

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2676

Title: Funding London Business Plan 2020-21

Executive Summary:

Funding London (which is the trading name of SME Wholesale Finance London Limited) is an arm's-length entity of the Mayor of London, established for the purpose of providing and administering venture capital and loan funds to London based SMEs.

As part of its governance arrangements with the Greater London Authority, Funding London are required to submit an annual business plan for approval. Following approval of the business plan by the Funding London board, this MD seeks approval for Funding London's business plan for 2020/21.

The proposed business plan includes a review of the existing fund activities, individual fund objectives as well as setting out Funding London's overarching goals for the current financial year:

- continuing the delivery of the new £100m fund of funds for SMEs: The Greater London Investment Fund;
- exploring options for the future support and continuation of the London Co-investment Fund and its portfolio of 150 companies;
- continuing to monitor the MMC London Fund in its portfolio phase and considering the merits of extending the fund beyond its 2021 termination date; and
- delivering the programme of business support for the London Growth Hub and possibly the EM3 LEP proposal.

Decision:

That the Mayor approves Funding London's proposed business plan for 2020/21.

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:

4/9/20

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

Decision required – supporting report

1. Introduction and background

- 1.1. SME Wholesale Finance London Limited (SMEWFL) which trades as “Funding London” – was established in 2004 (after having been approved by the then Mayor under cover of MA1377) by the London Development Agency (LDA) as an arm’s-length entity for the purpose of providing and administering venture capital and loan funds to London based SMEs finding 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, legally recognised vehicle for the purposes of reinvesting the proceeds for similar initiatives in the future. A number of investment funds have been disbursed through Funding London since its inception, including the London Technology Fund (£15m), the Creative Capital Fund (£4.6m), the MMC London Fund (£14m), the London Co-investment Fund (£25m) and the £100m Greater London Investment Fund (GLIF).
- 1.2. In March 2014, the Investment and Performance Board (IPB) approved the more rigorous implementation of oversight arrangements for the seeking of 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. As part of those governance changes, it was agreed that Funding London would submit its annual business plans to the GLA which detail aims, objectives and delivery timescales of key work streams for the upcoming financial year.
- 1.3. In June 2017, under cover of MD2086, the Mayor approved the acquisition of Funding London by the GLA becoming its sole company member and guarantor. As such, Funding London became a wholly owned subsidiary company of the GLA.
- 1.4. In total, there are nine board members of the Funding London board. At the beginning of 2020, the Head of Enterprise was appointed by the Mayor to be the GLA representative.
- 1.5. The objectives of Funding London are to:
 - provide strategic funding and independent support for early stage businesses within the London ecosystem;
 - enable exploitation of sustainable growth opportunities for small businesses;
 - supporting best of breed fund managers to deliver investment to small businesses; and
 - reinvesting success, thereby fuelling the continuous provision of funding to support the next generation of high growth businesses.
- 1.6. Funding London’s achievements to date include:
 - approximately £67m invested by five equity and seven loan funds into 680 SMEs;
 - co-investment multiple for venture funds at 5.7x, enabling a total of £450m into small businesses; and
 - over 6,500 jobs created or safeguarded.
- 1.7. Portfolio performance of the three active funds remain strong. The MMC London Fund invested £13m into early-stage growth businesses, mainly in Series A rounds alongside private sector co-investors. It will reach the end of its investment period in June 2021. As of the 31 March 2020, the MMC portfolio comprised 12 companies and was valued at £21.9m (2.6x cost). Lockdown has meant that potential exits in the portfolio are no longer achievable at this time.

