GREATER**LONDON**AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2803

Title: London Power Co. Limited – Conversion of Loan to Share Capital

Executive Summary:

MD2482 approved the establishment of London Power Co. Limited (a company limited by shares) as a GLA managed company and a wholly owned subsidiary of Greater London Authority Holdings Limited (GLAHL). As part of that approval, the GLA made a loan to London Power Co. Limited of up to £906,000 to cover its maximum projected debt position as outlined in the business case for the company, essentially to help meet its running costs until the company breaks even.

London Power Co. Limited services officially launched to customers on 13 January 2020 and the GLA had incurred costs amounting to £1,056,386 that related to the marketing of the company and its set up. While these costs were budgeted for within the GLA's accounts, following a review of accounting rules and principles, it was deemed that these costs were directly attributable to the company and should therefore be borne by the company. They were transferred as part of the closing of accounts process for 2019-20. In order to finance these costs, an additional loan was granted by the GLA to London Power Co. Limited. This loan amount was up to £1.1m and was approved by MD2645. This loan was taken as an interim measure, with the intention of converting the loan into share capital. The GLA now wishes to convert this loan into share capital in order to strengthen the company's balance sheet for which this decision is seeking approval.

Decision:

That the Mayor approves:

1. the termination of the loan between the GLA and the London Power Co. Limited relating to the financing of costs that were transferred to the company in 2019-20, as noted in MD2645; and the GLA entering into a new loan agreement for circa £1,056,386 with Greater London Authority Holdings Limited to enable Greater London Authority Holdings Limited to purchase 1,056,386 ordinary shares for £1,056,386 in London Power Co. Limited; and

2. the issue of 1,056,386 new ordinary shares by London Power Co. Limited to the value of £1,056,386 to be allotted to its sole shareholder, Greater London Authority Holdings Limited.

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: [signature]

Date: 17/3/21

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

Decision required – supporting report

1. Introduction and background

1.1 MD2482 approved the establishment of London Power Co. Limited (London Power), a company limited by shares, as a GLA managed company and a wholly owned subsidiary of GLA Holdings Limited (GLAHL). The GLA's London Environment Strategy sets out the aim of the company, specifically to offer fairer energy prices to all Londoners, especially to those in fuel poverty. This decision also approved Octopus Energy Limited as the successful procured contractor for the supply and purchasing of energy, and to ensure regulatory compliance, including any risks associated with these (often known as a "white label"). MD2482 also approved a GLA loan of up to £906,000 to the company to cover its maximum projected debt position, helping to cover costs until the company can become self-financing.

1.2 As detailed within earlier (pre-London Power establishment) MD2405, due to the extensive lead time involved in developing consumer branding and marketing collateral, it was decided that the GLA would lead on branding, customer awareness and pre-acquisition activities for the launch. These costs, as well as those set out in (pre-London Power establishment) MD2319 towards the set-up costs, were budgeted for within the GLA's accounts.

1.3 Following a review of the transactions and accounting rules, some of the costs budgeted for and expensed within the GLA were deemed to be directly attributable to the operation of the company, including the promotion of activities to help generate revenues. Therefore, to avoid any issues during the audit of the company's accounts, these costs were transferred to London Power as part of the closing of accounts process for 2019-20. These costs totalled £1,056,386. To finance these costs, the GLA provided a further loan to the London Power of up to £1.1m. This was approved by MD2645. Provision of this loan was considered an interim measure, with MD2645 noting that the loan would likely be converted to equity at a later date (subject to a further decision).

1.4 The transfer of costs noted above has contributed towards a significant loss for the year ending 31 March 2020 (the accounts are still to be audited) amounting to £1.070m and a long-term liability which will have to be repaid to the GLA on commercial terms similar to those set by the Public Works Loan Board on a seven year fixed maturity basis. The transferral of these costs and the additional loan repayments this incurs will have a significant impact on the financial position of London Power and its ability to reach a sustainably financial position as indicated via MD2482.

1.5 As anticipated by MD2645, it is now intended to convert this loan into share capital by the issuing of new ordinary shares by London Power, to Greater London Authority Holdings Limited, up to the value of £1,056,386 – a further 1,056,386 shares at £1 each. To date, London Power has only issued one, £1 share which is held by Greater London Authority Holdings Limited as the parent company of London Power.

2. Objectives and expected outcomes

2.1 The main objective of this share issue is to strengthen London Power's balance sheet. It will also help the company to operate, as close as market conditions allow it to, in accordance with the original Business Plan, sustaining the company as a going concern and delivering on its key aim of offering fairer energy prices to all Londoners, especially the fuel poor, in line with the London Environment Strategy.

2.2 MD2482 also approved the receipt by London Power of all and any income in the form of commission payments to be used to cover running costs in the first instance and that any financial surplus accruing to be spent on delivering social and environmental goals in keeping with a not-for-profit arrangement. This was on the basis that 'running costs' would include those costs approved within MD2482, not the set-up and launch costs approved by previous MDs (MD2405 and MD2319). The conversion of the loan approved by MD2645 to share capital as proposed by this decision will strengthen the financial position of London Power and allow the company the best chance to operate within the parameters of the Business Plan, which includes the potential generation of surpluses that would be reinvested on delivering social and environmental goals in line with the Mayor's priorities and the London Environment Strategy.

