

# GREATER LONDON AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD2637

### Title: OPDC Affordable Workspace and Small Business Loan Fund

#### Executive Summary:

As part of the Regeneration and Economic Development (RED) Programme for the Park Royal industrial estate, Old Oak and Park Royal Development Corporation (OPDC) is seeking to establish an Affordable Workspace and Small Business Loan Fund. The fund will provide fixed interest loan funding to affordable workspace providers and small businesses in the creative and food manufacturing sectors. This will address an identified market failure in access to finance for the sectors, as well as addressing structural inequalities in access to finance for minority-led businesses. The initial pilot phase has a total value of £350,000.

Section 213 of the Localism Act 2011 requires OPDC to seek the consent of the Mayor to the provision of financial assistance by way of loans (the current General Consent being confined to the making of grants). The OPDC Governance Direction (approved by the Mayor under cover of MD2502 in 2019), delegates the majority of consents (including assistance under s.213) to the Executive Director for Good Growth.

The Executive Director's consent is therefore sought to the OPDC's making of loans to target beneficiaries of the Affordable Workspace and Small Business Loan Fund.

#### Decision:

That the Executive Director of Good Growth consents to:

- Old Oak Park Royal Development Corporation making loans to key beneficiaries in its area, through a revolving Park Royal Affordable Workspace and Small Business Loan Fund ("the Loan Fund") to address the identified market failure in access to finance with a total value (net of interest payable by borrowers) of £350,000 between a period of no longer than June 2023 and March 2025.

#### 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:** Philip Graham

**Position:** Executive Director, Good Growth

**Signature:**



**Date:**

11/07/2023

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1. As part of its Regeneration and Economic Development (RED) Programme, OPDC is seeking to establish an Affordable Workspace and Small Business Loan Fund.
- 1.2. Section 213 of the Localism Act 2011 requires OPDC to seek the consent of the Mayor to the provision of financial assistance by way of loans (the current General Financial Assistance (Grant) Consent 2019 being confined to the making of grants). The OPDC Governance Direction (approved by the Mayor under cover of MD2502 in 2019) however, records the delegation of most of the Mayor's consent powers, including under s.213, to the Executive Director for Good Growth.
- 1.3. Park Royal is home to more than 1700 businesses employing more than 40,000 people. Conservative estimates suggest that between 15–20 per cent of the workforce is in the creative sector, including a large number of specialist supply businesses servicing London's film, theatre and event production needs. A growing number of businesses are hosted in the area's 14 affordable workspaces including managed artist studios/creative workspace, many of which arrived in the area in the past 2-3 years.
- 1.4. However, Park Royal's success as London's premier industrial location has put considerable pressure on both affordable and low-cost workspace. Prime industrial rents can be as high as £30/sqft, more than doubling in the past year. Average land values in the area have surged to over £10m per acre (compared to the London average of £7.1m per acre), driven by demand for large industrial space. Vacancy rates are often as low as 2-3 per cent.
- 1.5. The OPDC Local Plan sets out a clear ambition to create substantial new affordable workspace within Park Royal and Old Oak (POLICY SP5 Economic Resilience) as well as supporting the area's new mix of SMEs (E3: Supporting Small Businesses and Start Ups).
- 1.6. Many SMEs still struggle to access the right finance to be able to expand their business. The Adebowale Commission on Social Investment found that the structure of the social investment market was at the root of this barrier, particularly the lack of patient, concessionary capital for lending and the lack of flexibility. The Commission stressed a need for diversity in financial products, particularly "enterprise-centric finance", which the Commission defined as "investment which is built around the needs of social enterprises with flexible repayment terms".
- 1.7. In addition, many minority-ethnic led business face additional barriers to accessing finance ([DGLG, 2013](#)). Recent research commissioned by the OPDC has revealed that OPDC is home to much a higher proportion of minority-ethnic led businesses compared to the London average. Estimates suggest that in some parts of Park Royal up to 60 per cent of the businesses are minority-ethnic led. This compares with 16% of SMEs in London, and 5% of SMEs in the UK ([BEIS, March 2023](#)).
- 1.8. Together, these issues have the potential to erode Park Royal's unique business ecosystem. Interim new affordable workspace must be created, or we risk seeing the area become increasingly unaffordable to freelancers, SMEs and many other smaller organisations who support the ecosystem in Park Royal.
- 1.9. In response to these challenges, OPDC is piloting a revolving Park Royal Affordable Workspace and Small Business Loan Fund ("the Loan Fund"). This is one of the key interventions identified by OPDC's draft Affordable Workspace Delivery Plan prepared as part of the Year one RED Programme. This approach builds on existing established practice such as the Haringey Opportunity Investment Fund and Lambeth Future Workspace Fund.

