

CATFORD
REGENERATION
PARTNERSHIP
LTD
BUSINESS PLAN
2014/15

Introduction

Catford Regeneration Partnership Limited (CRPL) is a wholly owned subsidiary of Lewisham Council. The company was created in January 2010 to purchase the leasehold interests in and around the Catford centre in order to manage and regenerate the property to improve the economic, social and environmental wellbeing of the people of the London Borough of Lewisham.

The purpose of this business plan is to set out the company's objectives, activities, and budget for 2014/15 for agreement by the Council as sole shareholder in accordance with the company's articles of association (listed at Appendix B).

Structure and governance

CRPL currently has one director, Ralph Wilkinson (LBL Head of Public Services). The second director post is currently vacant and it is proposed that this post is filled by the permanent appointee to the Head of Business Management and Service Support. The directors are responsible for the day to day running of the company in line with the articles of association and have other statutory duties as defined by the Companies Act 2006. The directors must take account of the approved business plan when exercising their functions in the management of the Company. Directors are appointed and removed by the Council as sole shareholder.

In line with the plans presented to the Council in previous financial years, CRPL has continued to develop an effective and efficient management approach for the operation of the property through a team of professional advisors, including managing and letting agents that oversee daily management of the property and report to the director of CRPL.

Certain key decisions in relation to the company are classified as reserved matters, and must be approved by the Council as sole shareholder. The Mayoral Scheme of Delegation allows specific officers to take executive decisions in relation to the Company where appropriate. The complete list of shareholder reserved matters is included at Appendix B, with key matters including:

- the approval of each Business Plan;
- the approval of each Budget and in any financial year changes over £20,000 in any one amendment to the Budget and changes to the Budget exceeding £100,000 in aggregate in any financial year;
- the making of any acquisition or disposal by the Company other than in accordance with the then current Business Plan and Budget;
- the making of any application for planning permission;
- the implementation of any regeneration initiative other than in accordance with the then current Business Plan.

These reserved matters ensure that the Council retains control over the direction of future regeneration proposals. The Council's Catford Programme Board, chaired by the Chief Executive, has responsibility for setting the overall direction on the regeneration of Catford town centre. CRPL is represented at these programme board meetings, which are used as the mechanism for updating the Council on progress against the company's objectives.

CRPL directly employs two centre management staff; a centre manager and a cleaning supervisor. Council officers also conduct work on behalf of the company, and officer time is recharged to the company as appropriate.

Objectives

CRPL has continued to work alongside the Council to build on the proposed delivery strategy and commercial approach for a regeneration programme for Catford town centre. CRPL directors propose the following company objectives for the 2014/15 financial year:

- To continue the effective management of the Catford Centre and other CRPL assets, ensuring that the operational management standards remain high and that the full commercial potential of the centre is being realised through letting and renewal strategies.
- To enable the redevelopment or partial/comprehensive refurbishment of the Catford Centre and other CRPL assets by working with Lewisham Council to evolve and undertake a regeneration process and reach a commercial agreement with key stakeholders/potential partners.
- Work with Lewisham Council across Catford town centre, in order to contribute to the regeneration aims for the town centre as a whole through property related activities.
- To enable CRPL to acquire key properties that are considered strategic to further regeneration aims.

Activities

In order to achieve these objectives, CRPL continues to promote, commission, undertake or participate in a range of activities, including:

Centre management

- Rent collection and arrears management
- Service charge administration; including reconciliations to tenants and the creation of future service charge budgets
- Tenant liaison; operational issues, lease issues and queries on wider regeneration aims
- Health & safety; assessment and compliance of property, day to day implementation of H&S policies and practices
- Facilities management and maintenance; ensuring that all of the landlord's obligations are met, create and maintain a schedule of repairs, major works, improvements and comprehensive redecoration as required.
- Asset management including acquisitions and disposals, redevelopment and lease structuring
- Legal proceedings relating to leases and rental arrears
- Data management; maintenance of accurate records and accounts
- Lease renewals and Rent reviews
- New Lettings

- CRPL contracts; procurement and management of services provided to CRPL by outside parties. These include centre management, legal, accountancy and asset management services.

Regeneration

- Procurement of professional services (in conjunction with LBL)
- Consultation (in conjunction with LBL)
- Commercial negotiation with other land owners/potential partners
- Engagement with stakeholders (in conjunction with LBL)
- Retail and Leisure proposals
- Design/feasibility work
- Planning strategies (led by LBL)
- Milford Towers decant strategy (led by LBL)
- Council office design (led by LBL)
- Housing proposals (in conjunction with LBL)

Key professional services to assist CRPL in the delivery of these activities include:

- DTZ - Managing agents
- Mason Owen - Letting agents
- Johnson Fellows - Surveyors & rent review negotiators
- Russell Cooke - Solicitors

2013/14 Budget Review

The 2013/14 budget was developed by officers based on 2012/13 figures, projected CRPL running costs, the rental income from the Catford Centre and adjoining properties as well as the provisions of the service charging system.

