

CABINET

21 June 2022

Title: Fit-Out Loan Funding for Two Council-Owned Properties	
Report of the Cabinet Member for Regeneration and Economic Development	
Open Report	For Decision
Wards Affected: Abbey and Northbury	Key Decision: Yes
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Accountable Director: Ed Skeates, Development Director, Be First	
Accountable Strategic Leadership Director: Abi Gbago, Strategic Director, Inclusive Growth	
Summary <p>In April 2014 Cabinet agreed the principle of granting Care City Community Interest Company (CIC), the healthy ageing innovation centre, a lease for nil rent on the ground floor office space to be created as part of the redevelopment of the Axe Street sports centre. The redevelopment will be completed this year.</p> <p>In September 2021 Cabinet agreed the principle of transforming Roycraft House into a new destination and focal point for local communities and business. After tendering the opportunity, a 10-year lease was granted to Make it Bow Limited from February 2022.</p> <p>Both tenants will provide valuable social, business and community benefits to residents of the borough in spaces that add to Barking town centre's offer and delivering inclusive growth.</p> <p>It is now proposed to assist both parties with the fit out of their spaces by providing amortised loans repayable over the duration of their occupational leases. These loans will be repaid, in full, with interest and will address the occupiers' cash flow issues of requiring significant capital expenditure to become operational.</p> <p>This report sets out the detailed terms for the loans and seeks authority to proceed.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Approve a loan of up to £440,000 (plus rolled up interest) to Care City Innovation CIC to help fund the fit-out of Council-owned premises at Axe Street, Barking, to be leased by Care City, on the terms set out in paragraph 2.1 of the report;(ii) Approve a loan of up to £250,000 (plus rolled up interest) to Make it Bow Limited (part of the Make it Group) to help fund the fit-out of Council-owned premises at	

Roycraft House, Linton Road, Barking, leased to Make it Bow, on the terms set out in paragraph 2.2 of the report; and

- (iii) Delegate authority to the Strategic Director, Inclusive Growth, in consultation with the Cabinet Member for Regeneration and Economic Development, the Director of Finance and Investments and the Chief Legal Officer, to agree and enter into any agreements and other documents to fully implement and effect the proposals set out in the report.

Reason(s)

To contribute to the delivery of inclusive growth through facilitating getting the spaces operational at both Axe Street and Roycraft House in order to secure a wider range of social and community benefits as well as flagship facilities for Barking town centre.

1. Introduction and Background

1.1 Care City – Axe Street

- 1.1.1 In April 2014, as part of a wider recommendation for the redevelopment of the former Abbey Sports Centre on Axe Street, Cabinet agreed the principle of granting Care City, the healthy ageing innovation centre, a lease for nil rent of the office space to be created on part of the ground floor of the development (alongside a cinema). After some delay and scheme redesign, the 170-apartment scheme is now on site, progressing well and due to complete later this year.
- 1.1.2 Cabinet approved Care City taking a lease at the development at a ‘peppercorn rent’ due to innovative nature of its work, and the health and socio-economic benefits it will deliver for the borough. As an innovation centre for healthy ageing and regeneration, Care City is particularly focused on work that will both transform health and care services for residents of the borough and open up new opportunities for local people to move into and progress through health and care careers. In relation to LBBD’s Social Value Framework, this means Care City will contribute to investment in local people, investment in the local economy, and to community participation and engagement.
- 1.1.3 Care City is also playing a critical role in supporting the Inclusive Growth team’s work to drive up the quality of work and wages within the Care sector, one of the borough’s most substantial employment sectors, including providing significant senior leadership time in a strategic advisory capacity, and aligning delivery of Care City pilots and programmes with LBBD priorities and outcomes.

1.2 Make it Bow – Roycraft House

- 1.2.1 In September 2021 Cabinet agreed the principle of transforming Roycraft House into a new destination and focal point for local communities and business.
- 1.2.2 After tendering the opportunity, a lease for 10 years was granted to Make it Bow Limited in February 2022.

