

# **Future Workspace Fund**

## **First Round Prospectus**

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# 1. Introduction

This prospectus provides information on Lambeth's Future Workspace Fund, and guidance on applying for funding in the First Round. The Future Workspace Fund builds on the council's award-winning workspace programme, Lambeth Works. Through the Fund, the council will make loan and grant investments to workspace providers who can help to meet our ambition to create a world class business support ecosystem in Lambeth.

## **What is the Future Workspace Fund?**

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**The Future Workspace Fund is Lambeth Council's new 'by application' loan and grant fund for affordable and supportive workspace providers.**

The Future Workspace Fund's **purpose** is to attract and grow innovation-led sectors and deliver outstanding economic return and social value for residents.

The fund has three key **objectives**:

- to stimulate high value cluster growth and inward investment in innovation-led sectors (including creative; tech; life sciences and sustainability);
- to support Covid-19 recovery and economic resilience by helping existing businesses to survive, adapt and thrive in the new economy; and,
- to attract and generate new business growth and new employment, self-employment, employment pathways (with a focus on black, young, and disabled residents) upskilling, reskilling, training, and apprenticeship opportunities for residents.

The Future Workspace Fund's **primary goal** for December 2020 – March 2025 is to enable at least 144,000 sq ft (gross internal area) of new or enhanced affordable and supportive workspace which will benefit at least 640 businesses each year and support at least 1,900 jobs.

## What will be funded

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The Future Workspace Fund will provide funding for capital expenditure to workspace providers that are developing new or enhancing existing affordable and supportive workspace such as:

- specialist incubators focused on an **innovation-led sectors** such as creative, tech, life sciences and med tech, and sustainability industries.
- **cultural workspaces** such as creative studios;
- affordable workspaces for **charities and social enterprises** supporting priority groups; and,
- enterprise space projects within more **residential areas**.

Projects will need to strongly align with what and who we're looking to fund as outlined in Section 3 and Section 4.

The fund has clearly defined financial products on offer. However there is flexibility in what funding terms can be provided through negotiation with successful applicants.

## First Round

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The First Round will secure the Future Workspace Fund's initial round of investments. The particular First Round Funding Objectives are as follows:

- unblock otherwise ready to go projects with a financing gap but substantial match funding in place;
- accelerate Covid-19 recovery and resilience;
- fund projects that could showcase the fund to support fund development for 2021 onwards;
- provide a range of financial products, including loans, to inform the fund's strategy for 2021 onwards; and,
- seek a range of project types to inform the fund's future strategy for 2021 onwards.

The council is expecting to allocate approximately £2.16m in the First Round out of the initial £7.2m committed capital within the fund. See section 8 on how your application will be assessed.

Applications for First Round funding can be made from 8 December 2020. With limited funds available and in order to ensure the council can deal with applications in a timely manner, we will only be considering a small number of applications at any one time. We anticipate that applications to the Fund will need to open and close periodically, and as such would recommend that interested parties with investment-ready projects submit their application at the earliest opportunity. The council will communicate whether the fund is currently accepting applications on the Lambeth Now website: [lambethnow.co.uk/futureworkspace](https://lambethnow.co.uk/futureworkspace).

First Round applications will be assessed by the council's Investment Panel in consultation with an Advisory Group. The following timetable is intended to provide a guide to timescales for applications.

<b>Stage</b>	<b>Time (indicative)</b>
First Round opens	8 December 2020
Review of submitted application and notification of any interest to provide finance subject to due diligence and contract	Rolling basis, up to 8 weeks from receipt of application
Due diligence and agreeing a term sheet	up to 8 weeks
Decision sign-off	up to 6 weeks
Completing funding agreements	up to 6 weeks
Period in which funding can be transferred / drawn down	0-6 months from completing the funding agreement

## **Enquiries**

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Interested parties are welcome to ask questions relating to the fund by emailing [futureworkspace@lambeth.gov.uk](mailto:futureworkspace@lambeth.gov.uk).

The council will also be offering two individual calls (phone or video) each week for interested applicants to discuss their project ahead of making an application. To schedule a call, please email [futureworkspace@lambeth.gov.uk](mailto:futureworkspace@lambeth.gov.uk)

Any questions asked and answered that are deemed by the council to be relevant to other parties will be included and anonymised within a Questions and Answers document available at [lambethnow.co.uk/futureworkspace](http://lambethnow.co.uk/futureworkspace). This document will be updated on an ongoing basis.

## 2. Context

The Future Workspace Fund has been established to continue and increase the delivery of Lambeth Works - the council's award-winning affordable and supportive workspace programme.

### Lambeth Works

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Lambeth Works is a strategic response to:

- the **strengths** of affordable and supportive workspace in supporting growth and an inclusive economy;
- the **need** for more affordable and supportive workspace in Lambeth; and,
- the **opportunities** to safeguard and increase affordable and supportive workspace.

Lambeth Works results to date include:

- **8 workspaces enabled, 2 in construction;**
- **80,000 sq ft of employment space** in active use;
- **260 businesses** benefiting p.a.;
- **social value activities** at the spaces aligned to core Lambeth challenges; and,
- **seeding wider commercial activity.**

### Economic Resilience Strategy

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Lambeth Council's [Economic Resilience Strategy \(2020\)](#) sets out the short, medium and long-term actions needed to build an inclusive and resilient economy for people, business and place in Lambeth in the wake of Covid-19.

The Future Workspace Fund is one of 10 medium term actions that the council is taking to support economic resilience in Lambeth. The Future Workspace Fund will specifically address the following **threats** posed by Covid-19 in Lambeth:

- reduction in business activity;
- loss of affordable and supportive workspace; and,
- loss of momentum in bringing forward new affordable and supportive workspace.

## Affordable and supportive workspace

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We define supportive workspace as managed space providing affordability in some or all of its space alongside supportive activities for businesses and local stakeholders. In Lambeth these types of spaces deliver the following value-added features:

- typically (but not always) provide focussed activity on **growing innovation-led sectors**;
- **inclusive growth** by generating inclusive jobs, skills, and entrepreneurship opportunities, particularly amongst priority groups (including women, people from Black, Asian and Minority Ethnic groups, and people from disadvantaged backgrounds);
- maintaining the **distinct and diverse character** of Lambeth;
- **business support** such as facilitating collaborations between businesses and peer support, and creating mentoring and training opportunities; and,
- attracting **inward investment** through enabling businesses to move to, expand or relocate within the borough.

