

Title: Loan and SCIL Grant to Studio 3 Arts for Major Arts Centre Development Project at the Galleon Centre

Report of the Cabinet Member for Community Leadership and Engagement

Open Report with Exempt Appendices (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972)

For Decision

Wards Affected: Gascoigne

Key Decision: Yes

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Accountable Strategic Leadership Director: Abi Gbago, Strategic Director Inclusive Growth

Summary

Studio 3 Arts is a vibrant community arts organisation with an ambitious creative programme that reaches people across Barking and Dagenham and far beyond. The charity delivers key components of the borough's equalities, diversity and inclusion programming, as well as youth mentorship and leadership schemes in partnership with the GLA and other key stakeholders. Operating out of the LBBB-owned former Galleon Community Centre, Boundary Road, Barking, the site has historically suffered from lack of street presence, dingy, uninsulated spaces, worn and unreliable services and facilities that do not reflect the scale, ambition and quality of the work produced. In an area undergoing massive urban change, there is huge potential for Studio 3 Arts to attract greater numbers of residents and visitors to Barking Town Centre and to act as the creative glue of an emerging new community.

The ongoing works for the new "World Class Arts Centre" in the heart of Barking and Dagenham include retaining most of the structure and fabric of the existing building, whilst re-orientating many of the functions within. The entrance and public spaces are to be more visible and welcoming, creating a vibrant and inviting appearance on the street, also benefiting the wider public realm. Most significantly, a new studio is proposed, allowing the organisation to rent space for community events at affordable rates as well as increasing its own creative programme.

Studio 3 Arts has raised over £1.6m towards the project; this includes £1m from Arts Council England and £500k from GLA. Despite this significant fund-raising, the price of materials has increased exponentially throughout the building works due to the pandemic and other national/global economic pressures, placing enormous pressure on the project budget. Significant unforeseen costs from highways related to the exterior pavement have also arisen at the late stages of the building programme. For these reasons, Studio 3 Arts have requested a loan from LBBB in the amount of £200,000 to reach the final snagging stage of the project. In addition, they are also requesting a grant of £156,000 via the Strategic Community Infrastructure Levy to cover the balance of the outstanding project costs.

Recommendation(s)

The Chief Executive, acting on behalf of the Cabinet in accordance with the Urgent Action provisions of Part 2, Chapter 16, paragraph 4 of the Council Constitution, is recommended to:

- (i) Agree a loan in the amount of £200,000 to Studio Three Arts to allow completion of the project on the terms set out in the report; and
- (ii) Agree the allocation of £156,000 Strategic Community Infrastructure Levy (SCIL) funding as a one-off grant to cover the balance of the project, which represents less than 10% of the overall project cost.

Reason(s)

This capital project is a significant community-focused development, which will contribute to much needed cultural infrastructure for the Borough. Development of the world-class arts centre aligns directly to key Council priorities, particularly as it provides an inclusive platform for greater “Citizenship and Participation” for the diversity of residents of the Borough, and as it contributes to a more “inclusive growth” as part of the broader Barking Town Centre Strategy.

1. Introduction and Background

- 1.1 Studio 3 Arts is a vibrant community arts organisation and charity with an ambitious creative programme that reaches people across Barking and Dagenham and far beyond.
- 1.2 With a programme focused on instilling local pride and ambition, as well as the confidence to embrace the extremes of imagination and vulnerability, Studio 3 is well established as a social and cultural anchor spanning a hugely diverse community of users across Barking and Dagenham – and beyond.
- 1.3 Studio 3 Arts delivers key components of the borough’s equalities, diversity and inclusion programming such as the LBBD-funded *Be and Do* programme which provides support to the broader LGBTIA+ community of Barking and Dagenham; Studio 3 Arts also heads key youth leadership programmes in the borough such as *Groundbreakers* which is funded through the Mayor’s Office for Policing and Crime as part of a broader knife-crime reduction scheme initiated by the Home Office.
- 1.4 Operating out of the LBBD-owned former Galleon Community Centre, the site suffers from lack of street presence, dingy, uninsulated spaces, worn and unreliable services and facilities that don’t reflect the scale, ambition and quality of the work produced.
- 1.5 Following appointment in May 2019, Citizens Design Bureau are the Architects for the project, with a team of specialist consultants. The ongoing works to see through the transformational project include:
 - Refurbishment of a 110-seat studio theatre

