

**Report for:** Decision taken under delegated authority

**Item number:**

**Title:** Opportunity Investment Fund: Transfer of £210k OIF loan debt from Chicken Town Ltd to the new restaurant operator of the Former Fire Station, Town Hall Approach Road, Tottenham Green

**Report authorised by :** Helen Fisher, Director of Regeneration

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**Ward(s) affected:** Tottenham Green

**Report for Key / Non Key Decision:** Non Key

## 1. Describe the issue under consideration

1.1 This report seeks Tottenham Programme Delivery Board approval for the transfer of the Opportunity Investment Fund (OIF) debt (the £210,000 repayable loan provided to Chicken Town Ltd in 2015) to the prospective new operator of the restaurant at the former Fire Station, Tottenham Green (limited company name Poulet-Vous Ltd) part of the RoxyCo (Outside) Ltd holding company, on more favourable terms to the Council. The new operator is proposing to take on the existing £210k Chicken Town debt and loan liability. No additional council funding is being provided to the new operator other than the transfer of the £210k debt.

1.2 Chicken Town restaurant at Tottenham Green opened in December 2015. Significant progress has been made in creating and building a restaurant offer in this location. This supports the objectives of the Strategic Regeneration Framework and Tottenham Area Action Plan in strengthening Tottenham Green as the civic and cultural heart of Tottenham through encouraging uses such as cafes and restaurants. It also enabled an important local heritage asset to be brought back into productive use. Chicken Town also supported the objectives of OIF in creating jobs, bringing commercial floorspace back into use and contributing towards place making as well as delivering social and economic outputs including:

- Providing an innovative, healthier alternative to other fast-food chicken shops providing £2 junior meal specials
- A food growing project with Earlsmead primary school involving 83 pupils
- Monthly music/cinema events for young people
- Hosting local youth groups for dinner and promoting healthy eating and restaurant industry careers
- Hosting Christmas Day dinners for vulnerable adults and the elderly
- Hosting a free sew-and-mend club run by a local resident
- Cookery classes for 30 pupils at Earlsmead Primary School.

1.3 Unfortunately, customer numbers have not been as high as projected and Chicken Town is currently running at a loss. The likelihood of the business being able to make any OIF loan repayment (the first being due in March 2018 and linked to the business making a profit above £50,000) is likely to be unachievable.

1.4 The Council is keen to ensure that the OIF loan is repaid as soon as possible. All loan repayments are recycled in fund and will be given out as future loans. As the £210k loan liability is currently held by Chicken Town they have endeavoured to secure a new experienced restaurant operator who is willing to take on this debt. The proposed new operator, currently negotiating the lease for the premises and required regulatory permissions, is willing to take on the debt of the £210,000 loan on terms which are an improvement on the current Chicken Town loan terms and increase the likelihood of the loan being repaid. The proposed new terms are set out below:

<b>Proposal under new agreement</b>	<b>Existing OIF loan agreement with Chicken Town</b>	<b>Impact</b>
An interest rate of 6%	An interest rate of 5%	Additional £2,100 over loan period, bringing it in line with other current OIF loan agreements
Removal of the £50,000 profit threshold above which repayments would be triggered. The profit related payment principle remains but there is no minimum profit when repayments will begin. Repayment of the loan will begin as soon as any profit is made.	Chicken Town must make £50,000 profit before loan repayments begin. A profit below £50,000 would mean no repayments.	Removal of the threshold would mean repayment can begin as soon as business makes a profit-projected to be at end of Year 2 (March 2020). Repayments will be annual (separate from the additional monthly voluntary repayments) based on profit figures provided in annual open book accounts.
Period of repayment increased to 10 years in line with the proposed new lease term (2018-2028). Financial projections, plus the monthly voluntary repayments, would see the loan repaid within six years	Current agreement only runs until March 2023 so technically no payments could be enforced after this date even if the debt has not been repaid	Business can trade for five more years resulting in five more years to make a profit and repay the loan, therefore increasing likelihood of loan repayment
Sale of existing kitchen equipment in the premises being used to pay off some of the loan	N/A	Represents an immediate opportunity to pay back some of the loan capital. The OIF loan was used to purchase some of this equipment.