Investing in affordable and supportive workspace is a major strategic component in many international commercial centres from New York, Paris, Berlin and beyond. The Future Workspace Fund will contribute to Lambeth Council's drive to create a world-class business ecosystem in Lambeth.

## Innovation-led sectors

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The Future Workspace Fund aims to contribute to growing the following innovation-led sectors in Lambeth:

- **Creative** – Lambeth is home to a vibrant creative sector including a strong cultural offer. The UK's creative industries' workforce is growing four times faster than the wider economy. The council wants this growth to benefit priority groups and contribute to the borough being distinctive, vibrant, and enjoyable.
- **Tech** – Lambeth has many small and growing tech businesses (such as artificial intelligence, fin tech, social tech and ed tech), the cluster of which is strengthened with the borough's central London location and world-class connectivity. The council wants the tech sector to grow and for larger tech companies to move to Lambeth.
- **Life Sciences** – The life science sector (including med tech and biotech) is fast growing, offers high quality jobs and health benefits. The council wants to grow a thriving life sciences sector, placing Lambeth at the cutting edge in developing health and social care solutions.
- **Low Carbon** – Investing in and developing the fast-growing low carbon sector could result in Lambeth being an international centre for trailblazing sustainability focussed business. Lambeth Council itself has ambitious targets for carbon reduction, aiming to become carbon neutral by 2030.

## Spatial opportunities

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The Future Workspace Fund aims to support a geographical spread of affordable and supportive workspace across the borough. Some high-level opportunities for different areas within Lambeth have been identified. These are as follows, although it is noted that this is not an exhaustive or conclusive list of opportunities.

- **Waterloo, South Bank, Vauxhall** – supporting the development of world-class innovation led sectors (particularly life sciences and low carbon); attracting large businesses by encouraging a vibrant start-up community; and, evolving the cultural economy;
- **Clapham, Stockwell, West Norwood, Streatham** – safeguarding and enhancing existing workspace, particularly arts and culture space; revitalisation of industrial business areas; and, stimulating high street vibrancy;
- **Brixton, Loughborough Junction and Herne Hill** – consolidating the Brixton Creative Enterprise Zone; activating unrealised spaces (e.g. arches); attracting large businesses by encouraging a vibrant start-up community; and, protecting the diverse and distinctive character of the area; and,
- **Neighbourhood based** – realising housing estate-based workspace opportunities to bring economic activity into neighbourhood contexts; and, supporting enterprising activity within existing and new housing developments.

## Policy and strategy context

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The Future Workspace Fund aligns important policies and strategies such as:

- Lambeth’s Economic Resilience Strategy (2020) – the Fund is the Business-Friendly Medium-Term action<sup>1</sup>;
- Lambeth United – Our Response to Covid-19 (2020)<sup>2</sup>;
- New Beginnings – Building Lambeth’s Recovery (2020)<sup>3</sup>;
- Better, Fairer Lambeth Borough Plan (2020-21)<sup>4</sup> – the fund specifically delivers on objectives in this strategy;
- Lambeth’s Creative and Digital Industries Strategy – A Creative Way to Grow (2018)<sup>5</sup>;
- London Plan and draft new London Plan<sup>6</sup>;
- Lambeth’s Local Plan and draft new Local Plan<sup>7</sup>; and,
- Draft Affordable Workspace planning policy<sup>8</sup>.

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<sup>1</sup> [Lambeth Economic Resilience Strategy \(August 2020\)](#)

<sup>2</sup> [Lambeth United – Our response to Covid-19 \(2020\)](#)

<sup>3</sup> [New Beginnings – Building Lambeth’s Recovery \(2020\)](#)

<sup>4</sup> [Better, Fairer Lambeth Borough Plan \(2020-21\)](#)

<sup>5</sup> [A Creative Way to Grow \(2018\)](#)

<sup>6</sup> [Draft New London Plan \(2019\)](#)

<sup>7</sup> [Draft Lambeth Local Plan \(2020\)](#)

<sup>8</sup> [Draft Supplementary Planning Document – Affordable Workspace Policy \(2020\)](#)

# 3. What we're looking to fund

The Future Workspace Fund will provide loan and grant finance (for capital expenditure use) to workspace providers that are developing new or enhancing existing affordable and supportive workspace.

## Types of workspaces

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It is anticipated the following types of affordable and supportive workspace projects will be considered for funding:

- specialist incubators focused on an **innovation-led sectors** (such as creative, tech, life sciences and low carbon);
- **cultural workspaces** such as creative studios;
- affordable **workspaces for charities and social enterprises** supporting priority groups; or,
- enterprise space projects within more **residential areas**.

## Life stages and types of expenditure

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The Future Workspace Fund will provide funding for capital expenditure only. Funding is envisaged to be used at the following life stages and associated expenditure areas:

- **new workspaces** – with a funding gap for expenditure in areas such as:
  - property acquisition;
  - construction;
  - refurbishment and fit out; and,
  - equipment.
- **existing workspace** – with a funding gap for enhancing the quality and quantity of workspace provision and/or adjustments arising from Covid-19 to become more resilient, with expenditure in areas such as:
  - property acquisition;
  - adjustments to existing space including refurbishments and equipment;
  - extensions.
- **feasibility stage** - in a limited number of cases the council might consider supporting a workspace project at an early stage of development with a funding gap for feasibility costs such architectural work.

