

## CABINET

21 September 2021

<b>Title:</b> Future of Roycraft House, Linton Road, Barking – Proposed Lease Arrangements	
<b>Report of the Cabinet Member for Regeneration and Economic Development</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> Abbey	<b>Key Decision:</b> No
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<b>Accountable Director:</b> Ed Skeates, Director of Development, Be First	
<b>Accountable Strategic Leadership Director:</b> Claire Symonds, Managing Director	
<b>Summary</b> <p>By Minute 8 of the meeting on 25 May 2021, the Cabinet agreed proposals to tender for a workspace operator for Roycraft House, offering a lease of up to 10 years noting that a further Cabinet report would set out the results of the tender process and seek approval to enter into a lease and associated Service Level agreement with the successful bidder.</p> <p>A two-stage process was held whereby an Expressions of Interest stage in May 2021 enabled interested parties to set out their experience. Six expressions of interest were submitted and evaluated with the highest scoring four organisations invited to respond with a more detailed proposal assessed against a range of quality and price criteria. The four organisations submitted strong bids and a clear winner emerged on both price and quality.</p> <p>The highest scoring bidder was Make It Group, who were extremely enthusiastic for an ambitious scheme in Barking which responded to all Council's requirements and will actively engage local stakeholders. This report sets out the evaluation process and Make It Group's proposals.</p> <p>Alongside this process, Be First (through the new Barking Town Centre Stakeholder Group) submitted an Expression of Interest to the Mayor of London's High Street Challenge and was successful in securing £20,000 for developing the Roycraft House proposal further, specifically ensuring local residents and stakeholders are actively involved in shaping the proposal. The next stage of the High Street Challenge requires bids in October for more significant capital and revenue funding. If this funding is secured it will be used for additional physical refurbishment that will enable a more ambitious range of activities and facilities and achieve a wider outreach.</p>	
<b>Recommendation(s)</b> <p>The Cabinet is recommended to:</p>	

- (i) Agree that the Council enters into a 10-year lease (plus an initial five months for fit-out works) and Service Level Agreement with Make It Group to operate Roycraft House as workspace, in line with the bid submission and subsequent consultation; and
- (ii) Delegate authority to the Managing Director, in consultation with the Cabinet Member for Finance, Performance and Core Services, the Cabinet Member for Regeneration and Economic Development and the Strategic Director, Law and Governance, to conclude the lease and any related documents to deliver the objective to operate Roycraft House as a workspace.

**Reason(s)**

The reuse of Roycraft House can contribute to each of the Council's priorities of "Inclusive Growth", "Participation and Engagement" and "Well Run Organisation" through utilising Council assets to deliver a wide range of socio-economic benefits.

## **1. Introduction and Background**

- 1.1. Roycraft House is one of the few large office buildings in Barking Town Centre. As it becomes surplus to Council requirements later this year it offers the chance to secure revenue savings alongside delivering a range of positive benefits. Roycraft House is a 5-minute walk from Barking station - as such it is a prime opportunity site. The Cabinet report in May set out the context and assessed a range of options for the building/site.
- 1.2. Cabinet agreed to go out to the market for workspace operators to set out proposals for the building under a 10-year lease.
- 1.3. Vacating Roycraft house and passing holding costs to another party would generate revenue savings for the Council. The annual running/maintenance costs for Roycraft are just over £450,000 per annum.

## **2. Proposal and Issues**

- 2.1. A workspace consultancy, Workwild, who have hands on experience of delivering workspace, were commissioned in November 2020 to carry out workspace research in Barking Town Centre. As part of their research they spoke to existing workspace operators in the town centre and a range of local businesses. They identified the local demand for workspace that is not currently being served, in particular for young people. In-depth soft market testing also suggested workspace operators are interested to operate in Barking Town Centre and with the proven demand of workspace in the local area.
- 2.2. With Roycraft House becoming surplus due to the Council requiring less office space as a result of the disbursed working strategy, it was recommended the Council should consider delivering a 'hybrid' model of managed workspace at Roycraft House.

