide small businesses with support and access to finance.
- 2.3. The 2022-23 goals in relation to each of the three funds (listed in paragraph 1.6, above) are detailed in the business plan at Appendix 1, along with details on the stand-alone scheme, the Investment Ready Programme. Targets for each of the different funds are detailed in the Business Plan in Appendix 1.

### Greater London Investment Fund (GLIF)

- 2.4. The GLIF consists of three sub-funds<sup>2</sup> that invest loan and equity finance in SMEs operating in sectors that are important in enhancing London's competitiveness.
- 2.5. Going into 2022-23, the cumulative target set out in the business plan represents a significant step up in amounts to be invested, compared to the previous year. Despite the challenging targets, the fund managers are entering 2022-23 with a strong pipeline.
- 2.6. At the end of 2021, Funding London agreed key changes to the deployment strategy for the Large Loan Fund to better reflect the level of demand in the market. The strategy has been amended to allow loans of up to an increased £1.5m to businesses that can demonstrate a path to profitability. This should contribute to the achievement of the annual investment target; Funding London will continue to ensure the quality of the portfolio is maintained.
- 2.7. By the end of December 2021, GLIF had created 890 new jobs (against a lifetime target of 3,500) and 88 enterprises have been supported (against a lifetime target of 170). The fund had also leveraged over £230m of private sector investment, exceeding its target by 224 per cent.
- 2.8. Funding London's work on GLIF will concentrate on the following in 2022-23:
- continuous review of market conditions as the economy continues to recover from Covid-19 and as government support tapers off, to inform discussions with stakeholders
  - liaising with its stakeholders to address any issues and ensure that they manage their contractual obligations as efficiently as possible
  - continuing its initiatives to improve reach towards under-represented groups.
- 2.9. At the end of December 2021, the GLIF had invested in aggregate £38.4m into 88 businesses. This positions the fund ahead of its cumulative target for 2021 of £35m.

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<sup>1</sup> A May 2021 Mayoral manifesto commitment is to review the business support offer across London, primarily within the Mayor's remit, with a view to making it more accessible to meet the needs of small businesses.

<sup>2</sup> The three sub-funds are the FSE Group's small and large loan funds, and MMC Ventures Limited's equity fund.

### London Co-Investment Fund (LCIF)

- 2.10. The LCIF is a public/private venture capital fund. It was established in 2014, using £25m of London Economic Action Partnership (LEAP) 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 LEAP for the LCIF to continue to make selective follow-on investments from returns.
- 2.11. During 2021 the portfolio continued to mature. Overall, the distribution of performance categories<sup>3</sup> remains broadly unchanged, although individual companies have changed categories. There was a small increase in the proportion of the portfolio (by numbers) that has been written off; however, this was offset by the increase in value of the companies in the perform and outperform categories.
- 2.12. In December 2021, Funding London exited a proportion of its holding in one company, bringing the total proceeds from exits to £3.9m. The value of the portfolio stands at £54.6m. Including exits achieved, the fund value stands at circa £58.6m (which includes circa £4m from 14 exits).
- 2.13. During 2021, the LCIF team continued to reinvest proceeds from exits according to the agreed follow-on policy. Five follow-on investments were completed during 2021, bringing the total amounts reinvested to £1.73m across 17 investments.
- 2.14. The carrying value at the end of December 2021 represents an increase of £10m from 31 March 2021. Including exits to date, this represents a "total value to paid-in capital" multiple of 2.4 times. The top 20 companies account for 75 per cent of book value; therefore, the bulk of the return is likely to be generated by this subset.
- 2.15. Funding London is continuing to explore options to extend LCIF activities beyond the management of the current portfolio.

### MMC London Fund

- 2.16. 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 growth.
- 2.17. The MMC London Fund has extended its portfolio phase by another two years to 30 June 2023. There remain 10 companies in the portfolio, and they are valued at £23.5m, 3.6 times cost. Four companies account for 86 per cent of book value, with Gousto representing just under 60 per cent.
- 2.18. The exit proceeds (net of capital gains tax) generated from the recent exits will fund a further contribution towards Funding London's £11m commitment to the GLIF.