## Operational components

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All projects supported by the Future Workspace Fund are required to have the following operational components:

- **Affordability** – workspaces should be financially accessible wherever possible (especially for priority groups) and specifically it should be affordable at below market rates in some or all of the space;
- **Business support** – workspaces should provide a supportive environment and deliver business support (directly or in partnership with others) such as workshops, mentoring and networking events for members of the workspace/s and open to the local community (business, academic and residents);
- **Social value** – workspaces should deliver social value activities such as (but not limited to):
  - inclusive growth activities including promoting diverse business start-up and recruitment and increasing access to under-represented groups;
  - commitment to the London Living Wage (please note, recipients of Future Workspace Fund finance will be required to pay their employees at least London Living Wage, become London Living Wage accredited and task organisations in the workspace with becoming London Living Wage accredited; conditions within funding agreements will set out how the council and workspace providers will maximise London Living Wage employment opportunities within buildings supported through the fund); and,
  - projects should have a commitment to benefiting local residents and community projects, such as:
    - attracting and supporting residents (particularly residents from priority groups) to start and grow businesses;
    - outreach, engagement, skills and training opportunities with schools and people who are disadvantaged in the labour market;
    - facilitating business volunteering with local people and projects in need; and,
    - scholarships or discounted access to affordable and supportive workspace to residents with demonstrating potential but in financial need.
- **Contributing to the local area** – workspaces should have activity help maintain the distinct and diverse character of Lambeth and the area in which the workspace is located which will include:
  - contributing to local area initiatives;
  - trying to have as many local residents in the workspace as possible;
  - nurturing effective working relationships with and between a range of stakeholders including: businesses within the workspace, other businesses in Lambeth, voluntary sector organisations, business improvement districts,

- and, residents;
- open days.
- **Joint working** – the council wants to build relationships with workspace providers to collaboratively achieve shared aims. Workspace providers should have a commitment to joint working with the council. For example, joint working could include:
  - joint outreach to priority groups (e.g. black, young, disabled) to engage with the workspace;
  - joint activity to support innovation-led sectors;
  - joint activity in collaboratively working with local communities; and,
  - together and independently proactively coming up with ideas for collaborative projects.

## Priority Objectives

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The Future Workspace Fund will consider investing in projects that score highly in contributing to the following Priority Objectives:

- stimulate growth and inward investment in **innovation-led sectors**;
- **support Covid-19 recovery** by helping existing businesses to survive, adapt and thrive in the new economy;
- generate **new employment**, self-employment, employment pathways (with a focus on Black, young and disabled residents) upskilling, reskilling, training and apprenticeship opportunities for residents;
- use affordable and supportive workspaces to maintain the borough’s **distinct and diverse character**;
- ensure the fund benefits a **diverse range of workspace providers and end users** of affordable and supportive workspace;
- enable the net-additional **increase of affordable and supportive workspace** in Lambeth for the long-term;
- **safeguard and enhance** existing affordable and supportive workspaces; and,
- address **market failure** - not replicating standard market provision of flexible workspace.

## First Round Objectives

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In the First Round, particular fund objectives include:

- unblocking otherwise ready to go projects **with a financing gap but substantial match funding in place**;
- accelerating **Covid-19 recovery and resilience**;
- projects that could **showcase the fund** to support fund development for

2021 onwards;

- providing a range of financial products, including loans, to **inform the fund's strategy** for 2021 onwards; and,
- seeking a **range of project types and needs** to inform the fund's future strategy for 2021 onwards.

## Value for money

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The Future Workspace Fund will consider investing in projects that demonstrate good value for money from two perspectives:

- **an outputs perspective** – such that the project will meaningfully contribute towards the overall fund's target outputs:
  - 144,000 sq ft (gross internal area) of new and/or improved affordable and supportive workspace;
  - 1,900 jobs supported (including jobs created within the borough, enhanced and safeguarded);
  - 640 businesses benefiting each year by March 2025; and,
  - £20m match funding.

Note, the council will use the following aspirational benchmarks in its assessment of proposals – for every £100,000 invested by the Future Workspace Fund, the council is aspiring to see amongst other commitments, up to 2,000 sq. ft. (gross internal area) of new and/or improved workspace, 26 jobs supported and 9 businesses benefiting each year.

- **a costs perspective** –demonstrating the costs which the funding will go towards presents value for money on a gross internal area square foot basis (demonstration could include competitive tendering of works, market comparable data and benchmarks, efficient use and re-use of materials etc.)

## Addressing market failure

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The Future Workspace Fund will invest in projects that address a market failure, for example:

- lack of affordable workspace within Lambeth geared towards a particular industry;
- barriers to growth in an innovation-led sector; and,
- under representation of Black, Asian and Minority Ethnic individuals and women in entrepreneurship or specific innovation-led sectors.

## Deliverability

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Whilst open to a degree of risk, the Future Workspace Fund will invest in projects that are deemed to be deliverable as demonstrated by the following:

- **strong team with strong governance** – demonstrated by information on the following: team members, roles and responsibilities, anticipated levels of involvement (timewise) from each team member, CVs/bios, information on the governance structure and processes, and the organisations' track record, knowledge and skills base;
- **credible commercial proposition** – demonstrated with the following:
  - business model with relevant financial information;
  - business plan (with realistic pricing, occupancy forecasts etc.);
  - clarity of concept – projects are quickly and completely understandable;
  - suitable location – projects will need to have evidence that the workspace is in a location that makes sense for the workspaces' purpose and objectives; and,
  - suitable size – projects will need to be able to demonstrate that the size is suitable from both a financial viability and project objectives perspective.
- **sufficient capitalisation** – projects will need to demonstrate sufficient capitalisation (& ease of accessing additional finance from non-council sources) to accommodate unexpected increased costs and working capital requirements, particularly in the context of uncertainties arising from Covid-19; and,
- **demonstration of market demand.**

## Good conditions for investment

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The Future Workspace Fund will fund projects which are deemed to offer good conditions as set out below for both for loan and grant finance from Lambeth Council:

- **capacity to repay loans** - if loan funding is provided a reasonable Debt Service Coverage Ratio (DSCR) to ensure sufficient operating income to cover loan repayments (e.g. a DSCR ideally of 2, but no less than 1.25)
- **security** - in most cases security should be offered (such as a third party guarantee, personal guarantee, restriction in title, deed of covenant, step in rights to a lease or a charge) ideally on the property if there is a long-lease or freehold (although it could include other company assets) – and that this security should ideally enable a reasonable loan-to-value ratio (e.g. 50%-70% would be considered);
- **capacity to secure social value** – for example, appetite and track record of delivering and partnering to meet corporate social responsibility goals, securing London Living Wage tenants;
- **capacity to receive lawful state aid if applicable** – if state aid is present, organisations should have capacity to receive any grant funding such as compliance with any General Block Exemption Regulations or de minimis state

aid requirements;

- **able to enter a long-term arrangement** – organisations receiving funding should be able to accommodate a 'Social Value Commitment Period' which is likely to be the lessor of the loan period, period of being operational at the site or 10-years – and that with the council acting reasonably, if there is a material under delivery of outputs, and timely submission of evidence for output deliver alongside monitoring and evaluation information to the council, the council can call in the loan or require a grant claw back on a pro-rata basis for the remaining years in the Social Value Commitment Period; and,
- **match funding in place** - at time of entering the funding agreement projects will need to have in place sufficient secured match funding in place which is guided by the financial product/s and any state aid requirements (if applicable).