Overall the company projecting a deficit for this financial year, which will broadly offset the surplus which was made in 2012/13. The main reason for this is the major enabling works undertaken on the new commercial lettings. Costs have therefore been incurred in 2013/14 which will be recouped in future years.

Letting and renewal fees – there have been a number of new and renewed lettings this financial year, including a new agreement at 6-8 Winslade Way following tenant administration and a new letting at 148 Rushey Green to Phones4U, which has delivered an additional 45% rental income per annum (following rent free periods). The level of fees for lettings and renewals reflects CRPL taking positive management action to avoid a negative change in tenant mix in the town centre units under its control.

Professional fees – other professional fees, including those for centre management, have all been at or below projected levels. This is largely due to the development of good working practices that have been established with those providing the services to ensure that costs can be anticipated.

Repairs – due to enabling works required on new commercial lettings, there has been some spend on major repairs in the 2013/14 financial year that was not projected. However, overall the spend on non recoverable costs, exclusive of works in relation to new commercial lettings, was lower than projected as other works including repair works to the residential properties was lower than forecast.

Rental income – This has again held up well, with the full rent of Poundland now being received as well as a number of new lettings, along with strong collection performance throughout the year comparable to the previous year. In addition, a number of leases provide for a gross rent with the company meeting the service charge and other costs, thus increasing both income and property costs.

2014/15 Budget and Management Approach

An analysis of rental income against the projected rental income has been undertaken. This considers issues such as rent free periods for new lettings and arrears and is considered to be a prudent assumption on likely future rental income. This analysis has been used to arrive at the rental income figure of £1.05m for the 2014/15 financial year.

The main centre service charge is a separate cost to tenants and all expenditure must be reconciled with their payments at the end of the service charge year. The current service charge budget has been calculated using the actual spend figures for the previous service charge year, assumptions on increased costs and the renegotiation of service contracts. The service charge budget and spend is externally audited to ensure CRPL are meeting all of the requirements of the Service Charge Code. The expenditure for the 2012/13 service charge year (1 September- 30 August) totalled £434k which was 2.76% under budget.

There are fewer opportunities for new lettings in 2014/15 as a result of breaks in existing leases, but an increased likelihood of vacancies as the proposed redevelopment date approaches. Although CRPL will continue to pursue all opportunities for new lettings, it is considered likely that overall there will be fewer lettings in 2014/15. However, due to the fact that there are some forthcoming lease renewals and given the current economic climate, which has resulted in many retailers being unable to continue with their leases, the budgets for letting and renewal fees, along with the budget for covering empty property costs, are being kept at the same level as the 2013/14 budget.

The level of repairs liability to CRPL, which is anything that is not covered via the service charge (shared between all tenants and CRPL), will remain at £30k from £35k to reflect the level of projected repair work. Regular inspections are undertaken to ensure that all planned maintenance work can be factored into this budget allowance. However a contingency must always be allowed for unforeseen repair work.

As part of the agreed objectives to work with the Council to progress the regeneration of Catford Town Centre, CRPL officers have been involved in discussions regarding the interim use of Lewisham Town Hall, which has been declared surplus to Council office building requirements, The potential for CRPL to lease the building from the Council and let it out to third parties on commercial terms is one of a number of options being considered. CRPL would need to carry out its own due diligence on any such lease agreement and make budget alterations accordingly. Should this option be preferred by all parties, it could result in changes to the overall CRPL budget that exceed the amounts listed at 25.2 of the Articles of Association. In that instance, the company director will undertake to brief members as part of a wider briefing on the interim use of Lewisham Town Hall.

Having due regard for market forces, such as the number of high street retailers entering administration, an overall change in retail focus and the future potential redevelopment of the town centre, CRPL must take a flexible approach to lettings and renewals. This approach may include the combining or dividing of units to meet space requirements, which could involve some capital works. This could also include utilising units for meanwhile activities to ensure that the Catford Centre and associated properties remain a

thriving town centre asset. CRPL may also consider short term lettings up to three years to allow flexibility around future regeneration plans.

In November 2013 a non-intrusive structural survey was carried out to the Catford Centre and Milford Towers to help inform redevelopment options for the regeneration of the centre. A second-stage intrusive survey was commissioned in January 2014 (via CRPL) to provide more detailed analysis of the structural integrity of the facility. This information will prove beneficial as redevelopment options are being formulated.

CRPL is projecting a small surplus in 2014/15. This shows that the company is operating successfully and it is felt that this is a fair budget assumption given the 2013/14 budget position. This surplus will be utilised to meet the deficit from the 2013/14 year.

Future Year Budget Projections

The 2015/16 financial year would be significantly affected by a target vacant possession date of December 2015, as CRPL would in that scenario seek to exercise its lease break options (requiring 6 months' notice). This would reduce the overall rental income to the centre for that financial year, as there would be very little 4th quarter income, and may also coincide with the company accepting some lease surrenders to allow for vacant possession to be achieved. How this issue is dealt with will be part of the overall proposals for the redevelopment of the site as part of the wider regeneration programme for the town centre. Following discussions with the Council regarding the likely vacant possession target date, CRPL believes it is prudent to carry out 2015/16 budget projections on the basis that the vacant possession target date could alter and therefore CRPL would have additional time to operate within its current parameters. Until a decision is taken on the vacant possession approach by the elected members of the Council, CRPL will take the best interim commercial view of all property management activity and will fully assess actions and risks on the basis of the best information available at that time with regards to the vacant possession date.