## Selection Process

- 2.3. In May 2021 Cabinet has made the decision to go out to tender for a workspace operator for Roycraft House offering a lease of up to 10 years. Officers also agreed to tender the opportunity as a lease as the most efficient and commercial attractive route for the operator selection.
- 2.4. An Expression of Interest was issued to seek interested workspace operators who can deliver an innovative and high-quality workspace at Roycraft House. The opportunity was openly marketed. The Council received six bids and which were assessed on both quality and price.
- 2.5. The highest-scoring four organisations were invited to stage 2 and asked to prepare a more detailed proposal. Clear evaluation criteria were set out in the brief for bidders. The selection panel for both EOI and stage 2 consisted of David Harley, Head of Regeneration at Be First, Lily Kwong at Be First who is managing the project and Tess Lanning, Head of Enterprise and Employment. Support was provided by consultancy Workwild. Further briefings were held with other Council officers and the Cabinet Portfolio holder.
- 2.6. The four organisations submitted strong bids. However Make It Group's proposal scored the highest in both price and quality leading to a total score of 90.

No.	Bidder	Total
1	Make It Group	90
2	Bidder A	83
3	Bidder B	73
4	Bidder C	60

## Preferred operator's proposal

- 2.7. Make It Group presented an ambitious transformation of Roycraft House to be a new destination and focal point for local communities and businesses. They will be offering a wide range of affordable workspace targeting the Council's identified growth industries, especially the creative sector, complemented by tailored business support activities.
- 2.8. Make It Group describe their proposal as "a multi-faceted destination for the local community, visitors and a workspace for 208 independent businesses. Home to some of London's most exciting makers, food stars, retailers, content creators, designers, social enterprises and start-up businesses – including an event/café and community space, a rooftop garden, a co-working floor and a series of public facing creative facility spaces. The ground floor will become a flexible public space to eat, drink, entertain, meet, connect or simply just be." It will include a new entrance into the existing car park which will become a Makers yard including some retail units. Their sister company, [Bearded Kitten](#), a creative experience agency, have extensive experience of creating exciting spaces and will be able to deliver the majority of the fit out works themselves rather than rely on external contractors.

- 2.9. Whilst some of the bidders sought loan funding from the Council, Make It Group are proposing to invest more than £1m of private capital investment into the project. They have proposed a rent of £892,500 over the 10-year lease term, with additional profit share with the Council based on revenue thresholds. The engagement stage set out below will refine the proposal and associated business plan.
- 2.10. It is estimated 600 people will be accessing the workspace with proposals to ensure usage reflects the diversity of the Borough. The project is expected to deliver 10,000 hours of skillshare and 7,000 hours of free space for local communities.

### **Next Steps**

- 2.11. The report seeks Cabinet approval on the appointment, and for the Council to enter into a 10-year lease and service level agreement (SLA) with the preferred operator Make It Group. The SLA will set out the social value output delivery targets and enable active evaluation and monitoring by the Council. The lease with Make It Group is expected to start from January 2022 to enable work on site where the 10-year lease term will start from July 2022, subject to final negotiation between parties.
- 2.12. Make It Group is expected to start a series of engagement activities with local communities which will continue to shape their proposal for Roycraft House. Make It Group will also aim to set up an independent advisory board, consisting of local residents and stakeholders, that will shape the development and delivery of Roycraft House in the long term.
- 2.13. The engagement stage will ensure the proposals enhance and complement, rather than directly compete with, nearby facilities like BEC, ThreeSixty and A House for Artists.
- 2.14. Make It Group will also work on the building's design and planning in the coming months, with the expectation to start work on site in spring 2022 leading to opening in summer 2022.
- 2.15. It is expected the full vacating of staff at Roycraft house will be completed by September 2021. Officers will work on the transitional arrangements including security of the building before the building is handed over to Make It Group.
- 2.16. In relation to the second stage of Mayor of London's High Street Challenge bid in October, Be First together with Make It Group will continue to work with the Barking Town Centre Stakeholder Group in the outreach and development of the bid. A wide range of engagement activities are planned across coming months to ensure local residents and stakeholders are actively involved in shaping the proposal including specific focus groups. Should the Roycraft project be successful in the next stage of the GLA bid, the funding will enable more ambitious range of activities and wider outreach of local communities such as additional event activities at Makers yard and opening up a roof top garden to improve accessibility.

### **3. Options Appraisal**

- 3.1. The alternative options for Roycraft House were assessed in the May 2021 Cabinet report. This report assesses the different bids received. Given the quality of

responses it is not felt that going back out to the market would secure any better proposals. Any shorter lease length would not be acceptable to the preferred bidder.