## 4. Who can apply?

The Future Workspace Fund is a dedicated fund for affordable and supportive workspaces providers who meet the Eligibility Criteria which is set out in this section.

### **Standard criteria for council suppliers**

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Whilst successful applicants won't be suppliers to the council, applicants need to meet, or quickly being able to meet (prior to entering any funding agreement) the standard selection criteria that the council asks is suppliers, which includes the following areas:

- organisation and directors are in good standing;
- satisfactory financial position;
- adequate insurance cover;
- robust levels of health and safety, equalities & environmental management compliance;
- high level of business conduct, including (but not limited to) paying its staff at least London Living Wage, capacity and commitment to become London Living Wage accredited;
- able to provide strong letters of support and references; and,
- full disclosure of the organisation's governance structure.

### **Compelling case for public sector support**

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Applicants to the Future Workspace Fund will need to make a compelling case for public sector support. The case making can take a variety of forms such as (but not limited to) the following:

- delivers diverse workspace types that are not readily provided through the commercial workspace industry;
- funding gap that can't be bridged despite best efforts;
- not being able to get any or sufficient loan or grant finance elsewhere;
- unable to secure risk finance elsewhere on appropriate terms (such as unable to get sufficiently long loan periods across which repayments can be amortised); or,
- a need for grant funding as low returns are expected during the delivery of the project due to the project being charitable in nature.

## **Commitment to social value**

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Projects funded by the Future Workspace Fund will need to include details within the Application Form setting out their plan for delivering social value including inclusive growth within the project. In this context, applicants to the fund need to declare a commitment to social value and provide evidence of their commitment to social value. Social value can take many forms. Example social value activity is set out in the “Operational components” subsection of Section 3.

## **Eligible project type**

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The Future Workspace Fund will only provide funding for affordable and supportive workspaces as set out in Section 3.

## **Eligible expenditure type**

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The Future Workspace Fund finance can only be used for capital expenditure. It is anticipated the type of expenditure will be as set out in the “Life stages and types of expenditure” subsection in Section 3. Note, recoverable VAT is not an eligible expenditure.

Please note the match funding requirements for different financial products on offer at the Future Workspace Fund as outlined in Section 5.

# 5. Our funding offer

The Future Workspace Fund has clearly defined financial products on offer but there can be flexibility in what form of finance and the respective terms the council may provide.

## Financial products

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As detailed in later in this section, the Future Workspace Fund has the following financial products on offer with indicative values.

- Bridging Capital Loans (£100k – £1m+)
- Large Capital Loans (£100k – £1m+)
- Small Capital Loans (£10k – £100k)
- Large Capital Grants (£100k – £1m)
- Small Capital Grants (£10k – 100k)

Whilst the council anticipates providing funding in line with these financial products, the council might consider other forms of finance such a convertible loans and equity during the application process.

## Selection of financial products

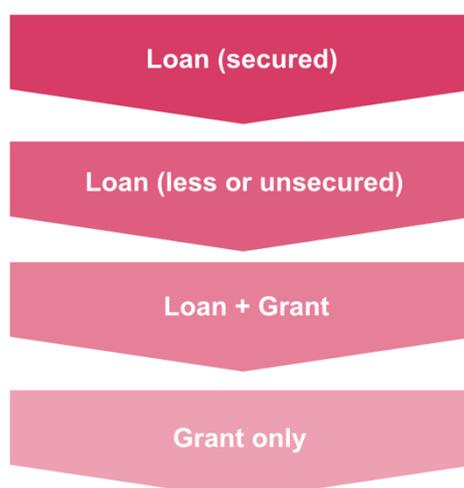
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Applicants will propose and justify a financial product or combination of financial products, and any proposed or adjusted terms. However, the Future Workspace Fund financial production selection will be project dependent. The total funding awarded per project is not typically anticipated to exceed £1m (even if a combination of products was used). The fund aspires to spread the funding across numerous projects. However, funding awards above £1m can be considered.

The council will reserve the right to select which product or products it offers if any. The council's priority order for financial products is set out on the right.

Loan finance is the preference (particularly secured loans with a shorter loan period). Loan finance is appropriate in cases where repayment is possible, and the applicant can't obtain sufficient loan finance on appropriate terms elsewhere.

A mix of grant and loan funding would be preferential over providing grant funding only.



## Bridging Capital Loans

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### Key information:

- Use: unlocking bank finance to acquire a site (long-lease or freehold) and carry out capital works where re-financing on the open market looks realistic in 2-5 years
- Spend: down payment towards acquisition and capital works
- Value: £100k - £1m
- Anticipated interest: 8.4% p.a. throughout loan period
- Security: secured against the property with the council being a subordinated lender if adequately justified
- Loan period: 2-5 years
- Payment holiday: up to 12-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
- Match funding: applicants to provide 50%-70% of the project costs (anticipated to include property purchase cost and capital works costs)

## Large Capital Loans

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### Key information:

- Anticipated use: creating new workspace or enhancing existing workspace with less potential for refinancing on the open market within 2-5 years
- Example spend: capital works such as construction, refurbishment, fit out, extensions, spatial configuration changes, equipment and potentially site acquisition
- Value: £100k - £1m
- Anticipated interest: 7% p.a. for low or no security throughout loan period  
3.75%-5% for fully secured
- Security: security taken where possible e.g. on the property and company assets (guarantees would be considered)
- Loan period: up to 10 years
- Payment holiday: up to 12-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
- Match funding: applicants to provide 50% of the project costs