- 1.8. The London Co Investment Fund (LCIF) was designed to meet the growth capital needs of SMEs as they emerged from London's leading public and privately funded accelerators, incubators and support programmes. It is funded from two sources – a £25m grant from LEAP's Growing Places Fund, and £1.6m from Funding London itself. The fund has exceeded its co-investment target of 2.9x by raising £167m in rounds, which provided a co-investment multiple of 7.24x. As of 30 September 2019, the fund has created 2,494 jobs from its 5 years of investments, in order to hit its target of 2,653 jobs, the fund only now needs to create 159 jobs over the next 5 years.
- 1.9. In 2019 a paper was taken to the LEAP board putting forward options for the future of the fund. Approval was given to use any money made through exits of the portfolio companies to be used as follow on funding to support the existing portfolio companies.
- 1.10. The Greater London Investment Fund (GLIF) is the latest fund to be delivered by Funding London, established in May 2019, the £100m is formed of £35m from the European Regional Development Fund (ERDF), £50m from the European Investment Bank (EIB); £7m from the London Waste and Recycling Board (LWARB); and £11m from anticipated returns from previous funds managed by Funding London. Funding London was appointed as the GLIF manager and the Fund itself is administered by external fund managers MMC Ventures Limited and The FSE Group and allocated through three sub-funds:
 - MMC Ventures Ltd: Venture Fund (equity) – £45 million (investment from £100,000 to £2 million); and
 - The FSE Group: Small loans: £27.5 million (£100,000 to £500,000) and Large loans: £27.5 million (£500,000 to £1 million).
- 1.11. GLIF's strategy is to provide finance to SMEs (including those led by BAME and women) in the key sectors outlined in the Economic Development Strategy to scale-up and achieve growth ambitions. To date, there has been good progress from the sub-funds, especially from the equity fund. The loan fund, whilst approving a higher amount of loans than its target, the amount actually disbursed to SMEs were below target.
- 1.12. The COVID-19 pandemic has had a significant effect on the day to day running of Funding London, with the business responding to the impact of lockdown on its core activities. As lockdown measures being to ease, Funding London will now begin to pursue its goals for the current financial year:
 - continuing the delivery of the new £100m fund of funds for SMEs: The Greater London Investment Fund;
 - exploring options for the future support and continuation of the London Co-investment Fund and its portfolio of 150 companies;
 - continuing to monitor the MMC London Fund in its portfolio phase and considering the merits of extending the fund beyond its 2021 termination date; and
 - delivering the programme of business support for the London Growth Hub and possibly the EM3 LEP proposal.

2. Objectives and expected outcomes

- 2.1. The business plan has proposed specific goals for each of the funds:
 - For LCIF, whilst the fund has now completed its initial investment period, a proposal was taken to the LEAP board in 2019 with the view to turning LCIF into an evergreen fund, however this decision was postponed until 2023, in the meanwhile re-investment was approved but with the following restrictions:
 - funds available from exits should be primarily re-invested in follow-on funding rounds in the existing LCIF portfolio;

- the investments should be made on the commercial merits of each follow-on opportunity; and
- the selection of follow-on investment propositions will be across the entire portfolio of LCIF, i.e. across all sectors previously invested in.

- Therefore, the priority now is to continue to make follow on investments in the businesses which meet the above criteria whilst continuing to support the wider portfolio of businesses through a mixture of one-on-one support, webinars, and network connections/introductions. The support themes will be based on the following – Financial Strategy and Planning, Sales and Branding, International Expansion, Mergers and Acquisitions, Talent Acquisition and other themes.

- 2.2. For GLIF, in response to businesses focusing on resilience rather than growth, Funding London repurposed some of its funding and worked closely with FSE group to develop a loan product suitable for businesses but also acceptable to GLIF's funders. Following approval by the GLIF board and its funders, £2.3m from the Small Loan Fund and £2m from the Large Loan Fund would be deployed as Coronavirus Resilience Loans, which will provide debt finance to SMEs seeking to preserve or adapt their existing capacity and strengthen the general activities of the business in readiness for future growth. Having recently acquired Coronavirus Business Interruption Loan Scheme (CBILS) accreditation, the Coronavirus Resilience Loans will be available through CBILS. Funding London will work closely with the FSE Group to ensure this is deployed up until the end of September. The focus of the team will be on supporting the fund managers in their pipeline building efforts, via introductions and promoting the funds given the uncertainties in the market
- 2.3. It has been acknowledged by GLIF's funders that achieving this year's investment and output targets, given the scheme's focus on supporting growing businesses, will be challenging during the current unpredictable economic period. The figures in the table below are to 31 March 2020 where good progress against the annual business support targets is evident. The figures post-March¹ will inevitably show a downturn in businesses receiving support to grow, although the introduction of CBILS this summer (described above) will have an, as yet undetermined, impact. The GLA will work with Funding London to assess the extent to which this year's investment and output targets will need re-profiling into the future years of the fund in line with ERDF guidance. Any revisions should be agreed by December 2020 and any contractual arrangement put in place by 31 March 2021. For reference, please see below output table:

Calendar year	No of Enterprises Receiving Support		No of New Enterprises Supported		Private investment matching public support to enterprises		Employment Increase in Supported Enterprises	
	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved
2019	12	17	3	6	£32,398,697	£46,722,594	40	81
2020	39	17	4	2	£42,650,000	£1,239,785	140	26
2021	44		5		£46,650,000		913	
2022	42		6		£42,650,000		1092	
2023	33		3		£44,446,303		1377	
Total	170	23	21	8	£208,795,000	£47,962,379	3562	107

- 2.4. The business plan also sets out new initiatives, including the Growth Hub: Investor Readiness Programme 2020, which is an intensive programme designed to support early stage businesses to become investor-ready. Due to the impacts of COVID-19, the programme was modified to support businesses in building resilience. The programme will revert to investment readiness in August via online webinars. The programme has a particular focus on start-ups led by disabled, female and BAME entrepreneurs, and will guide and explain how to access external finance.

¹ This data to June 2020 is expected for submission by September 2020.

- 2.5. The plan delivers value for money and meets the GLA's objectives as an organisation, specifically the development of London's economy through promoting and enabling the development of a strong, sustainable and increasingly diverse economy across all parts of London. The work of Funding London, particularly on the Greater London Investment Fund forms a key part of the Implementation Plan of the Mayor's Economic Development Strategy. It is therefore recommended that this plan is signed off in order to provide strategic direction to SMEWFL in 2020/21.

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 as well as to advance equality of opportunity and 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) 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 not.
- 3.5. The latest LCIF portfolio analysis in November 2019 stated that 22% of LCIF Founders were female and 20% were from a BAME background. The team at LCIF recognises the importance of furthering the inclusivity agenda in line with the Mayor's strategy and agree that the fund and its partners should continue to demonstrate improving levels of engagement with women, BAME and disabled founders by working with organisations who specifically engage with disadvantaged groups.

4. Other considerations

- 4.1. The proposals outlined in the business plan are in line with the overarching vision and objectives within the Mayor's Economic Development strategy, specifically on its goals of Growth – ensuring the economy will continue to thrive and it open to business, as well as Innovation – making London a world leader in innovation, technology and a hub of new ideas and creativity.
- 4.2. The business plan is aligned with the LEAP's core objective of supporting enterprise and entrepreneurship in London.

- 4.3. The GLA's Head of Enterprise is a Non-Executive Director on the board, however he has not been involved in the drafting of this MD. No officers involved in the drafting or clearance of the MD have any perceived conflicts of interest.
- 4.4. Delivery risks have been considered as part of the plan alongside mitigation measures.

5. Financial comments

- 5.1. Funding London which is formally known as SME Wholesale Finance London Limited (SMEWFL) was established as a subsidiary company of the GLA in 2017. Therefore, any actions by the entity must go through the Authority's decision-making process and as such, approval is being sought for Funding London's 2020/21 business plan.
- 5.2. SMEWFL was acquired with the intention of the entity becoming self-sufficient through the interest charged on loans and fees. The Authority has helped fill the funding gap in the early years by committing £4.5m to expenses (MD2237 and MD2367) with a view that this will be repaid from future returns generated from investments. For the 2020/21 business plan, Funding London seeks to utilise £1.3m of this which will be funded by receipts already obtained in the London Green Fund (LGF).
- 5.3. A further grant of up to £7.5m has been made available, by way of the GLA guarantee, to cover any European Investment Bank loan interest and costs should Funding London sub-funds perform poorly in the worst-case scenario. Again, this would be paid from returns to the GLA from the LGF in which £7.2m has been approved via MD2408 therefore the remaining £300,000 will be subject to a further decision should the funds be drawn upon.

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 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:
 - 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; and
 - 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 to advance equality of opportunity and foster good relations 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 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 in accordance with the agreements in place between them.

7. Planned delivery approach and next steps

Activity	Timeline
Review of delivery against business plan	Quarterly
Annual refresh of business plan	March 2021

Appendices and supporting papers:

Appendix 1: Funding London business plan

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

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

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:

Richard Cumbers has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

Phil 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 1 September 2020.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

D. Gane

Date

4 September 2020

CHIEF OF STAFF:

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

Signature

D. Bellamy

Date

1 September 2020