#### **4. Consultation**

- 4.1. Workwild's feasibility study involved consultation with a range of Barking Town centre stakeholders. The Barking Town Centre Stakeholder Group also endorsed the project. The next stage of the project will involve extensive consultation and involvement of residents and other stakeholders in defining the proposals for the facility. This includes utilising BDCAN. Make It Group would also establish an Advisory Board including local stakeholders.
- 4.2. The proposals in this report were considered and endorsed by the Corporate Strategy Group at its meeting on 19 August 2021.
- 4.3. A meeting of Barking workspace providers was held on 1 September to discuss the proposal and critically how to maximise the benefits as each new facility improves Barking's offer to the benefit of all providers. It was clear that there is existing strong demand for space especially from local entrepreneurs (with many spaces full) and that the Borough's growth will facilitate requirements for more space.

#### **5. Commissioning implications**

Implication completed by Darren Mackin, Head of Commissioning and Place, Inclusive Growth

- 5.1 The proposals set out in this report are a good example of how the Council can use its assets to deliver inclusive growth. Roycraft House is a key council owned asset in a prime location in Barking Town Centre. Agreeing to this lease will enable the space to be repurposed to attract new businesses and employment opportunities in the borough.
- 5.2 In addition to this the proposals will also contribute to wider place making aspirations that the council has for Barking Town Centre. Opening up the ground floor of the building to include a café and public space, will provide welcome new amenity within the town centre. The building is located close to the Barking Enterprise Centre and the House for Artists (which Be First are developing), which form a cluster of creative and commercial uses for the town centre.

#### **6. Financial Implications**

Implications completed by: David Dickinson, Investment Fund Manager

- 6.1 The report sets out the results of a competitive process to select a workspace operator to take a 10-year lease of Roycraft House.
- 6.2 There will be savings of approximately £456.5k per annum available to the Council from not holding Roycraft House. This would come into effect from the date of the lease – expected to be January 2022.

- 6.3 The preferred bidder's proposal included a rent from the second year of operation plus a gainshare proposal if certain occupancy rates are achieved. The rent is £892,500 over the 10-year lease. Make It Group are also proposing to invest more than £1m of private capital investment into the project.
- 6.4 No further capital or revenue funding is required from the Council. The preferred bidder is also not seeking loan funding from the Council. They will however work with the Council to seek additional grant funding including from the Mayor of London to further enhance the proposed facility.
- 6.5 Due diligence on Make it Group still needs to be completed and any contract award/lease will be subject to a full due diligence check.

## **7. Legal Implications**

Implications completed by: Dr Paul Feild Senior Governance and Standards Solicitor and Sayida Hafeez Senior Property Solicitor

- 7.1 The Council is the freehold owner of the site both the building and its land including the attached ground level car park. The preferred option proposal in this report is to seek an occupier to take control of the building and site for a period of time potentially for up to ten years. At end of which the site may be developed according to a future master plan for the locality.
- 7.2 The option agreed by Cabinet was to seek by tender an occupier which could deliver the use of the site as a workspace as envisaged by the Workwild consultancy in paragraph 2.4 above. Such activities will need to be regulated by use clauses. To achieve a necessary fit-out it may be necessary to carry out refurbishment works which would be financed within the lease conditions.
- 7.3 As observed the Council is the owner of the site and the granting of a lease is a disposal of land assets is and governed by the Local Government Act 1972, section 123. This provides that (subject to consent of the Secretary of State) a Local Authority should not dispose of its land for other than the best that can be reasonably obtained, unless the lease is for a term that does not exceed seven years. The proposed head lease would exclude the right to extend a commercial lease under the Landlord and Tenant Act 1954.
- 7.4 The procurement process is designed to get the best outcome to ensure value for money as required by the Best Value duty required by the Local Government Act 1999. The Council further has to power to enter the arrangements by virtue of the general power of competence in section 1 of the Localism Act 2011 provides sufficient power for the Council to participate in the transaction and enter into the various proposed agreements, further support is available under Section 111 of the Local Government Act 1972 which enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any of its functions, whether or not involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.
- 7.5 As the Council is part of local government it is an emanation of the state, the Council must comply with UK Law regarding giving subsidies. This means that local authorities cannot subsidise commercial undertakings or confer upon them an