2.3 There are several advantages of issuing share capital that reaffirms the original objective to strengthen the company's balance sheet. These are further summarised below:

- an equity investment / share capital results in a less leveraged company (financed by less debt). This would provide more assurance to prospective subscribers; and
- equity investment / share capital is a simpler and less complex form of financing, with no regular financing costs, allowing London Power time to develop, grow, and generate surpluses to reinvest in other environmental projects.

3. Equality comments

3.1 Under Section 149 of the Equality Act 2010, as a public authority, the GLA must have 'due regard' of the need to:

- eliminate unlawful discrimination, harassment and victimisation; and
- advance equality of opportunity and foster good relations between people who have a protected characteristic and those who do not.

3.2 There are no direct equality implications arising from this proposal. However, as per MD2482, an equality assessment was conducted as part of the wider Energy for Londoners Programme and the Mayor's Fuel Poverty Action Plan. Given the disproportionate impacts of high energy prices on the most vulnerable Londoners, it is expected that London Power will generate positive impacts in tackling social and health inequality as well as improving awareness of energy use and the opportunities for people to reduce their energy consumption. London Power having a stronger balance sheet will mean the company can continue to be a going concern and therefore be able to promote and offer fairer energy prices to all Londoners, across all socio-economic groups including those in fuel poverty in the short, medium and long-term.

4. Other considerations

Key risks, issues and Mayoral strategies and priorities

4.1 One of the disadvantages of issuing share capital as opposed to financing costs through loans is that the potential tax saving, through interest deductions, is not available for share capital investments as they are for loans. The interest on the loan can potentially be deductible for tax purposes, which essentially enables London Power to reduce its tax liability. However, this apparent advantage is negated by the fact that the original plan for London Power is to reinvest its surpluses on delivering social and environmental goals as per MD2482. If this was done this would eliminate the company's taxable surpluses and negate any tax savings through interest deductions.

4.2 The issuing of shares means that the GLAHL would only make a return on investment via dividends or if shares were sold. However, it is important to note, that this is not the objective of London Power, rather the issuing of shares as proposed by this decision is to strengthen the company's financial position to ensure that the objectives of the company are achieved – 'To offer fairer energy prices to all Londoners, especially the fuel poor'. This proposal aims to strengthen London Power's balance sheet to ensure it remains a vehicle to achieve this Mayoral priority – in line with the London Environment Strategy.

Consultation

4.3 The proposal to potentially convert the loan into share capital was noted within the GLA's 2019-20 outturn Mayoral Decision (MD2645) and as a result the decision to proceed on this basis has been subject to detailed discussions amongst Finance, Legal and directorate leads to ensure that this route is the most advantageous for the company and provides for the most robust financial solution so that the company is in the best possible position to achieve its deliverables.

5. Financial comments

5.1 As the original loan was provided by the GLA to London Power, the following steps will be required to issue the shares to GLAHL. These are as follows:

- the loan agreement between GLA and London Power will need to be terminated;
- a new loan agreement for circa £1,056,386 will be put in place between the GLA and GLAHL;
- London Power allots £1,056,386 ordinary shares to GLAHL and GLAHL subscribes for £1,056,386 ordinary shares at £1 each; and
- London Power would repay the original loan amount along with interest accrued up to the termination date using the cash received from the GLAHL share purchase and its existing cash resources as set out in MD2482.

5.2 In order to finance the purchase of the shares by GLAHL, the GLA would have to provide an interest free loan to GLAHL and this would be funded from the Capital Receipts Reserve. From the GLA's individual accounts perspective, the loan to GLAHL will be treated as capital expenditure under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

6. Legal comments

6.1 The GLA's principal purposes, under section 30 of the Greater London Authority Act (GLA Act), are to promote economic development and wealth creation, promote social development, and the improvement of the environment, all in Greater London. The GLA has power to do anything which it considers will further any one of more of its principal purposes. The proposed allotment of share capital by London Power falls within these principal purposes.

6.2 Under section 34(1) the GLA may do anything it considers will facilitate or is conductive or incidental to the exercise of the section 30 principal purposes. Sections 30 and/or 34, together with section 12 of the Local Government Act 2003 (power to invest for any purpose relevant to functions) provide the legal powers for the GLA to provide Greater London Authority Holdings Limited with a loan for it to then acquire further share capital in London Power.

7. Planned delivery approach and next steps

Activity	**Timeline**
GLA Loan agreement with London Power is terminated.	31 March 2021
London Power allots shares to 1,056,386 ordinary shares to GLAHL (London Power Director's resolution)	31 March 2021
GLAHL subscribes to 1,056,386 ordinary shares at par (£1) (Director's resolution of GLAHL)	31 March 2021

The GLA agrees an interest free loan to GLAHL for £1,056,386 (Made under the Executive Director of Resources' delegated authority for treasury management arrangements with GLAHL Directors' resolution to accept).	31 March 2021

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? YES
If YES, for what reason: The London Power annual report will be published in the Spring, which will include details of London Power's finances over the first year of operation. Since this MD includes commercially sensitive information about the financing of London Power, it should be published after the annual report so that the information can be interpreted in context.
Until what date: 26/07/2021

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:	
Abdel Reza Nauyeck has drafted this report in accordance with GLA procedures and confirms the following:	✓
Sponsoring Director:	
David Gallie has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.	✓
Mayoral Adviser:	
Shirley Rodrigues 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 15 March 2021.	

EXECUTIVE DIRECTOR, RESOURCES:
I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature
D. Gallie

Date
16 March 2021

CHIEF OF STAFF:
I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature
D. Bellamy

Date
15 March 2021