- 1.10. The loans will support workspace providers and small businesses based in Park Royal to expand their existing premises and take on new staff. The Loan Fund is intended to deliver an increase in affordable workspace, support Park Royal’s creative businesses to grow and expand and take on more local employees and secure additional social value outputs including local recruitment and procurement, targeted work placements, and affordable space for underrepresented groups.
- 1.11. Loans will support Park Royal workspace providers and businesses to purchase new equipment, expand into new premises, and extend owner occupier premises. The Loan Fund will be utilised to leverage additional outcomes including new jobs, local recruitment and local procurement. Businesses will be required to work closely with The Forge to ensure that employment opportunities are going to job seekers from the local area. Targets will be set to spend within the local supply chain during the construction process, as well as promoting re-use of materials previously destined for landfill via Remade in Park Royal, the local Circular Economy Materials Hub.
- 1.12. OPDC submitted a successful grant application to the GLA’s Creative Enterprise Zone Small Capital Grants Programme. GLA will provide £150,000 grant funding to pilot the loan fund. OPDC are seeking approval for a further £200,000 from the Regeneration and Economic Development 23-24 budget to put into Year 1 of the loan fund.
- 1.13. Through this MD, OPDC therefore, seeks the Executive Director for Good Growth’s consent to use these funds to make loans under the pilot scheme proposed.

## 2. Objectives and expected outcomes

- 2.1. Applicants will be required to work in a collaborative manner with OPDC on the details of the proposals. However, the terms of the loan are fixed and non-negotiable. The Loan Fund will provide a fixed rate loan tied to the Bank of England base rate. The terms of the loan funding are set out below.

### *Small loans*

Value	£10,000 - £50,000
Intended use	Capital funding for micro and small businesses including new equipment, and capital improvements
Interest rate	5% p.a.
Security	None
Loan Period	The sooner of 5 years or full loan repayment
Payment holiday	Up to 6-months if adequately justified from the date of entering the funding agreement (the Commencement Date)
Repayment	Fully amortised loans with repayments starting after payment holiday
Early repayment	Early repayment encouraged with no associated financial penalties
Match funding	None required, although the presence of match funding will be viewed positively as part of OPDC’s deliverability assessment

### *Large loans*

Value	£50,000 - £150,000
Intended use	Capital funding for affordable workspace providers and micro and small businesses including new equipment, capital improvements and refurbishments resulting in an increase in jobs and affordable workspace
Interest rate	5% p.a.
Security	Assessed on a case-by-case basis
Loan Period	The sooner of 5 years or full loan repayment
Payment holiday	Up to 6-months if adequately justified from the date of entering the funding agreement (the Commencement Date)

Repayment	Fully amortised loans with repayments starting after payment holiday
Early repayment	Early repayment encouraged with no associated financial penalties
Match funding	Loan can be used to pay for up to 75% of the total project costs

- 2.2. An expanded due diligence process will be undertaken on potential recipients of loan funding to ensure organisations are in good standing and are able to repay the loan as agreed. Robust assessment will be conducted on the investment proposal, organisation, and team, including a credit check. The business case development process will include assessment from OPDC officers, and loan applications over £50,000 will undergo an independent assessment. The Loan Fund prospectus outlines this process in detail.
- 2.3. The performance of the pilot loan fund will be measured by reference to the following KPIs:
- support 75 small medium enterprises to receive low carbon interventions
  - engage 38 businesses with environmental issues
  - create, improve or bring back into use 500 sqm of affordable creative workspace
  - 20 new jobs being created.
- 2.4. In addition, the provision of loan funding will encourage applicants to deliver against a broader suite of KPIs set by the RED Programme. This includes:
- improved environmental performance of London’s creative workspaces and artists’ studios
  - reduction of running/energy costs for creative businesses and workspace providers
  - reduction in overall CO2 emissions
  - reduction in pollution emissions and/or exposures NOX, PM10 & 2.5
  - businesses accommodated within space created
  - spend with local suppliers
  - number of local businesses procured for goods and services.