unfair economic advantage. While last year the UK left the European Union (EU), issues regarding state aid have not ceased. For example, there remains the EU-UK Trade and Cooperation Agreement and the UK membership of the World Trade Organisations agreement on trade. So, requirements regarding state assistance albeit somewhat less prescriptive than the EU remain. Nevertheless, under the proposals the Council will be entering into the arrangements mainly for financial purposes. The leasing and letting of Roycraft House are market activities and in agreeing final terms for the occupier and financial arrangements regarding any refurbishment/ alteration works the Council should be satisfied they are state aid compliant that is that there is no unlawful subsidy. To do this the Council should ensure it acts as a market operator would, meaning the terms it agrees should be such that an operator or investor in the private sector would agree to those terms given the same or similar circumstances.

- 7.6 As a potential, though not mandatory option, the Council could seek evidence from a commercial adviser whether in their opinion market/private sector parties in the same circumstances would be likely to do agree to the same or broadly comparable terms which constitute the market norm. Such a report (confirming that private/market sector parties will do so) will evidence conformity and compliance.

## 8. Other Implications

### 8.1 Risk Management

Risk/Issue	Description/Mitigation
Risk (1)	<p><b>Risk:</b> Preferred partner unable to deliver  <b>Mitigation:</b> The bid was extremely good with an experienced team followed up by interviews and advice of Workwild. Next stage will be refining the proposal and engagement with local groups including potentially involving other partners in delivery of sub elements. The Council will maintain an active role in the project giving advice.</p>
Risk (2)	<p><b>Risk:</b> Difficulty getting occupation by businesses  <b>Mitigation:</b> There is evidence of demand and Make it Group have a good track record of attracting businesses. Whilst Roycraft has a significant amount of space which may take time to fill the flexible/broad range of the offer should encourage occupation.</p>
Risk (3)	<p><b>Risk:</b> Unexpected costs for physical works  <b>Mitigation:</b> Bidders had the chance to view the building and see various information. It is clear that elements such as the rooftop garden require additional feasibility work before they can be confirmed. High Street Challenge funding will help support that and contribute towards delivery costs if successful. The Bidder is aware there is no additional funding available from the Council. Bearded Kitten (part of the team) have extensive experience of delivering fit out works themselves.</p>

- 8.2 **Contractual Issues** – LBB Legal will be involved in concluding the lease and SLA with Make It London.

- 8.3 **Staffing Issues** – The selection process was managed by Be First working with Inclusive Growth with the support of Workwild.
- 8.4 **Corporate Policy and Equality Impact** – The proposal to reuse Roycraft House as a hybrid workspace links to the corporate priorities of Well Run Organisation, Inclusive Growth, and Participation and Engagement. The building is now recognised to be surplus to requirements, as the Council has demonstrated it is able to work efficiently with reduced office space, and the proposal to change the usage will result in an annual revenue saving. The proposal also creates commercial and community spaces, based on research of local need and demand, bringing a range of socio-economic benefits to Barking Town Centre.

The equality impacts of the plan to vacate Roycraft House and the dispersed working arrangements for Council staff who worked there are being considered through a thorough Equality Impact Assessment process. Make It Group's bid was very strong on ensuring the needs of the Borough's diverse communities are taken account of in developing the proposals. They plan extensive consultation including with focussed groups plus they have experience in running workspace that attract a diverse mix of occupiers reflecting the local population.

Their proposals will enhance physical accessibility to the building.

- 8.5 **Safeguarding Adults and Children** - The proposal can form part of the initiative where safe spaces are identified across the borough.
- 8.6 **Health Issues – Improving the Health and wellbeing of LBBD residents** is a Council priority so ensuring Make It Group have health promoting policies and initiatives in place (including for active travel, healthy eating and no smoking) will support this.
- 8.7 **Crime and Disorder Issues** – Any works and design will be reviewed to reduce any potential crime or disorder arising from the new development. The building/site will have a much more active feel which supports nature surveillance.
- 8.8 **Property / Asset Issues** – The property has been identified surplus to Council's requirement. The proposal saves the Council running/holding costs, achieves a rental income and, critically, retains the asset from the Council for further decision making in 10 years' time.

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

**List of appendices:** None