5 new jobs to be created (remainder of Chicken Town loan commitment); commitment to London living wage; bespoke in-house training programme; 50% local recruitment commitment from Year 2 onwards	No local recruitment percentage agreed. No in-house training programme in place	Fulfilment of remaining Chicken Town job outputs as a minimum and new 50% local recruitment target
In-house training programme through RoxyCo utilising experience and knowledge from across the group of restaurants	Commitment to deliver four apprenticeships (not fulfilled to date)	Proven in-house training programme is the new operators preferred method of training for staff due to previous experience with poor quality apprentice provision
A commitment to make voluntary payments to the loan (£1,900 from September 2018 and monthly thereafter)	No such agreement	Voluntary payments throughout year would improve chance of loan being repaid and at a faster rate
25% of profits being donated to local youth charities/projects after OIF loan repaid	No such agreement	25% of profits invested in local good causes after OIF has been repaid

## 2. Cabinet Member Introduction

N/A

## 3. Recommendations

3.1 It is recommended that the new operator of the former fire station restaurant take on the loan liability from Chicken Town of £210k on the terms described: a 6% interest rate, a repayment period of up to 10 years, an annual profit related loan repayment, sale of existing kitchen equipment to pay back the loan, 5 FTE jobs to be created, London Living Wage, a bespoke training programme, and a target of 50% local jobs from Year 2.

3.2 Based on the above, Programme Board is recommended to approve a transfer of the £210,000 loan from Chicken Town Ltd to the new operator subject to:

- Signing of the lease of the premises
- Securing of planning consent and appropriate licenses
- Sign off of Delegated Authority report in accordance with the OIF approval process and agreed final terms.

3.3 Officers recommendations were approved by the Chair of the Tottenham Programme Delivery Board on 13<sup>th</sup> December 2017, following the evaluation of a funding application by officers and the OIF Advisory Group made up of LBH and GLA officers and a review by Finance.

## 4. Reasons for decision

4.1 Decision under delegated authority is required.

## 5. Alternative options considered

5.1 Not to transfer the £210k loan debt to a new operator. This was not considered to be a feasible option as this would mean the loan would not be repaid.

5.2 To conduct an open call process to appoint an experienced new restaurant operator willing to take on the premises and the £210k loan debt. This option was not progressed as the loan liability currently sits with Chicken Town Ltd and they identified an experienced restaurant operator willing to do this.

5.3 The transfer of the £210k OIF debt to the new operator has been recommended for approval based on the evaluation of an OIF application and business plan.

5.4 The OIF application evaluation process is set out in the application pack and assesses applicants' proposals on the contribution to core criteria of the fund, strategic objectives as set out in the Tottenham Strategic Regeneration Framework and Haringey's Economic Development and Growth Strategy and the financial and operational competency of the applicant.

## 6. Background information

### 6.1 Application Summary and Background

6.1.1 The Council awarded £300,000 of Opportunity Investment Funding to Chicken Town in 2015 which comprised a £90,000 grant to Create London and a £210,000 repayable loan to Chicken Town Limited. The loan is repayable when the business reaches a profit of £50,000 after tax. At the time of agreeing the loan, the business plan projected that the £210,000 loan would begin to be repaid in March 2018 following the £50,000 profit threshold being reached.

6.1.2 In April 2017 Create advised that Chicken Town Ltd was making a loss. Create were keen to secure a new operator for the restaurant from 2018 onwards and ensure a smooth transition to the new operator and continuation of the social and economic programme and outputs between July and December 2017. A delegated authority report was approved in July 2017 which provided £40,000 of Labour Market Growth and Resilience Funding to Create to continue the current operation until December 2017 and continue the social and economic programme to this date.

6.1.3 The proposed loan agreement with Poulet-Vous Ltd does not cover funding provided to Create London (the £90,000 grant in 2015 and the £40,000 grant from the Labour Market Growth and Resilience Fund in 2017) which were awarded for specific social and economic programmes and outcomes.

### 6.2 Potential new operator

6.2.1 Create have been in discussion with a proposed new operator for the restaurant, an established restaurant operator who has been operating Bistrottheque restaurant in Hackney for 13 years. The restaurant group trades under the name RoxyCo (Outside) Ltd.

6.2.2 The new operator is proposing to take over the restaurant as a new business venture, not as Chicken Town Ltd. It is proposed that the new business will take on the £210,000 OIF debt under a new OIF loan agreement with the profit related payment requirement still in place but the £50k profit threshold removed. The new operator has also committed to make monthly voluntary repayments to the loan from September 2018 onwards. In addition, the loan repayments will be charged at a

higher rate of interest which has been agreed by the operator and the loan term will be extended to match the proposed new lease term (10 years from 2018-2028) therefore increasing the likelihood of the loan being repaid as the current loan agreement with Chicken Town expires in 2023. The new operator is also proposing a goodwill fund for community projects (details to be agreed) made up of 25% of annual profits after the OIF loan has been repaid.

