

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2251

Title: Approval of Articles of Association of company that will make repayable investments in SMEs.

Executive Summary:

SME Wholesale Finance London Limited ("SMEWFL" a wholly owned GLA subsidiary trading as "Funding London") was awarded £32m EU funding to establish a fund of funds (i.e. a fund that enables repayable investments in SMEs by investing in other funds). Approval was granted, via MD2237, for Funding London to establish a new subsidiary company called GLIF Limited that will operate as the fund of funds. The Executive Director of Development, Enterprise and Environment was delegated authority, in MD2237, to approve the Articles of Association (AoA) of this new subsidiary company. The approval of the AoA is covered in this Director Decision (DD).

This DD also confirms the initial set of directors to be appointed to its board; and that the GLA's European Programmes Management Unit will be responsible for the governance oversight of the new company. It is not proposed that the new company will employ its own staff.

Decision:

That the Executive Director of Development, Enterprise and Environment approves:

1. under the delegation provided by MD2237, the proposed Articles of Association of GLIF Limited (at Appendix 1), the new company that will be established by SME Wholesale Finance London Limited as a subsidiary of SMEWFL for the sole purpose of operating the fund of funds (i.e. a fund that enables repayable investments in SMEs by investing in other funds);
2. the arrangements for GLA governance oversight of the new company, set out at paragraphs 1.9 to 1.11; and
3. the giving of consent to SMEWFL's Board for the appointment of the persons listed in Appendix 3 as Directors of GLIF Limited.

AUTHORISING DIRECTOR

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: Fiona Fletcher-Smith

Position: Executive Director, DEE

Signature: 

Date:

PART I – NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 MD2086 approved the award of £32 million from the European Regional Development Fund (ERDF) programme to Funding London to set up an investment fund to provide repayable finance for London’s small and medium-sized enterprises (SMEs). Subsequent approval was given, via MD2237, to Funding London establishing a new subsidiary company to be called GLIF Limited (“GLIF” or “the new company”) that will operate as the investment fund. That MD also gave delegated authority to the Executive Director of Development, Enterprise and Environment (DEE) to approve the Articles of Association of this new company, via a Director Decision.
- 1.2 The investment fund will be delivered using the ‘fund of funds’ model. In this model, funding from different sources are placed in a single entity (the fund of funds) before being invested in smaller ‘sub-funds’. The sub-funds, in turn, then make loan and equity investments in SMEs – see Appendix 2 for more information. The new subsidiary company to be established by Funding London will operate as the fund of funds and invest in four sub-funds. Funding London is currently in the process of procuring fund management organisations that will invest and manage the capital to be invested in those sub-funds.
- 1.3 The costs for establishing the new company and its on-going operation were approved in MD2237.

Articles of Association

- 1.4 The new company to be established by Funding London will take the legal form of a ‘company limited by guarantee’ and so will not have a share capital or shareholders. Instead, Funding London will be its sole member and so it will be a subsidiary of SMEWFL. Formally, the company will be called GLIF Limited (“GLIF”). However, when promoting the fund of funds, it will be referred to as Greater London Investment Fund, supported by ERDF¹.
- 1.5 The proposed AoA for GLIF, which has been approved by Funding London’s Board are at Appendix 1. They were based on Funding London’s AoA (which were approved by the Mayor in September 2017, via MD2146). Based on the principles set out in MD2237, the main differences between GLIF’s and Funding’s AoA are:
- changing the objects so GLIF’s only role will be “.....to support the Mayor of London’s Economic Development Strategy by establishing and/or allocating financial capital to investment funds to provide loans and/or equity capital (or any other form of financial support) to small and medium sized businesses of all stages of development, based in Greater London”;
 - enabling Funding London’s Board to appoint all GLIF directors subject to the prior consultation and agreement of the GLA to the appointment of any potential director;
 - allowing the Funding London Board to appoint the chair and deputy-chair of GLIF’s Board;
 - making Funding London the sole member of the company (GLA must be consulted about admitting any new company member); and

¹ The company’s name could not include the word ‘fund’ as it will be unregulated, as defined by the Financial Conduct Authority. However, the fund of funds can be promoted as Greater London Investment Fund (GLIF). Moreover, EU regulation requires ERDF-backed investment funds to include ERDF in their name.