## Small Capital Loans

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### Key information:

- Anticipated use: enhance resilience and outcomes of existing workspaces
- Example spend: equipment, enhancements, spatial reconfiguration and small extensions
- Value: £10k – £100k
- Anticipated interest: 6% p.a.
- Security: security taken where possible e.g. on the property and company assets (guarantees would be considered)
- Loan period: up to 5 years
- Payment holiday: up to 3-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
- Match funding: applicants to provide 50% of the project costs

## Large Capital Grants

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### Key information:

- Anticipated uses: projects with charitable nature and unlikely commercial return
- Value: £100k - £1m
- Example spend: new workspaces, extensions and equipment
- Match funding: 50% but may be more depending on state aid restrictions
- Security: for grants above £250k an interest in the assets (equipment and property, if applicable) may be required, such as a charge, restriction in title or deed of covenant

## Small Capital Grants

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Key information:

- Anticipated uses: projects with charitable nature and unlikely commercial return; and,  
projects with a compelling case that are at an early stage of development with a funding gap for preliminary feasibility costs such as architectural work that may lead to the project being ready for larger scale investment
- Value: £10k – £100k
- Example spend: feasibility costs, equipment, adjustments and extensions to enhance resilience and outputs
- Match funding: 50% but may be more depending on state aid restrictions
- Security: none

## Approach to risk

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The Future Workspace Fund will be open to a degree of risk to increase chances of greater innovation and social and economic impacts, and in recognition that the fund is bridging funding gaps that the market isn't filling on appropriate terms. However, the council will be managing risk in a carefully considered way as follows:

- balancing allocation of funds towards workspace providers with a proven capability over first time or relatively new workspace providers;
- ensuring the right financial products are used for the right projects, including the use of small capital grants for feasibility work ahead of larger scale investment;
- a clear preference for the council to take security and asking in the application form (and then taking into account in the application assessment process) what security workspace providers are willing to offer;
- robust due diligence project, organisation and team with a clear understanding of viable sizes and locations of the proposed workspaces; and,
- assisting workspace providers supported with funding with other forms of support where possible, such as:
  - helping workspaces embed within the borough and specific area within the borough they are located in (such as facilitating working relationships with local stakeholders and promoting their offer and outreaching to local businesses and residents);

- exploring inward investment opportunities to encourage strategic anchor organisations to move (and stay) close to the workspaces; and,
- officers (and potentially a business coach) providing support to optimise the commercial and social/economic development outcomes of the workspace.

## 6. How the funding works

Lambeth Council will allocate Future Workspace Fund finance via grant and loan funding agreements. A security agreement will be appended to funding agreement/s if applicable. Please note that the principles set out in this Prospectus are subject to contract and may change prior to entering into funding agreements.

### **Loan agreement**

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Headline terms in the loan agreements are envisaged to include:

- capital expenditure use only on the defined 'Project';
- conditional on match funding;
- clearly defined "Project Objectives", "Milestones", "Joint Working Plan" and "Deliverables";
- capital works programme with verifiable milestones for triggering drawdowns;
- review meetings and annual impact monitoring reporting;
- Social Value Commitment Period for 10-years;
- state aid compliance clauses;
- public liability insurance (expected to be c. £10m);
- indicative funding drawdown schedule;
- interest stated and repayment schedule;
- details on when the loan can be called in (e.g. defaults);
- recipient to reimburse the council's legal costs; and,
- details on security e.g. charge, restriction on title or deed of covenant.

### **Grant agreement**

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Headline terms in the loan agreements are envisaged to include:

- capital expenditure use only on the defined 'Project';
- conditional on match funding;
- clearly defined "Project Objectives", "Milestones", "Joint Working Plan" and "Deliverables";
- capital works programme with verifiable milestones for triggering drawdowns;
- review meetings and annual impact monitoring reporting;
- Social Value Commitment Period for 10-years;

- state aid compliance clauses;
- public liability insurance (expected to be c. £10m);
- indicative funding drawdown schedule;
- details on any clawback (e.g. funding used for non-Project activities);
- recipient to reimburse the council's legal costs;
- details on security e.g. charge, restriction on title or deed of covenant.

## Security

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The Future Workspace Fund will seek an appropriate level of security wherever possible for loans guided by the following:

- In projects where the workspace provider **owns or has a long lease on the workspace** of the property, security will be sought on loans and for grants of £250k+. Security for grants may take the form of a restriction on title, deed of covenant or charge for a period of 10 years (perhaps longer, e.g. 20 years) that will require the property to be used as affordable and supportive workspace in the long-term.
- The Future Workspace Fund will consider lending up to 50% of the **Gross Development Value** of new workspaces (particularly for Bridging Capital Loans), which is the value of the property after the works have been completed and tenants are in place.
- Wherever possible we would seek **first or joint lender position**, however, it is anticipated that the council might be a subordinated junior lender for some loans, particularly in the case of Bridging Capital Loans. This is on the basis that the Bridging Capital Loans are aimed at leveraging bank finance which is anticipated to be a senior lender with high priority for payment in the case of default and call on the security. In such cases where the council is a junior lender, it may seek a restriction on title (to ensure long term use of the property as an affordable and supportive workspace), deed of covenant or charge for a period of 10-20 years as described above.
- Many workspace providers lease workspaces on a medium-term basis so their security might include equipment in which case a **charge on the equipment** will be sought rather than step in rights on a lease. That said, a cost-benefit judgement call will be made over the merits of taking a charge on equipment (and the like) in balance with potential delays to when funding can be drawn down, level of funding and legal costs in enabling such a charge.
- The council make a cost-benefit judgement on whether it will seek security on lower value investments.

## **Interest rates**

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Interest rates as set out in Section 5 for the respective loan products are broadly aligned to market rates as of summer 2020. The council would consider a different interest rate (such as a lower interest rate) if satisfactorily justified. In certain circumstances, the council may require a higher interest rate.

## **Funding Offer Period**

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Whilst it is hoped that both the council and successful applicants will endeavour to enter into the funding agreement quickly, there is likely to be a long-stop date of 16 weeks to complete the funding agreement from the time the “notification of interest in investing” is provided by the council (see section 8 for details on the application process).

