

# GREATER LONDON AUTHORITY

## REQUEST FOR ASSISTANT DIRECTOR DECISION – ADD2078

### Title: Funding London – Financial Due Diligence

#### Executive Summary:

The European Programme Management Unit (EPMU) is proposing to award up to £32 million from the European Regional Development Fund to Funding London. This funding has to be matched and the current intention is that this match would be a loan of up to £50 million from the European Investment Bank to Funding London. EPMU has been advised that the GLA would have to acquire full control of Funding London for it to award the ERDF funding as proposed. The decision seeks approval for specialist financial due diligence advice before acquisition is progressed.

#### Decision:

That the Assistant Director - Group Finance approves expenditure of £17,500 for financial due diligence advice from Capita Asset Services on the proposed acquisition by the GLA of SME Wholesale Finance (London) Ltd (SMEWFL), operating under the name of Funding London.

#### AUTHORISING ASSISTANT DIRECTOR/HEAD OF UNIT:

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

**Name:** David Gallie

**Position:** Assistant Director – Group Finance

**Signature:**



**Date:**

21/2/17

## PART I - NON-CONFIDENTIAL FACTS AND ADVICE

### 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 London Developments Agency's membership, and the current nominated Director is Andrew Collinge, Assistant Director Intelligence. In April 2014, SMEWFL adopted 'Funding London' as its new trading name.
- 1.3 Funding London has legal interest in a number of loan and venture capital funds and which include the application of European Social Fund and European Regional Development Funds and some which are now closed for new investments. These have a forecast (by Funding London) net legacy value at December 2020 of £18.2 million.
- 1.4 In addition in June 2014 the Mayor approved (MD1345) repayable funding of up to £25 million to Funding London to leverage equity investment into early stage SMEs as they emerge from private accelerators, incubators and support programmes to be delivered through a London Co-Investment Fund (LCIF). Funding of £11.8 million has been provided to date and the projected repayment for the whole fund is 2020 to 2022.
- 1.5 The GLA is the Intermediate Body for the 2014-20 ERDF programme and now proposes to award further ERDF funding of £32 million to Funding London for further loan and equity funding to SME's. To contract in this way with Funding London, the European Programmes Management Unit has been advised that the GLA would need to exercise full control over Funding London. The GLA needs to understand any financial risk it may be exposed in taking full control, hence a need for some specialist financial due diligence.
- 1.6 The GLA has a contract with Capita Asset Services for the provision of treasury consultancy services and the recommendation in this decision is to appoint the company under this contract with its associated day rates. Capita Asset Services has also previously advised the GLA on the awarding of funding for LCIF and the cost of this decision is £17,500.

#### 2. Objectives and expected outcomes

- 2.1 The objective of the work is to highlight any financial risks or shortfalls, including from the timing of cashflows that the GLA might be exposed to. Capita Asset Services would produce a report covering the following:

Appraise and model the current Funding London financial position

- Assess the current funding position and make-up
- Model the current cashflow position in summary

Advise on the consideration of risks with regard to governance and proposals:

- Assess the financial risks identified from information and documents provided
- Assess the current governance structure and company set-up from a financial perspective
- Assess the current performance of Funding London
- Assess areas for consideration in moving to a wholly owned company position
- Assess any risks associated with any new funding proposals based on the assessment of the current operations

Model potential cashflow position based on information provided:

- Assess the potential funding position and make-up, based on a wholly owned company position
- Model the potential cashflow position in summary

Findings and supporting management information

- Summary of the findings from the above review and assessment
- Summary commentary on current and wholly owned cashflow position

### 3. Equality comments

- 3.1 The GLA's existing interest in Funding London places a duty on the company through its activities 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. This would not change if the GLA was to acquire full control. No adverse impact is identified from this due diligence.

### 4. Other considerations

- 4.1 A key objective of awarding the proposed ERDF funding is that it could be matched to a £50 million loan from the European Investment Bank to Funding London. This would be subject to formal approval from the EIB and from the GLA and require a detailed business plan and structure to be finalised. The detailed assessment of the EIB loan proposal would follow after the decision to acquire Funding London although this consultancy advice will cover any risks based on the principle of the loan proposal. Separate legal due diligence is being undertaken covering non-investment related issues.

### 5. Financial comments

- 5.1 The objective of the due diligence is to highlight any financial risk from the proposed acquisition. The £17,500 cost would be funded from the Financial Services 2016-17 budget.

### 6. Planned delivery approach and next steps

Activity	Timeline
Appointment of contractor	February 2017
Delivery Start Date	Late February
Main milestones	
Due diligence report received	Mid-March
Mayoral decision on acquisition of Funding London	End March

**Appendices and supporting papers:****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**

Ray Smith has drafted this report in accordance with GLA procedures and confirms that the Finance and – if relevant- Legal teams have commented on this proposal as required, and this decision reflects their comments.

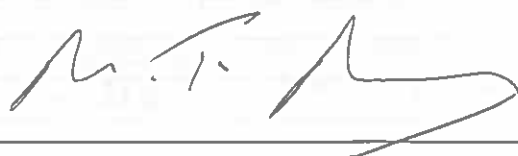
**Corporate Investment Board:**

The Corporate Investment Board reviewed this proposal on 20 February 2017

**HEAD OF FINANCE AND GOVERNANCE:**

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

**Signature:**



**Date:**

21.02.17