- 1.2.3 Make it Bow Limited 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. The facility will include event space and a food and beverage offer and forms part of the plans to improve Barking's night-time economy.
- 1.3 Both tenants will provide valuable social, business and community benefits to residents of the borough at no direct cost to the Council.
- 1.4 It is now proposed to assist both parties fit out their space by providing amortised loans repayable over the duration of the occupational leases together with interest. This report sets out the detail terms and seeks authority to proceed with the loans.

2. Proposal and Issues

2.1 Care City – Axe Street

- 2.1.1 The Care City space will be provided by the developer to an enhanced shell & core specification and leased-back to the Council for 150 years at nil rent. The space will then be sublet by the Council to Care city on an effective FRI (full repairing and insuring) lease for a term of 20 years.
- 2.1.2 In order to assist Care City deliver the quality and type of facility sought, it is proposed that the Council will loan the full cost of Care City's fit out. This is estimated at a maximum cost of £440,000 and includes initial advance of £30,000 (already provided under delegated authority) and a £5,000 contribution towards the Council's legal fees for preparation of the property lease. The loan will be repaid over the 20-year term of the lease via equal quarterly payments with a fixed interest of Base Rate + 2.5% per annum.
- 2.1.3 The loan will be advanced in agreed stages following exchange of an agreement for lease with the loan repayments being set at Practical Completion of the development and grant of the lease.
- 2.1.4 The Council has reviewed Care City's Business Plan that demonstrates it can meet the repayment of the fit-out costs through a rental mechanism whilst at the same time covering its operational costs.

2.2 Make it Bow – Roycraft House

- 2.2.1 Whilst it was originally envisaged that Make It Bow would be able to self-fund the full fit of Roycraft House, since taking the lease it has become apparent that additional funding is required to fully implement the intended workspace proposal. Planning permission has been secured but they require some additional funding to contribute towards the delivery of the impressive proposals. This is, in part, due to significant increases in the cost of labour and materials since their proposal was submitted.
- 2.2.2 towards the internal and external fit out of the property. The loan will run for the unexpired term of the lease, with repayments amortised until 31st October 2032 at a fixed interest rate of Base Rate + 2.75%pa. Repayments will be made on a quarterly basis.

- 2.3 Both tenants are/will be directly responsible for all outgoings on the space including utilities, refuse and business rates (if payable).
- 2.4 In order to ensure that both loans are appropriately utilised, Be First will monitor the tenants' design process and monitor the works during construction. In the case of Care City, the works will increase the specification of the base fit out of the unit being delivered by the developer which will be capable of use by future occupiers. Likewise, Make It Bow will be undertaking an extensive refurbishment and improvements to Roycraft House. In terms of the worst-case scenario, if either party become insolvent and/or defaulted on the loan, the Council would get the properties back with the benefit of the loan works which will assist in the reletting and potential rental that could be achieved on the individual spaces.

3. Options Appraisal

- 3.1 **Do Nothing:** Not providing the fitout loans will reduce both Care City's and Make it Bow Ltd's ability to establish their proposed business models, deliver the range of social and economic benefits for residents and local businesses, and help contribute to an active and vibrant town centre. Both organisations would struggle to find alternative funding to the timetable needed to keep to programme.
- 3.2 **Loan Proposal:** The recommended loan proposals will enable the two parties to proceed with their fit-out proposals in order to fully deliver the wide range of socio-economic benefits the facilities will provide. They will address each occupier's cash flow issue of high up-front expenditure. The Council will therefore be helping to facilitate the initiatives but in doing so will also be making a financial return from the loan funding.

4. Consultation

- 4.1 The proposals in this report were considered and endorsed by the Investment Panel on 25 April 2022.

5. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

- 5.1 Treasury have agreed the interest rate for each of the loans, with a variable interest rate preferred due to the potential for the Bank of England Base Rate to increase over the next few years.
- 5.2 The loan to Care City, at £440k, is significantly higher than was originally estimated at £200k to £300k and this reflects the increased materials costs for the fit out. The £440k is inclusive of £30k that has already been lent. The rate is currently 3.5% (Base Rate of 1% plus 2.5%). The repayment is based on a 20-year annuity, with 20 years being a significantly long time for a fit out but is required to make the loan affordable. Although the business plan does provide some assurances that the loan, initially, can be repaid, close monitoring will be required over a long period of time.

- 5.3 The loan to Make it Bow Limited is for £250k at a rate of 3.75% (Base Rate of 1% plus 2.75%) and over a much shorter 10-year period, which reflects the duration of the lease.
- 5.4 As outlined in the report, if either party become insolvent and/or defaulted on the lease, the Council would get the properties back with the benefit of the loan works which will assist in the reletting and potential rental that could be achieved on the individual space.

6. Legal Implications

Implications completed by: Dr Paul Feild, Senior Standards & Governance Lawyer

- 6.1 This report seeks Cabinet Authority for two completely separate and unconnected loans for two projects being the Care City at the Axe Street development ground floor office space and the Make it Bow Limited occupation at Roycraft House. In both circumstances the same legal principles apply in that now the UK has left the European Union (EU) different considerations will apply in terms of where non-commercial loans are made by state backed entities such as local authorities ie the Council.
- 6.2 As part of the leaving of the EU agreement was that a level playing field would be established albeit on the UK legal basis the Subsidy Control Act 2022 was passed in April 2022 and will become effective later this year on secondary legislation. The Council's agents in this matter Be First procured advice on compliance and were advised to structure the loans so as to be compliant with the new UK subsidy regime.
- 6.3 **Care City – Axe Street.** Their rent is zero (that is the value of a peppercorn rent). Paragraph 1.1. above explains the social, economic and health benefits it will bring and the loan will be for fitting out as the accommodation is delivered to the Council as a shell and core. The loan will be on sub-market terms. This would be permitted under the Subsidy Control Act as a Service of Public Economic Interest (SPEI) and the final terms will be set out between the parties to ensure it is compliant with the SPEI exemption from the subsidies control regime.
- 6.4 **Make it Bow – Roycraft House.** The Subsidy Control Act 2022 at section 36 sets a de minimis threshold of £315,000 over three years to which the regime does not apply. The loan is significantly smaller than that being £250,000 over the ten-year lease period. Again, the final terms will be agreed between the parties to ensure the overall package of rent and loan is in compliance with the 2022 Act.

7. Other Implications

- 7.1 **Risk Management - Funding risk:** Care City's and Make it Bow Ltd's business models have been reviewed during the lease discussions when full due diligence was undertaken. If either party default on a lease, the Council would be able to relet the property with the benefit of the asset enhancements funded by the loan.
- 7.2 **Contractual Issues –** Stepien Lake (external legal advisors) are acting for the Council on the Care City lease and LBB Legal will document the loan with Make it Bow.

7.3 **Staffing Issues** – Both tenants will appoint project managers for their fit-out works. Be First has facilitated this report and discussions to date in order to progress a vibrant, active town centre with destination facilities.

7.4 **Corporate Policy and Equality Impact** – LBBB is one of the cofounders of Care City (NELFT being the other) and has a seat on Care City's CIC board. The Council collaborates with Care City through its work.

Care City's objective is to transform health and care services for residents and open up new opportunities for local people to move into and progress through health and care careers. It therefore contributes to investment in local people, investment in the local economy, and to community participation and engagement.

Make it Bow Ltd intend to transform 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.

7.5 **Property / Asset Issues** - The transaction will see the Council retaining either the freehold or the long leasehold interest in the spaces. Should Care City or Make It Bow become insolvent or not comply with lease obligations then the Council would re-secure the space for an alternative use.

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

List of appendices: None