## **Drawdown Period and Drawdown Mechanism**

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Unless otherwise justified, all funding needs to be drawn down within 7 months from the Commencement Date of funding agreements. Drawdown triggers will be aligned to verified completion of milestones within a capital works (build) programme.

Most funding agreements will include ability to draw down funding on tranches based on accomplishing specific deliverables as set out in the Milestones Schedule which will be verified in appropriate ways such as surveyor reports or invoices. One of these milestones will relate to match funding, and others may include elements typically found in build/capital works programmes. These milestones should be proposed by applicants in the application process and will be agreed during the negotiation period.

## **Payment Holiday**

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The council is open to providing payment holidays if adequately justified by the applicant. It is considered that Payment Holidays at the start of the loans will be guided by anticipated time to provide the workspace provider with an opportunity to deliver the capital works and start gaining income from its clients. Interest will be accrued on funds drawn down during the payment holiday, although payment of the interest will not commence until the end of the payment holiday.

## **Loan Period**

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The Commencement Date for loans will be the date that the funding agreement is entered into. The Loan Period will then commence from the Commencement Date. The loan period will not be longer than the remaining lease period or period before a landlord break clause.

The value of longer loan periods over up to 10-years for Large Capital Loans and Bridging Capital Loans is recognised in so far as reducing financial pressure on the workspace provider and freeing up cash flow for workspace providers to do more and be more resilient.

## **Draw Down Schedule**

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It is envisaged that to enable drawdown of funding most funding agreements will include ability to draw down funding on tranches based on accomplishing specific deliverables as set out in a Milestones Schedule which will be verified in appropriate ways such as surveyor reports. One of these milestones will relate to match funding, and others may include elements typically found in build/capital works programmes. These milestones will be proposed by applicants in the application process and agreed during the negotiation period.

## **Early Repayment**

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The Future Workspace Fund will encourage and allow early repayment of loan finance if the council can be satisfied that this is not putting the project at risk. No penalty charge will be applied for early repayment.

## **Property**

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It is expected that by the time applicants apply to the Fund, they need to independently (to the Council) identify and ideally get into a heads of terms position for a lease with a property owner for a site to operate from. It is highly unlikely that the council would consider providing funding to a workspace provider that hasn't identified a property and has a degree of certainty over securing it for the use as workspace.

## **State Aid**

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Any deviation from the council acting as a "Market Economy Operator" (like a bank), such as agreeing a lower interest rate than ordinary bank finance given the level of risk, or grant funding, may be considered as state aid. The Future Workspace Fund will ensure any state aid present within grant and loan investments is lawful through use of de minimis or GBER regulations.

Whilst state aid laws may change following Brexit, state aid is likely be present in the following scenarios:

- all grant funding;

- loan finance where there is more favourable loan conditions than what a market operator would offer so for example the total financial value of the discount in any discounted interest (from the norm) would be considered state aid; and,
- flow through state aid at the end user level if they're receiving space at a price below the cost of delivering the space (in which case de minimis state aid declaration forms will be used by the operator).

The Future Workspace Fund will appropriately consider with the advice of the council's solicitors' regulations to ensure any state aid is lawful where relevant and will take into account the following instruments with a summary description of each:

- **De Minimis** – €200k, rolling 3-year period
- **General Block Exemption Regulations (GBER)** – such as:
  - Article 15 – Aid for SMEs – 50% of investment in assets;
  - Article 21 – Risk finance aid – risk finance (guarantees or loans) 10% for pre-trading companies, 40% for trading for less than 7 years, 60% for companies needing finance that is 50% higher than their last 5-year average turnover;
  - Article 22 – Aid for start-ups – loans up to €1m, guarantees up to €1.5m, other inc. grants of €0.4m;
  - Article 26 – Investment aid for research infrastructures – 50% of investment in assets (e.g. research centre);
  - Article 27 – Aid for innovation clusters – 50% of upgrade or construction costs;
  - Articles 38 and 39 – aid related to energy efficiency projects in buildings – 30% costs to 70%; and,
  - Article 53 – Aid for culture and heritage conservation; and Article 56 – Aid for local infrastructures – amount to not exceed difference between eligible costs & operating profit.

Further information on GBER can be seen at the following link:

[https://ec.europa.eu/competition/state\\_aid/legislation/block.html](https://ec.europa.eu/competition/state_aid/legislation/block.html). It is worth bearing in mind that if GBER was used for a funding agreement, the match funding requirements would be guided by the GBER article used (in terms of capital vs revenue funding, and amount of match funding).

## Match Funding

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The Future Workspace Fund will seek to leverage match funding and requires recipients to have match funding in place at the time of expenditure of the funding. Types of match funding might include:

- workspace provider's financial reserves;
- private sector loans and equity from third party lenders (e.g. bank loans), shareholders, investors;
- public sector grants and loans;
- third sector grants, loans and potentially equity.

## Social Value Commitment Period

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The Future Workspace Fund will seek to establish a Social Value Commitment Period which is the period over which the workspace provider will commit to delivering outputs, report on progress to the council and joint-work with the council.

- for grants, a Social Value Commitment Period will be sought for 10-years for Large Capital Grants and 5-years for Small Capital Grants, or the length of the workspace project if it's less than 10-years.
- for loans, a Social Value Commitment Period will be equivalent to the loan period.

## Outputs

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Outputs are the main Deliverables for projects that will be funded. The definition of outputs and verification evidence is set out in Appendix A. All projects will be required to deliver the following outputs, but they can also propose other and more specific outputs as set out in Appendix A:

- new and/or improved affordable and supportive workspace;
- jobs supported at any one time;
- businesses benefiting each year; and,
- match funding.

## Monitoring and Evaluation

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Each organisation receiving grant or loan finance will agree a Joint Working Plan, Project Objectives, Milestones and Deliverables with the council. This will include a schedule of activities and expected outcomes.

On a quarterly basis, the council would like to receive simple quarterly monitoring reports and any associated evidence for completion of Deliverables (including outputs). The quarterly monitoring reports will be in the form of a simple template provided by the council. The reports need to be emailed to the council within 15 days of the end of each quarter throughout the Social Value Commitment Period or loan period.