### **3. Equality comments**

- 3.1. The GLA must have ‘due regard’ to the need to eliminate unlawful discrimination, harassment and victimisation, as well as to the need to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.
- 3.2. The RED programme seeks to actively address inequalities through targeted investment support for marginalised groups in line with the emerging priorities of OPDC’s draft Equality Diversity Inclusion (EDI) Strategy.
- 3.3. OPDC will build on successes from RED programme including the introduction of mandatory EDI scoring and monitoring for loan recipients. Examples from the Year One programme include the Creative Enterprise Zone Open Call which introduced EDI monitoring and EDI scoring to OPDC assessments. This approach will be applied to the Loan fund with mandatory EDI submissions and EDI monitoring. We will benchmark recipient organisation against demographic data from the census to ensure loan fund recipients are reflective of the local community. Larger loan recipients will be asked to submit existing EDI strategies for review or will need to work with OPDC to produce one for their business. OPDC will also weight scoring to favour London Living Wage paying employers.

- 3.4. Outputs will be captured via bi-monthly reporting, with key outputs including new jobs created, local jobs brokered via the Forge, square meters of affordable workspace created, spend in the local supply chain, as well as sustainability outputs delivered for larger building works.
- 3.5. We will continue to embed community champions within projects, building on the approach established for the Harlesden Canalside, Business Community Study, and Affordable Workspace Delivery Plan. We recognise that community members are providing a service to OPDC, and will ensure that our community champions are paid for their time in recognition that the ability to participate is an unequally distributed privilege.

#### 4. Other considerations

4.1. The key risks and issues associated with this proposal are set out in the table below:

<b>Risk</b>	<b>Inherent score</b>	<b>Mitigation</b>	<b>Target score</b>
Insufficient interest in the OPDC Loan fund results in few loans being issued / underperformance	Likelihood: 3 Impact: 4 Total: 12	OPDC have already undertaken engagement with businesses and workspace providers as part of the affordable workspace delivery plan preparation. This identified considerable appetite for loan funding, as well as difficulties for those organisation accessing finance through commercial lenders.	Likelihood: 2 Impact: 3 Total: 6
Poor investment decisions for the OPDC loan fund means funding is unable to be recycled	Likelihood: 3 Impact: 5 Total: 15	We have engaged with comparable loan providers to understand their due diligence processes and will be incorporating learnings from these interviews into the loan architecture. This will include an expanded due diligence and credit check process, as well as business case development process between applicants and OPDC officers. We will set a target repayment rate in agreement with SMT and monitor this through the relevant governance processes.	Likelihood: 2 Impact: 5 Total: 10

Delay in launch results in insufficient time to award funding to high quality applications, due to OPDC coming from	Likelihood: 4 Impact: 3 Total: 12	OPDC have prepared most of the required launch material (funding prospectus, application document) and have developed an outline funding launch programme	Likelihood: 3 Impact: 3 Total: 9
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*Mayoral strategies*

- 4.2. The Mayor has set development objectives for the OPDC area via the adopted OPDC Local Plan. The Loan Fund will deliver on Policies SP2 (Good Growth), SP5 (Economic Resilience) and E1 (Protecting, Strengthening and Intensifying Strategic Industrial Land) through the creation of high-quality affordable workspace, as well as new high quality jobs. In addition the loan fund will directly deliver on OPDC’s environmental policies including Policy EU7 (Circular and Sharing Economy) and EU9 (Minimising Carbon Emissions) by promoting the adoption of circular economy policies and practices, as well as improving the thermal and energy efficiency of industrial buildings.

*Consultation*

- 4.3. The Loan fund has been developed in consultation with local businesses and affordable workspace providers, through an extensive process of 1:1 interviews and open consultation events. This feedback has shaped the development of the affordable workspace parameters.