### Investment Readiness Programme

- 2.19. Funding London's Investment Readiness Programme was a stand-alone scheme delivered on behalf of the London Business Hub.<sup>4</sup> This was an intensive programme designed to support early-stage businesses to become investor-ready. Initially launched in March 2020, activity was postponed due to Covid-19, with a relaunch in Autumn 2020. Eleven investment-readiness sessions and two 'Pitching Masterclasses' were delivered, with seven of these being delivered during 2021.
- 2.20. A total of 186 businesses graduated from the programme. This represented 103 per cent of the target. Outcome data to measure the short-term impact of the programme has been collated from 134 participants. So far, findings include:

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<sup>3</sup> The four performance categories are: outperform; perform; underperform; and at risk.

<sup>4</sup> 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.

- 18 companies reported they had raised a total of £3.36m – a combination of equity, debt and grants
- 13 companies reported they had joined accelerators
- 13 companies reported they have gone through at least one due diligence process with prospective investors.

2.21. Following the success of the Investment Readiness Programme, Funding London will be launching a new programme in Spring 2022 (the 'Investment Ready Programme') focused on supporting entrepreneurs from under-represented backgrounds that are ready to embark on a fundraising process.

#### LCIF portfolio and use of proceeds

2.22. This MD seeks the Mayor's approval for the LCIF to continue the reinvestment of proceeds from the returns generated by the LCIF, further to MD2752.

2.23. The distribution of proceeds from the sale of these assets is governed by a profit-sharing agreement between Funding London, the LCIF and the GLA. The fund was fully invested in 2019 and permission was granted by LEAP for the LCIF to continue to make selective follow-on investments from exits made before 6 May 2021<sup>5</sup> (see MD2752).

2.24. Under cover of MD2256, the Mayor agreed that GLA returns generated prior to 8 May 2020 could be reinvested in the LCIF's existing portfolio companies as follow-on funding for a further period up to June 2023,<sup>6</sup> and on the basis that:

- such investments must be made on the commercial merits of each follow-on opportunity and in accordance with the current LCIF follow-on policy
- the selection of follow-on investment propositions would be across the entire LCIF portfolio, i.e. across all sectors previously invested in
- in the event that substantial exits are achieved during that period, preference for such investment will be given to new businesses that are:
  - sub-sectors within the science, tech and digital sectors, where a continued market failure was evidenced
  - founded by women, and Black, Asian and Minority Ethnic entrepreneurs; and/or based in outer London.

2.25. The approvals granted by the Mayor under cover of MD2752 allowed Funding London to invest proceeds from exits up until 6 May 2021, the date of the London Mayoral and Assembly elections. Approval is now sought to extend the returns policy for all returns up until 30 June 2023 (i.e. not just until 6 May 2021).

2.26. Investments were initially made in 150 businesses, and circa £230m has been leveraged alongside the LCIF's investment. The portfolio created an estimated 4,784 new jobs at the last review, and 20 per cent of the investments were made in businesses having minority founders (such as Black, Asian and Minority Ethnic people) and women founders, providing valuable social returns.

2.27. In line with the conditions subject to which the approvals were granted under cover of MD2752, the GLA will retain the right to rescind this agreement at any point.

<sup>5</sup> MD2556 specified 8 May 2020 (the date of the London Mayoral and Assembly Elections). However, these elections were postponed to 6 May 2021 as a result of the Covid-19 pandemic. MD2752 therefore stipulated 6 May 2021.

<sup>6</sup> This is treated as 30 June 2023.