Workspace providers are expected to proactively and jointly work with the council, updating joint-working plans on an ongoing basis. In turn, the council will seek to proactively support the projects as well as keeping the recipient fully accountable to the terms set out in their funding agreement.

## Clawbacks and ability to call in loans

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The Future Workspace Fund will seek an appropriate level of enforcement of the funding agreement should it be required. Whilst security will be sought where possible and appropriate, grant agreements will include a right for the council to require a clawback of funding, and loan agreements will include a right for the council to call in a full repayment of the loan (and clawback of any unlawful state aid if applicable). The clawback in grant agreements and calling in of the loan may be in the event of one of the following occurring:

- not using the funding for the agreed Project Objectives;
- material under delivery of achieving the Deliverables (including the outputs);
- not providing adequate evidence of achievement of Deliverables (see the Outputs sub-section above);
- major slippage to achieving Milestone dates;
- not completing monitoring returns in a timely manner;
- any unlawful state aid (with a clawback equating to the value of the state aid) which is a standard legal requirement; and,
- defaulting on a loan (in the case of a loan).

The above approach would be helpful when balanced with low or no security. The amount clawed back in grant agreements would be pro-rata basis for the time from the later of either the start of the loan or when the outputs were last satisfactorily delivered, and up until the end of the Social Value Obligation Period. For example, if the outputs have been delivered for 6 years within a grant agreement, there will be 4 years remaining in the Social Value Obligation Period (which is 40% of the Social Value Obligation Period) and as such, 40% of the grant value would be sought to be clawed back.

# 7. How to apply

To apply for finance from the First Round of the Future Workspace Fund, workspace providers need to complete an Application Form with supporting material and email it to [futureworkspace@lambeth.gov.uk](mailto:futureworkspace@lambeth.gov.uk). Applications will be assessed as and when they are received. With limited funds available and in order to ensure the council can deal with applications in a timely manner, we will only be considering a small number of applications at any one time. We're anticipating high demand and recommend that interested parties with investment ready projects submit their application at the earliest opportunity. Further funding rounds will be available from Summer 2021.

## Application Form

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The application form is available to download at [lambethnow.co.uk/futureworkspace](http://lambethnow.co.uk/futureworkspace). It is intentionally detailed so to support funding decision making and avoid unnecessary delays due to requiring substantial clarification information.

The application form comprises of the following sections:

– **Section 1. Summary**

The purpose of this initial section (1-2 pages) is to concisely capture headline details in regard to the workspace project and funding sought (including summary details of preferred financial product/s and proposed security).

– **Section 2. Organisation Information**

This section aims to capture details on the applicant's organisation including the current situation in areas such as legal, policy and financial standing, track record information and letters of support. Supporting information to be provided with the application form relating to this section include:

- previous years financial accounts
- management accounts for the current year
- at least 2 letters of support and references

– **Section 3. Project Information**

This section aims to capture details on the workspace project that needs funding. It asks specific information in a range of areas to enable the council to succinctly

understand the project. The section provides space for qualitative information. Supporting information to be provided with the application form relating to this section include:

- spatial configuration (drawings) of the site and if available, the layout;
- financial forecasts for the 3 years ahead; and,
- breakdown of total project costs and allocation of Future Workspace Fund finance across the project costs.
- milestone schedule

#### – **Section 4. Declaration**

The final part of the application is a declaration related to data protection, interests and overall confirmation.

When completing the application, all the questions should be answered fully, clearly and simply. Answers should be detailed but not exceed the word criteria as applications which exceed the word criteria limit will not be assessed by the council. The council reserves the right to not review and score any answer beyond the word count.

## **Questions and Answers**

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Interested parties are welcome to ask questions relating to the fund by emailing [futureworkspace@lambeth.gov.uk](mailto:futureworkspace@lambeth.gov.uk).

The council will also be offering two individual calls (phone or video) each week for interested applicants to discuss their project ahead of making an application. To schedule a call, please email [futureworkspace@lambeth.gov.uk](mailto:futureworkspace@lambeth.gov.uk)

Any questions asked and answered that are deemed by the council to be relevant to other parties will be included and anonymised within a Questions and Answers document available at [lambethnow.co.uk/futureworkspace](http://lambethnow.co.uk/futureworkspace) which will be updated on an ongoing basis. The questions and answers will be anonymised in this document.

## **Disclaimer**

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The council has absolute discretion as to who it awards funding to and the nature of that funding. It is worth noting that applicants to the fund will not have an automatic right to receive funding, and by making an application, applicants agree to do so at their own risk (e.g. time) and expense. References to investment in regard to the Future Workspace Fund relate solely to grant and loans, the principles of which are set out on [lambethnow.co.uk](http://lambethnow.co.uk) and in this prospectus. Details in regard to the fund are deemed to be accurate at the time of publication of this prospectus on [lambethnow.co.uk](http://lambethnow.co.uk) (8 December 2020) but may be subject to change. This prospectus aims to provide contextual information on the Future Workspace Fund and support for completing applications only. All funding discussions are subject to contract and any

completed funding agreement will be the sole basis of the agreement.

## 8. How your application will be assessed

Applications will be assessed using the approach and process as set out below.

### Scoring Approach

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The Future Workspace Fund will assess applications in the following areas. Applications will be considered for investment if they achieve an overall score of 60% or more. To establish a score, the Scoring Principles will be used as included in the next sub-section. The actual funding decision will be at the discretion of the council. The council may consider the applications in comparison with other applications. Applications will be subject to due diligence and negotiation. The council will provide a reason for any application rejection.

Area	Description	Weighting
Eligibility Criteria	Meeting, or quickly being able to meet, the selection criteria that the council asks its suppliers (e.g. health and safety compliance); Commitment to social value; Commitment to joint working with the council; Eligible project type; Eligible expenditure type; Compelling case for public sector support (such as a demonstration of market failure at the workspace provider level)	Pass / Fail
Strength of the Project	Clarity of concept; Value for money; Alignment to Priority Objectives; Alignment with Pilot Round Funding Objectives; addressing market failure in the services offered	33%
Deliverability	Strong team with robust track record; Credible business model and plan; sufficient capitalisation and ease of means to access more finance if required; demonstration of market demand	34%
Good Conditions for Investment	Capacity to repay any loan finance provided; Capacity to receive any grant funding; Match funding in place at time of entering the funding agreement	33%

## Scoring Principles

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The following scoring principles will be used to assess the application response.