- A recording suite with live room
- A fully accessible “Changing Place” room with hoist, shower and changing facilities for disabled people
- A café/bar
- A gallery
- A brand-new extension to create a rehearsal studio with own kitchenette which will be available for hire for fitness classes, children’s birthdays, rehearsals etc
- Artists commissions inside and outside

1.6 Studio 3 Arts are employing Kickstarter Apprentices to work with our contractor GLF Lewis.

1.7 The extension is being built sustainably with straw bales and lime plaster techniques, led by the School of Natural Building <http://schoolofnaturalbuilding.co.uk/>. Super-insulated and built by local people, everything about this new addition and the wider building reflects LBBB’s own ethos of an imaginative, inclusive, community-powered and sustainable future. See Appendix 1 for further details.

2. Proposal and Issues

2.1 Studio 3 Arts have requested a loan from the Council totalling £200,000 to reach the final stage of building works at the former Galleon Centre site. In addition, they are requesting a grant of £156,000 to cover the final costs of the project. A loan for the full amount would not be financially viable for the organisation to take on, with the repayments putting a monthly pressure which would affect their ability to deliver key programming.

2.2 The work on the Galleon Centre to date has encompassed extensive engagement and consultation with staff, users and planners, with highly supportive feedback provided by LBBB in August 2019 and planning permission granted. These conversations have informed design development, towards an approach that reflects the creative DNA of Studio 3 Arts and the borough more broadly.

Funds raised to date by Studio 3 Arts:

Arts Council England Small Capital - £499,999

Greater London Authority Good Growth Fund- £500,000

Clothworker’s - £50,000

Foyle Foundation - ££75,000

Veolia Environmental Trust - £75,000

Theatre Trust - £5,000

Arts Council England Kickstart Fund - £425,000

TOTAL £1,629,999

2.3 Currently Studio 3 Arts have a **£356,000** projected overspend on the building and interior costs due to factors beyond their control. As the project has progressed, material prices have exponentially increased due to implications of the pandemic and broader global/national economic issues, which have also affected the building industry at-large.

- 2.4 Additionally, Studio 3 Arts have had to manage unexpected costs arising to the project such as £20k in costs from highways that were unforeseen related to the exterior pavement.

3. Options Appraisal

- 3.1 Approve the loan and grant. The Council owns the property and should there be a default on this project, the lease will end and the Council will take back ownership of the building.

LOAN - Agreed loan terms are:

Amount:	200,000.00
Rate (%):	3.00%
Years:	24
Payments Per Year:	1
Estimated Start Date	01-Aug-2022

GRANT - £156,000 SCIL grant funding to be met through either:

- Strategic Community Infrastructure Levy funding, or
- Capital expenditure: The Council could spend £156k on enhancing the asset as capital spend. This would then be adjusted in the accounts when the asset is revalued. There would still be a spend of £156k that would need to be paid back over the length of the remaining lease, which is 24 years. This would require a fixed budget allocation of £9.715k per year for the 24 years.

- 3.2 Do nothing - Risk of project not being completed and the building returning to the Council, or risk of the project being significantly delayed beyond this calendar year whilst the organisation seeks other sources of funding. The lack of funding support would also have a detrimental impact on Studio 3 Arts' viability as an organisation, possibly causing them to default on payments owed to contractors and architects working on the project. By being in this vulnerable position, their National Portfolio Organisation status with Arts Council England (currently under review as part of the triennial funding cycle) may also be impacted.