- removing some of the activities for which GLA's prior approval is needed – see paragraph 1.6 below.
- 1.6 Funding London's AoA includes a list of activities for which GLA's prior approval is required. This includes activities such as borrowing over a certain limit, changing their AoA or entering into any litigation that is material to the company. To ensure GLA has proper oversight and scrutiny of GLIF, most of the activities in Funding London's AoA requiring GLA's approval have been included in GLIF's AOA. The main activity that has been removed is the need to approve an annual business plan. This was deemed unnecessary as GLIF's work will be predicated on a 10-year business plan, with contractual obligation to meet annual financial and outcome targets. Any changes to GLIF's business plan will be made in line with the procedure outlined in the ERDF agreement between the GLA and GLIF.
- 1.7 The list of activities for which GLIF will need GLA's approval is grouped in two types based on who will take decision on these matters – see 'Type 1' and 'Type 2' in Section 11 of Schedule 3 of GLIF's AoA. As with Funding London and as outlined in MD2237, decisions on 'Type 1' activities will be taken in the same manner as for 'Category 2 Mayoral Reserve Matters', as set out in the Mayoral Decision-Making in the GLA (March 2018) Document (MDM); and decisions on 'Type 2' activities to be taken under the 'General Delegation' and 'General Staff Authorisation' in the MDM.
- 1.8 Once the proposed AoA are approved by the GLA and Funding London's Board, it will then allow Funding London to formally establish GLIF. Were GLIF's Board to recommend any significant changes to the AoA at Appendix 1 post incorporation, (it is not expected to) they would need to be reconsidered by the Executive Director of DEE and approved via a Director's Decision Form in line with the AoA's.

Governance oversight for GLIF

- 1.9 Like Funding London, GLIF will operate as an arms-length subsidiary company of the GLA. The proposed AoA will result in GLA having less direct control over GLIF on the basis that it will not be a member, nor appoint directors to GLIF's board. But, if necessary, it can exert control via Funding London. It is not proposed that GLIF employ any staff itself and relevant activities channelled through GLIF will be undertaken by Funding London's staff. The governance oversight for both companies (i.e. overseeing GLA's interaction in the corporate governance of the companies) will be led by teams within the GLA's Development, Enterprise and Environment Directorate (DEE). For Funding London, this will continue to be Regeneration Team. As the GLA's European Programme Management Unit (EPMU) will be responsible for the contract and performance management function for the fund of funds, it will also take on the governance oversight responsibility for GLIF. However, where a decision is to be taken by Funding London's Board that may affect GLIF, and vice versa, EPMU and the Regeneration Team within DEE will consult each other, and if necessary consult the Executive Director of DEE, before a decision is made. The Regeneration Team will prepare a document setting out how Funding London will interact with and report to the GLA, and this will need to reflect how it will manage the operations of GLIF.
- 1.10 GLIF's proposed AoA stipulate that there will be at least three directors and no more than eight. As set out in MD2237, and reflected in GLIF's AoA, the GLA must provide its prior written agreement to any potential director that will be appointed to GLIF's Board. This is a 'Type 2' activity and as outlined in paragraph 1.8 above and this decision will be taken under the 'General Delegation' and 'General Staff Authorisation' in the MDM.
- 1.11 Funding London has recommended, for GLA's consideration, three potential directors for appointment to GLIF's Board. All three potential directors were recently appointed by the Mayor of London to Funding London's Board. It was proposed that the GLA appointed director on Funding London's Board be also appointed to GLIF's Board. The potential directors, in Appendix 3, have the necessary skills

and experience to ensure the successful operation of GLIF and so there is no objections to their appointment to GLIF's Board. Funding London will run an open recruitment exercise to select other qualified directors.

2. Objectives and expected outcomes

- 2.1 The objectives and expected outcomes are the same as those outlined in MD2237. The establishment of GLIF will help to drive economic growth and job creation in London through the provision of equity and loan finance to SMEs operating in sectors that are important in enhancing London's competitiveness, including the emerging circular economy. At least 220 SMEs will be supported, which should lead to the creation of approximately 3,400 new jobs.

3. Equality comments

- 3.1 The principles and commitment outlined in the Equality Comments section in MD2237 are still relevant for this DD. GLIF and the organisations procured to manage the four sub-funds will be required to promote equality in accordance with European Union and national requirements in targeting investments to businesses.
- 3.2 The activities of GLIF will focus on business rather than directly on people. However, the ERDF funding agreement will 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 not². Further, s33(1) of the GLA Act requires the Mayor to make appropriate arrangements with a view to securing that in the formulation of the policies and proposals to be included in any of his statutory strategies, and in their implementation, there is "due regard to the principle that there should be equality of opportunity for all people".
- 3.3 The ERDF funding agreement will also include a requirement for Funding London to produce a detailed action plan, in consultation with GLA, to raise awareness and increase take up of GLIF's investments from businesses run by people from underrepresented and/ or protected groups.