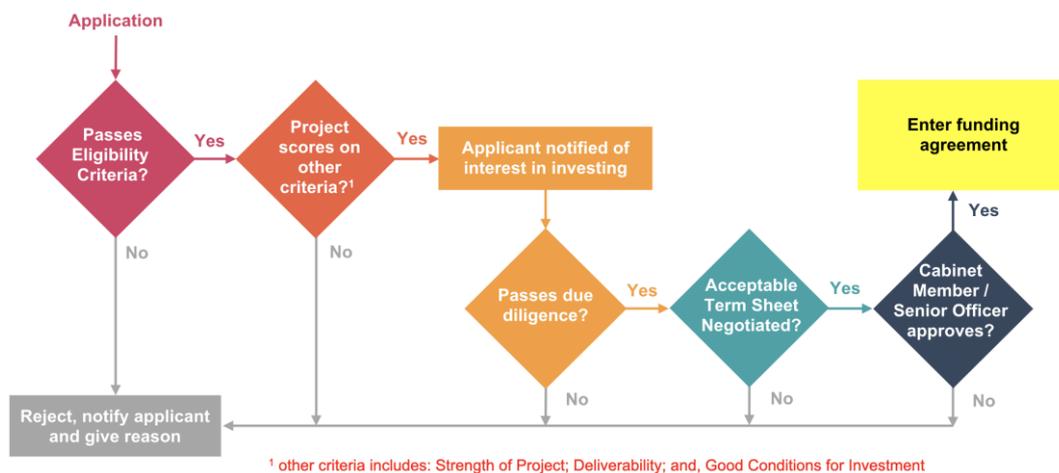
Score	Scoring Principle
0	The applicant's response is incomplete, or the Applicant has provided responses that are not relevant.
1	The applicant's response is wholly insufficient or unsatisfactory. The applicant's response gives the council no confidence in the applicant's ability to meet the fund's requirements.
2	The Applicant's response is superficial and generic. The Applicant's response demonstrates limited experience. The applicant's response gives the council little confidence in the applicant's ability to meet the fund's requirements.
3	The applicant's response demonstrates through suitable and relevant evidence that the applicant has the ability to provide the service which gives the council some confidence that the applicant has the ability to meet the fund's requirements.
4	The applicant's response is robust and supported by suitable and relevant evidence of the applicant's experience and that the applicant has the ability to deliver a project which gives the council real confidence that the applicant has the ability to meet the fund's requirements.
5	The applicant's response meets the council's requirements for funding, is outstanding and will bring significant added value/benefit to Lambeth, show innovation and the council has full confidence in the response.

## Application process

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The Future Workspace Fund will select which projects to invest in by assessing the strength of the proposal and organisation. An Advisory Group comprising of industry experts may be called upon to support the assessment and due diligence process. Applicants to the fund will need to agree to their application and associated documentation being shared with the Advisory Group. The Future Workspace Fund will seek to finalise and complete the funding agreement with successful applicants after due diligence has been carried out. a term sheet has been finalised and the option to provide funding has been signed-off by the council according to its governance structure and processes.

The investment process is planned to take the following form:



## Due Diligence

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Due diligence will take place and is likely to include:

- Financial checks on the company potentially using a third-party agency
- Due diligence of management team (strengths, weaknesses, risks)
- Review of company references
- Potentially visiting existing workspace sites and speaking with clients (perhaps without the operator present)
- Investigation and analysis of the investment opportunity which may potentially include asking industry experts for advice and financial modelling

To expedite the due diligence stage the council would be interested in receiving any due diligence undertaken by other funders of the applicant.

## Term Sheet

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A one to two-page term sheet will be negotiated on and agreed between the council and the applicant. It is envisaged to include the following:

- Financial product/s
- Standard funding terms
- Any deviations from the standard terms
- Details on any security
- Outline Project Objectives, Deliverables and Milestones
- Timescales including long-stop dates
- Any additional conditions, e.g. match funding and any associated proof of funds

# Appendix A. Output Definitions

Summary definitions for the key Future Workspace Fund outputs are enclosed in the table below. These might be further defined in funding agreements, alongside definitions of any other agreed outputs for successful applicants.

Output	Unit	Definition	Verification
New and/or improved affordable and supportive workspace	square feet (gross internal area)	<ul style="list-style-type: none"> <li>• <b>New or upgraded:</b> new buildings constructed as part of the project, refurbished, improved or adapted for productive use as part of the project.</li> <li>• <b>Improved:</b> Actual floor space or potential market value has been increased by some physical improvement.</li> </ul>	<ul style="list-style-type: none"> <li>• An architect's floor plan drawings showing floor space area.</li> <li>• Copy of completion certificate to demonstrate works undertaken.</li> <li>• Surveyor reports from pre and post completion of works.</li> </ul>
Jobs supported at any one time	jobs	Number of people working from the workspace at any one time including full and part-time jobs	<ul style="list-style-type: none"> <li>• All quarterly monitoring reports to state number of jobs supported at any one time, including % of jobs that are BAME beneficiaries.</li> <li>• Collection and retention of information on people working from the space available for the council's inspection if required, which could be anonymised subject to data protection regulation compliance</li> </ul>
Businesses benefiting each year	businesses	Number of businesses who have been located within the workspace for a period of at least 1 month within the preceding year	<ul style="list-style-type: none"> <li>• All quarterly monitoring reports to state number of businesses supported in the preceding 12-months at the time of the monitoring report</li> <li>• Collection and retention of information on businesses located at the space available for the council's inspection if required</li> </ul>

Match funding	finance	Cash going into the project alongside funding. Doesn't include in-kind contributions.	<ul style="list-style-type: none"> <li>• All quarterly monitoring reports to state match funding obtained, from whom, when, what for and any relevant terms associated with the funding</li> <li>• Retention of all applicable financial information for stated match funding such as invoices, receipts, funding agreements, available for the council's inspecting if required</li> </ul>
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