6.2.3 The existing kitchen equipment will be removed and the space will be refitted and redesigned (funded by the new operator). The proceeds from the sale of the existing kitchen equipment (exact value to be determined) will be used to pay back some of the OIF loan as this was what some of the £210,000 was originally used for.

6.2.4 The new business will be a restaurant with a new name, concept and brand and the emphasis will be on creating a successful commercial venue (as opposed to the Chicken Town ethos of a social enterprise providing an alternative to takeaway fried chicken). The new operator will maintain a partnership with Create who will continue to deliver a community and social outreach programme around healthy eating (details of this have still to be agreed but this will not be an additional cost to the Council). It should be noted that the business model proposes evening opening-only Monday to Friday and all day opening at the weekend. On weekdays the operator will make the restaurant available to Create to run the community programme.

6.2.5 In relation to the required OIF loan outputs, Chicken Town has already delivered its commercial space output bringing 1,500sqft of space back into use. Chicken Town are contracted to deliver 10 full time and 6-part time jobs up the end of their loan term in 2023. To date they have delivered 5 full time and 6-part time jobs. It is proposed that the new operator takes over the remaining job requirement to deliver a minimum of 5 full time jobs in the new loan term. The operator has confirmed that he will pay staff London Living Wage. The new operator is keen to fulfil the work experience and training obligation in a different way by providing an alternative model to apprenticeships in accordance with the wider restaurant group training approach. He has committed to transfer existing Chicken Town staff (who would like to be transferred) to the new operation by February 2018 and from Year Two will commit to a 50% local recruitment rate for new vacancies.

6.2.6 The new operator is currently in discussion with the Council and CONEL on a number of matters set out below:

- Transfer of £210,000 OIF loan from Chicken Town Ltd to the new operator under OIF approval procedures including approval by the Tottenham Delivery Board and a Delegated Authority report to be approved by the Director of Regeneration. The new loan will be subject to a lease being in place and planning permissions and licenses as standard.
- Transfer of lease to the new operator under a new 10-year term from 2018.
- Planning/listed building consent and licensing requirements.

6.2.7 Subject to the above being agreed the operator would take on the new lease in March 2018 and re-open the restaurant in May 2018.

### **6.3 The Business Proposal**

6.3.1 The applicant intends to refurbish and re-brand the premises creating an accessible menu with broad appeal. The business owner is a Tottenham resident and has an established background in running high quality, well-regarded restaurants such as Bistrottheque.

6.3.2 They aim to appeal to the whole community, opening evenings during the week and all day at weekends offering a fun place where people feel comfortable, balanced with an attentive, high volume service.

6.3.3 They propose to take over the lease on 1 March 2018 and refit the space, upgrading the kitchen and air handling and doubling the internal seating capacity to 60-70 guests.

6.3.4 They will invest £290,000 from the holding company (RoxyCo Ltd), with no plans to begin these repayments in the first three years of operation.

6.3.5 Food and drink prices will be pitched within the area average as evidenced in the business plan with off-peak offers being more competitive and targeted at locals.

6.3.6 Their year one staffing plan will see 14 FTE jobs working on site. The operator has agreed to a 50% local recruitment target from Year 2 and has committed to sign up to the Tottenham Charter. Existing Chicken Town staff will join the wider Bistrottheque team to be trained before returning to Tottenham once refurbishment works have completed.

### **6.4 Experience**

6.4.1 The operator has many years of experience in creating successful, atmospheric restaurants in London, currently running Bistrottheque and having run the Filling Station at Kings' Cross. They intend to become a destination venue of choice for local people and those further afield. Pablo Flack is a Tottenham resident and is keen to ensure the restaurant appeals to local people. He has committed to making voluntary payments towards the loan (monthly from September 2018 and annually in profit-related payments as outlined above) and to commit a further 25% of profits to local good causes after the loan has been repaid.

### **6.5 Key outputs / outcomes**

6.5.1 Chicken Town is running at a loss and cannot remain open beyond the end of 2017. Therefore, unless a new business is established which is willing to take on the £210k loan there is little chance of this being repaid.

6.5.2 The proposed new operator will commit to taking on the existing OIF loan on more favourable terms and it is considered that they represent a better chance of reaching a profit and therefore repaying the loan.

6.5.3 They will commit to providing five FTE jobs (the balance of outputs still remaining from the agreement with Chicken Town Ltd). 25% of profit will be used to pay off OIF loan capital/interest and following total repayment 25% will be put towards local good causes with a focus on youth projects.