4. Consultation

- 4.1 Relevant Cabinet Members have been kept informed on this proposal since it first arose in early 2022.
- 4.2 The Head of Planning and Assurance and LBB's Asset Manager have been consulted to discuss SCIL grant-funding possibilities to support completion of this project. Studio 3 Arts have completed an application form for SCIL funding to be considered as a one-off funding application. This application, and an assessment report, was submitted to the Local Plan Steering Group (LPSG) for consideration, in accordance with the SCIL Allocation Procedure agreed at Cabinet in December 2017. LPSG have agreed to present the proposal to Cabinet for approval
- 4.3 Consultation also took place with the Chair of the Board at Studio 3 Arts to discuss the most fiscally resilient model of loaning and granting funds to the charity organisation, and reviewed their proposed new Management Structure and

programming frameworks for the refurbished building once it reopens to the community.

5. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

- 5.1 The loan to Studio 3 Arts is for £200k, with a repayment period of 24 years and a fixed loan rate of 3.0%. The loan has been structured to be affordable for Studio 3 Arts, while ensuring that the Council covers its cost of borrowing.
- 5.2 The funding is required to cover a shortfall in funding as a result of large increases in build costs. The Council owned building, Galleon Community Centre, will have had nearly £2m of spend to enhance the asset, made up of £1.630m of external grants and the £356k requested from the Council, via a loan and grant.
- 5.2 The loan duration of 24 years is significant for the size and type of loan, but it matches the duration of the lease. In the event of a default, due to Studio 3 Arts becoming insolvent, the loan will likely need to be written-off but this will also end the lease and the Council will take back the enhanced asset.
- 5.3 A draft repayment schedule is provided below but will be finalised to reflect the actual payment dates if the loan is agreed.

No.	Start Date	Start Balance	Payment Amount	Capital Paid	Interest Paid	Remaining Balance
1	Aug/2023	200,000.00	11,809.48	5,809.48	6,000.00	194,190.52
2	Aug/2024	194,190.52	11,809.48	5,983.77	5,825.72	188,206.75
3	Aug/2025	188,206.75	11,809.48	6,163.28	5,646.20	182,043.47
4	Aug/2026	182,043.47	11,809.48	6,348.18	5,461.30	175,695.29
5	Aug/2027	175,695.29	11,809.48	6,538.62	5,270.86	169,156.66
6	Aug/2028	169,156.66	11,809.48	6,734.78	5,074.70	162,421.88
7	Aug/2029	162,421.88	11,809.48	6,936.83	4,872.66	155,485.05
8	Aug/2030	155,485.05	11,809.48	7,144.93	4,664.55	148,340.12
9	Aug/2031	148,340.12	11,809.48	7,359.28	4,450.20	140,980.84
10	Aug/2032	140,980.84	11,809.48	7,580.06	4,229.43	133,400.79
11	Aug/2033	133,400.79	11,809.48	7,807.46	4,002.02	125,593.33
12	Aug/2034	125,593.33	11,809.48	8,041.68	3,767.80	117,551.64
13	Aug/2035	117,551.64	11,809.48	8,282.93	3,526.55	109,268.71
14	Aug/2036	109,268.71	11,809.48	8,531.42	3,278.06	100,737.29
15	Aug/2037	100,737.29	11,809.48	8,787.36	3,022.12	91,949.92
16	Aug/2038	91,949.92	11,809.48	9,050.99	2,758.50	82,898.94
17	Aug/2039	82,898.94	11,809.48	9,322.52	2,486.97	73,576.42
18	Aug/2040	73,576.42	11,809.48	9,602.19	2,207.29	63,974.23
19	Aug/2041	63,974.23	11,809.48	9,890.26	1,919.23	54,083.98
20	Aug/2042	54,083.98	11,809.48	10,186.96	1,622.52	43,897.01

21	Aug/2043	43,897.01	11,809.48	10,492.57	1,316.91	33,404.44
22	Aug/2044	33,404.44	11,809.48	10,807.35	1,002.13	22,597.09
23	Aug/2045	22,597.09	11,809.48	11,131.57	677.91	11,465.52
24	Aug/2046	11,465.52	11,809.48	11,465.52	343.97	0.00