### 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:
- 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 the GLIF is backed by the European Regional Development Fund (ERDF), this duty applies to GLA's continued role as an Intermediate Body.<sup>7</sup> 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 having due regard of the need to eliminate discrimination, and the need to 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 of the £100m GLIF fund (£20m) is being targeted at under-represented groups as these groups face barriers for accessing finance.
- 3.5. An LCIF portfolio analysis in late 2019 (when the fund concluded making investments in new companies) 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. Whilst these figures are unrepresentative of London's population they are, however, above wider comparative data. The UK government's Longitudinal Small Business Survey<sup>8</sup> showed that in 2020, 16 per cent of UK's SMEs were women-led businesses (15 per cent in 2019); and 16 per cent of London's SMEs were led by someone from a Black, Asian or Minority Ethnic background (15 per cent in 2019). Funding London recognises 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; or disabled, by working with organisations that specifically engage with disadvantaged groups.

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<sup>7</sup> GLIF was developed as a result of the 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 ERDF. From this allocation, £35m ERDF was ring-fenced to establish GLIF.

<sup>8</sup> [Longitudinal Small Business Survey](#)

#### **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; and relevant missions in the London Recovery Programme. The proposals are also aligned to the GLA's commitment to provide support to London's businesses. The business plan is aligned with LEAP'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, and will not be 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. The Business Plan addresses operational risk and responsibility. A risk register is established at the beginning of the financial year and is reviewed at each quarterly Funding London board meeting. Delivery risks have been considered as part of this, alongside mitigation measures.



## **5. Financial comments**

### Chief Investment Officer comments

- 5.1. Funding London was acquired with the intention of the entity becoming self-sufficient through the interest charged on loans and fees. The GLA 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; returns to date indicate a high likelihood of this being achieved; and the GLA's protections referred to in 2.27 provide a means to recover this funding when required.
- 5.2. The scale of Funding London's activities are comparatively small in proportion to the GLA's budget, but in the context of the GLA's growing commercial exposure to private companies, through both policy-driven investment (for environmental, housing, regeneration or growth outcomes) and an increasingly sophisticated treasury management strategy, it is important for the GLA to understand its overall risk of losses arising from such investment activity. This will be addressed by the GLA's Financial Risk Oversight Board in 2022-23.
- 5.3. The LCIF has demonstrated strong performance at competitive cost; and provided this is replicable, undoubtedly could provide further value for money with increased scale (diluting fixed costs) and/or potential synergy with other parts of the GLA Group or subsidiaries such as London Treasury Limited. The Chief Investment Officer will work with the relevant GLA teams and Funding London, including as part of the business support review (see paragraph 1.6), to identify suitable opportunities including co-investment and collaborative working.
- 5.4. A provisional grant of £7.2m has been set aside 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 (up to the full amount) would be funded from returns to the GLA from the London Green Fund (LGF),<sup>9</sup> per MD2408. If the LGF returns fail to crystallise before such a guarantee were required, there would be a temporary impact on the GLA's general fund. This underlines the importance of further risk analysis.

## **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

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<sup>9</sup> The London Green Fund is an umbrella £110m fund that covers three sub-funds: waste-management, decentralised energy, energy-efficiency schemes. It launched in 2009 and provided loan and equity finance. The funds are invested, but still active.



- 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 reassignment, age, sex, sexual orientation, religion or belief, and pregnancy and maternity) 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 (and the LCIF LLP) in accordance with the agreements in place between them.
- 6.5. Should the Mayor be minded to make the decisions sought, officers must ensure that GLA's LCIF agreements with Funding London and the LCIF LLP are varied to reflect the GLA's decision on reinvestment of GLA LCIF returns, and notification to Funding London of the same, before any commitment is made to this by the GLA.

## **Appendices and supporting papers:**

### **Appendix 1: Funding London Business Plan 2022-23**

**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:**

Philip 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 3 May 2022. ✓

**EXECUTIVE DIRECTOR, RESOURCES:**

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

**Signature**



**Date**

4/5/22

**CHIEF OF STAFF:**

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

**Signature**



**Date**

3/5/22