*Data protection*

- 4.4. Data will be gathered and stored in line with GDPR regulations. A Data Protection Impact Assessment will be completed prior to the fund being launched.

*Conflicts of interest*

- 4.5. There are no conflicts of interest to declare from any of those involved in the drafting or clearance of this Decision Form.

**5. Financial comments**

- 5.1. Approval has already been provided for the GLA’s £150,000 contribution towards the loan under MD3039 with funding then confirmed as part of the Mayor’s budget setting process for 2023-24. This funding is approved as a grant and therefore loan returns will be retained by OPDC for further reinvestment in future. The funding transfer will be actioned within the 2023-24 financial year. There is no further financial impact anticipated for the GLA.
- 5.2. Approval has already been provided for OPDC’s £200,000 contribution via the OPDC Board Meeting on 9 March 2023.

**6. Legal comments**

- 6.1 Under section 213 of the Localism Act 2011, the Mayor must consent to the OPDC giving financial assistance, whatever form that assistance takes. Under section 221 a consent under section 213 may be given generally or specifically, with or without conditions. Under section 213 (3), financial assistance can take a number of forms, including by grant, loan, guarantee or indemnity, investment, or incurring expenditure for the benefit of the body or person assisted. Under section 213(4), financial assistance may be given on such terms and conditions as OPDC considers appropriate (including provision for repayment, with or without interest).

- 6.2 The OPDC Governance Direction (approved by the Mayor under cover of MD2502 in 2019) however, records the delegation of the Mayor’s s.213 consent powers to the Executive Director for Good Growth. The Executive Director may therefore, provide such consent (whether generally or specifically, with or without conditions) should they wish.
- 6.3 If the Executive Director provides such consent officers must ensure that:
- the application process for the pilot loan scheme is conducted on a fair and transparent basis using objective criteria relevant and proportionate to the aims of the scheme
  - they work with their colleagues in OPDC’s finance team to establish and include OPDC’s requirements for and the eligibility criteria for borrowers in the application materials and instruments including as relate to the need (where applicable) for and type of security that may be required to support loan finance
  - no commitment to provide loan finance be made until OPDC and the proposed borrowers have entered into and executed all necessary loan instruments and related documentation.
- 6.4 This decision concerns the Executive Director consenting to a pilot scheme. To the extent, following evaluation of the outcome of pilot, officers are of the view that the scheme continue, be expanded, etc. further approval will be required.
- 6.5 In addition, to the extent that the proposals in respect of which decisions are sought involve the making of commitments which extend beyond the current Mayoral term, officers must ensure that the terms of all agreements entered into in respect of the expenditure do not have the effect of fettering the discretion of any successor administration, considering in particular the London elections taking place in May 2024. Accordingly, Officers must ensure that all agreements which involve making such commitments include a GLA right to terminate at any point for convenience (at no cost to the GLA) and all such agreements are managed in such a manner, and any deliverables, milestones and/or output requirements are structured so as to mitigate risks of the GLA incurring abortive expenditure (which might be reasonably be taken to fetter, practically, the exercise of such discretion).

## 7. Planned delivery approach and next steps

<b>Activity</b>	<b>Timeline</b>
Secure OPDC funding approval	March 2023
Consent to issue loan funding	June 2023
Announcement of pilot scheme	w/c 26 June 2023
50% of funding awarded	March 2024
100% pilot funding awarded	March 2025
Project evaluation	May 2025

### Appendices and supporting papers:

None

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) 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 it has been approved or on the defer date.

**Part 1 – Deferral**

**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason: the Loan fund is yet to be launched and funding from the Creative Enterprise Zone Sustainable Capital Grants programmes has not yet been announced.

Until what date: 17 July 2023

**Part 2 – Sensitive information**

Only the facts or advice that would be exempt from disclosure under FoIA should be included 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:**

Tina Jadav (GLA) and Alex Marsh (OPDC) have drafted this report in accordance with GLA procedures and confirms the following:

✓

**Assistant Director/Head of Service:**

Louise Duggan 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**

A summary of this decision was reviewed by the Corporate Investment Board on 26 June 2023.

✓

**INTERIM CHIEF FINANCE OFFICER:**

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

**Signature:**



**Date:**

03/07/2023