- 5.4 Strategic Community Infrastructure Levy (SCIL) is collected from developers when development commences and is held in an account for the Council to allocate to infrastructure projects that are necessary to deliver the objectives of the Borough Manifesto and growth set out in the emerging Local Plan. In 2018 and 2019 the Council held a bidding process (agreed by Cabinet in December 2017) to allocate money received. The process is that projects are considered by Local Plan Steering Group and then presented for approval by Cabinet. The Infrastructure Delivery Board has agreed that the process of allocation should be reviewed, and no money has been allocated since October 2019. Studio 3 Arts have completed an application form for SCIL funding, which has been submitted to LPSG. As an exceptional measure, LPSG agreed the application should be presented to Cabinet for SCIL funding outside of the allocation cycle.
- 5.5 Were the Council to spend £156k on enhancing the asset, this would require funding of £9.715k per year for 24 years, based on an annuity Minimum Revenue Provision (MRP) and a rate of 3.5%, which is the standard MRP approach used by the Council.
- 5.6 The Council generally does not provide loans to external organisations there is a risk of default of this loan. The key factors to take into account for the loan is the community service provided and the funding already accessed by the by Studio 3 Arts and that the asset is owned by the Council, although leased to Studio 3 Arts.

6. Legal Implications

Completed by: Dr Paul Feild, Principal Governance Lawyer

- 6.1 This report proposes a grant and loan be made to Studio 3 Arts. The grant is for £156K and the loan is for £200k, with a repayment period of 24 years and a fixed loan rate of 3.0%,
- 6.2 As observed in the report the proposed grant funding source will be the Strategic Community Infrastructure Levy. The levy must be spent on infrastructure needed to support the development of the area, and is intended to focus on the provision of new infrastructure. The levy can only be spent on the infrastructure within the following categories being: Education facilities; Transport improvements; Environmental improvements including hard and soft landscaping, green spaces and waterways; Sport, leisure, parks and open spaces; Health facilities; Business support facilities; Community safety projects; Community facilities and Flood defences
- 6.3 The aims and objectives of Studio 3's activities as set out in para 1.2 above would be consistent with SCIL. The loan is understood to be secured on the lease asset which would provide security if there were to be a default situation. The loan agreement will be by deed.

7. Other Implications

- 7.1 **Risk Management** - We have consulted the Chair of the Board at Studio 3 Arts to discuss the most fiscally resilient model of loaning and granting funds to the charitable organisation, and reviewed their proposed new Management Structure and programming frameworks for the refurbished building once it reopens to the community. Please see Appendix 2 which provides details of Studio 3 Arts' budget for the current 2022/2023 financial year.

It is also important to note Studio 3 Arts' core funding obtained through Arts Council England's National Portfolio Organisation scheme is currently being reviewed as part of the regular triennial review of portfolio organisations, and their inability to deliver on this project may affect their National status and viability as part of that scheme longer term.

- 7.2 **Corporate Policy and Equality Impact** - Studio 3 Arts delivers key components of the borough's equalities, diversity and inclusion programming such as the LBBD-funded *Be and Do* programme which provides support to the broader LGBTIA+ community of Barking and Dagenham; Studio 3 Arts also heads key youth leadership programmes in the borough such as *Groundbreakers* which is funded through the Mayor's Office for Policing and Crime as part of a broader knife-crime reduction scheme initiated by the Home Office.
- 7.3 **Property / Asset Issues** – The property is freehold owned by the Council and the subject of a lease, as noted in this report.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- Appendix 1: RIBA Stage 4 report prepared by Studio 3 Arts and architects Citizens Design Bureau (exempt document)
- Appendix 2: Updated Studio 3 Arts outline budget as provided by Chair of the Board Karen West Whyllie on 06/07/2022 (exempt document)
- Appendix 3: SCIL Application form completed by Studio 3 Arts Board members (exempt document)