4. Other considerations

a) Key risks and issues

- 4.1 As this DD will enable the implementation of the decisions in MD2237, the risk and issues highlighted in MD2237 are the same. In summary, these are:
- i. **Uncertainty about timing and value of financial returns** from the operations of Funding London may result in them approaching the GLA for further financial support to smoothen their cash flow. GLA officers will work closely with Funding London and GLIF to mitigate this risk.
 - ii. **Reputation:** GLIF will be a wholly-owned subsidiary of Funding London, which is itself a subsidiary of the GLA. As such, the GLA will be closely associated with GLIF and its activities. As

² Protected characteristics under the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status (the duty in respect of this last characteristic is to eliminate unlawful discrimination only). This may involve, in particular, removing or minimising any disadvantage suffered by those who share a relevant protected characteristic, taking steps to meet the needs of such people; and encouraging them to participate in public life, or in any other activity where their participation is disproportionately low, including tackling prejudice and promoting understanding. In certain circumstances compliance with the Act may involve treating people with a protected characteristic more favourably than those without the characteristic.

outlined above GLIF's AoA include relevant provisions to allow GLA to have proper oversight of its activities. This will be supplemented by the contractual controls in the ERDF agreement.

- iii. **Financial Consolidation:** Funding London is a wholly-owned subsidiary of GLA, and its accounts and those of GLIF will be consolidated within GLA's accounts. This means any GLIF debt, either existing or new will be included on the GLA's balance sheet; and the GLA will need to assess any financial risk if and when they arise.
- iv. GLIF will be a 'Regulated Company' under the Local Authorities (Companies) Order 1995 (as amended) and will be subject to legislative requirements, such as application of the Freedom of Information Act 2000, access to the GLA's auditors and identification of the GLA as the controlling authority on its business communications.
- v. The UK Government agreed to continue implementing EU funded programmes beyond Brexit for their full term, until December 2023. Even in the event of 'no-deal' with the EU, we could still provide the £32m ERDF on the basis that the government confirmed it would guarantee EU funding for agreements signed before the UK's departure from the EU.

b) Links to Mayoral strategies and priorities

- 4.2 The approval of the decisions in this DD will enable the establishment of the fund of funds that will help to address the SME finance gap in London. As such, it is in line with the overarching vision and objectives outlined in the Mayor's draft Economic Development Strategy (EDS) and 'A City For All Londoners'. It will also help to achieve the Mayor's ambition of London becoming a zero-carbon city by 2050, as set out in the draft Environment Strategy, by providing early stage finance to circular economy businesses.

c) Impact assessments and consultations

- 4.3 EU regulations require that 'ex ante' assessments are carried out in respect of ERDF-backed investment funds to demonstrate market failures and funding needs. Initial work was carried out by Regeneris Consulting Ltd, in conjunction with European Investment Bank, and further work was done by PwC on circular economy businesses. The 'ex ante' assessments also included a review of current finance provisions and detailed consultation with key stakeholders and market players.

5. Financial comments

- 5.1 Decision MD2237 refers to the financial implications of setting up the Greater London Investment Fund Limited (GLIF).

- 5.2 The European Programmes Management Unit will be responsible for the governance and oversight for Greater London Investment Fund Limited (GLIF). However, where a decision is to be taken by Funding London's Board that may affect GLIF, and vice versa, EPMU and the Regeneration Team will consult each other, and if necessary consult the Executive Director of DEE, before a decision is made. These arrangements should be set up to minimise any financial risk to the GLA.

6. Legal comments

- 6.1 The proposed formation of GLIF by SMEWFL and the giving of the GLA's consent to its AoA and other matters required under SMEWL's own AoA are consistent with the Mayor's powers to further the promotion of economic development and wealth creation in Greater London under section 30 of the GLA Act 1999.

7. Planned delivery approach and next steps

The following key activities will lead to the establishment of the GLIF and its sub-fund:

Activity	Timeline
Establish GLIF	May 2018
Issue ERDF Funding Agreement.	May 2018
Select fund management organisations for sub-funds.	June 2018
EIB completes due diligence and gets their management committee approval.	July 2018
Obtain Mayoral approval for EIB lending to SPV	August 2018
Launch Sub-funds	October 2018

Appendices and supporting papers:

Appendix 1: Articles of Association for GLIF Limited

Appendix 2: Fund of Funds model and details of sub-funds

Appendix 3: Directors recommended for appointment to GLIF Board

Background Papers:

MD2086 Part 1 and 2 (not appended)

MD2237 Part 1 and 2 (not appended)

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:

N/A

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 to confirm the following (✓)

Drafting officer:

Kenroy Quellenec-Reid has drafted this report in accordance with GLA procedures and confirms that:

✓

Assistant Director/Head of Service:

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

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

Corporate Investment Board:

The Corporate Investment Board reviewed this proposal on 29 May 2018.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Helle

Date

29.5.18