6.5.4 They will also work with Create who plan to utilise their premises during week days in order for Create to continue their socio-economic work in the area. The socio-economic plan in partnership with Create will be submitted to the council as



part of the OIF monitoring milestones. Full details of this are still to be agreed but this work will concentrate on working with schools and community groups to deliver creative and educational activity around healthy eating including food growing projects and cookery classes.

6.5.5 Chicken Town staff members who wish to transfer to the new company, currently six staff in total, will transfer over to the new company during January-February 2018. The operator will commit to a target of 50% local recruitment for new vacancies from Year Two (2019) onwards.

6.5.6 As part of the submission of monitoring evidence an open book approach will form part of the loan agreement whereby accounts will be submitted annually.

## **6.6 Project Timescale**

6.6.1 The applicant is negotiating a 10-year lease beginning in March 2018. Following refurbishment of the premises they expect to be open in May 2018.

## **6.7 Repayment Profile**

6.7.1 £210,000 at a rate of 6% interest totalling £222,600. 6-month repayment holiday from when the new operator takes on the lease with a first voluntary payment at September 2018 (£1,900) and monthly thereafter. 25% of any profit at the end of the year will be used to contribute towards paying off the OIF loan.

6.7.2 Voluntary contributions made during the year will be taken off this year-end repayment. As an example, if profit of £100,000 is made and £10,000 of voluntary repayments have been made during the year the balance owed will be £15,000 (25% of £100,000 minus £10,000).

6.7.3 Based on the submitted financial projections and business plan by Poulet Vous Ltd the annual profit projections to the end of year five (March 2023) would see £110,620 repaid, not including any monthly voluntary repayments from September 2018. £104,500 could also potentially be repaid voluntarily by March 2023 (55 payments of £1,900 from September 2018 to March 2023) not including profit related repayments.

6.7.4 It has also been agreed that the proceeds from the sale of the existing kitchen equipment will be to pay off the loan. This will be an early loan repayment prior to March 2018 (the amount is still to be determined following the sale of the equipment).

## **6.8 Financial Assessment**

6.8.1 Finance has reviewed the application and considers the business to have a good understanding of the market and good controls in place with good customer/market research to back up their offer. Finance have signed off the business plan and cash flow forecast.

## **7. Contribution to strategic outcomes**

7.1 Projects delivered under the Opportunity Investment Fund contribute towards and have been assessed against the objectives of the Tottenham Strategic Regeneration Framework and the borough's Economic Development and Growth Strategy.

## 8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

### 8.1 Finance and Procurement

The proposal has been reviewed both as a stand alone application and in light of the previous loan granted to Chicken Town and lessons learned. It is considered that the loan term and value are appropriate given the business plan and assumptions, the financial standing of the company, an acceptable level of risk and the desired regeneration outcomes.

Under the terms of the grant agreement with the GLA, the income and expenditure is ring fenced. Therefore, when the loans are repaid to the Council, the funds are to be used for further loans or grants to businesses.

This is also a route to recovery of some, if not all, of the initial investment in comparison to a do nothing option where there is a high likelihood of losing the initial investment in full.

### 8.2 Legal

Legal comments have not been pursued as risk to the council is manifested through financial risk, which has been addressed by the Head of Finance for Regeneration, Planning and Development above.

Templates used for loan agreements have been reviewed by legal services and no changes have been made to the terms and conditions.

### 8.3 Equality

The Council has a Public Sector Equality Duty under the Equality Act (2010) to have due regard to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act
- Advance equality of opportunity between people who share those protected characteristics and people who do not
- Foster good relations between people who share those characteristics and people who do not.

The three parts of the duty applies to the following protected characteristics: age, disability, gender reassignment, pregnancy/maternity, race, religion/faith, sex and sexual orientation. Marriage and civil partnership status applies to the first part of the duty.

This application was judged on the merit of its strategic contribution to OIF programme objectives and financial robustness of the business case. There are no anticipated equalities issues, as set out under the Public Sector Equality Duty in Equality Act 2010, with regards to that process. Job creation is a key outcome and the Tottenham Regeneration and Economic Development Teams will work with the applicant to ensure that local residents can overcome barriers to work caused by, for example, race, age, sex, and disability.

By receiving this loan the applicant has committed to:



- Support the creation of new job and training opportunities in Tottenham;
- Paying the London Living Wage as a minimum;
- Working with the council and partners to source local residents for interview to access the job and training opportunities.

**9. Use of Appendices**

N/A

**10. Local Government (Access to Information) Act 1985**

N/A