APPENDIX A

CATFORD REGENERATION PARTNERSHIP LTD

2012/13 OUTTURN AND CURRENT AND FUTURE YEARS BUDGETS

	Final Outturn 2012/13 £	Original Budget 2013/14 £	Draft Outturn 2013/14 £	Proposed Budget 2014/15 £
<u>INCOME</u>				
Lease Rents Receivable	1,067,500cr	960,000cr	1,100,000cr	1,050,000cr
Service Charge Recoveries	149,100cr	156,500cr	145,000cr	140,000cr
TOTAL INCOME	1,216,600cr	1,116,500cr	1,245,000cr	1,190,000cr
<u>EXPENDITURE</u>				
<u>CRPL costs</u>				
CRPL Employee Costs	83,100	83,500	83,000	84,000
LBL Staff Recharges	72,000	73,000	72,000	73,000
Letting and Renewals Fees	91,300	60,000	60,000	60,000
Property Costs	64,500	20,000	70,000	70,000
Works, Repairs and Maintenance	70,600	40,000	220,000	50,000
Insurance Costs (Net)	19,500	39,000	35,000	36,000
Fees and Miscellaneous	8,500	9,000	9,000	9,000
	409,500	324,500	549,000	382,000
<u>Loan Repayments</u>				
Interest	663,200	658,500	659,000	653,000
Principal	93,400	99,000	99,000	105,000
	756,600	757,500	758,000	758,000
TOTAL EXPENDITURE	1,166,100	1,082,000	1,307,000	1,140,000
NET PROFIT (cr) / LOSS	50,500cr	34,500cr	62,000	50,000cr

APPENDIX B - Shareholder reserved matters

- 1 CRPL's articles of association identify the following items as shareholder reserved matters:
 - 1.1 the approval of each Business Plan;
 - 1.2 the approval of each Budget and in any financial year changes over £20,000 in any one amendment to the Budget and changes to the Budget exceeding £100,000 in aggregate in any financial year;
 - 1.3 the declaration and/or payment of any dividends by the Company save where such declaration and distribution is made in accordance with the Company's dividend policy;
 - 1.4 the approval of and any change to the Company's dividend policy;
 - 1.5 the increase in any indebtedness of the Company other than in accordance with the prevailing Budget;
 - 1.6 the commencement by the Company of any new business not being ancillary to or in connection with the Business or making any change to the nature of the Business;
 - 1.7 the Company participating in any activity which is detrimental to and/or incompatible with the Business;
 - 1.8 the making of any political or charitable donation;
 - 1.9 the making of any acquisition or disposal by the Company other than in accordance with the then current Business Plan and Budget;
 - 1.10 writing off a bad debt exceeding £25,000 provided that if debts of that person or organisation have been written off by the Company in the previous three years in an aggregate amount of £50,000 or more, the decision to write off any further bad debts for that person or organisation shall also be a reserved matter;
 - 1.11 the making of any application for external funding;
 - 1.12 the repurchase or cancellation by the Company of any shares, or the reduction of the amount (if any) standing to the credit of its share premium account or capital redemption reserve (if any) or any other reserve of the Company;
 - 1.13 a change of name of the Company or location of its registered office;
 - 1.14 any issue of new shares in the Company.
 - 1.15 the devolution or transfer of all or part of the management of the Company or its business to persons who are not directors of the Company and, if approved, the terms of such devolution;

- 1.16 without limiting the generality of article 25.15, the appointment of any Chief Executive Officer or person holding a similar role and the terms of such appointment;
- 1.17 the appointment or removal of any director of the Company;
- 1.18 the engagement of (and terms of engagement of) any individual person as a consultant (but excluding for such purposes any firm/professional advisers) or employee;
- 1.19 the engagement of (and terms of engagement of) any company, partnership, individual person or other entity for the provision of services to the Company where the services provided are not contemplated in the then current Business Plan and Budget and/or where the value of the services is above the Official Journal of the European Union limit for services and/or where the services have not been tendered in accordance with the [Company's Contract Lettings Procedure];
- 1.20 any change to the terms of employment/engagement and/or remuneration of a person referred to in articles 25.18 and 25.19;
- 1.21 the letting of any contract for the provision of supplies to the Company where the supplies provided are not contemplated in the then current Business Plan and Budget and/or where the value of the contract is above the Official Journal of the European Union limit for supplies and/or where the contract has not been tendered in accordance with the [Company's Contract Lettings Procedure];
- 1.22 the letting of any contract for the provision of works to the Company where the works provided are not contemplated in the then current Business Plan and Budget and/or where the value of the contract is above £200,000 and/or where the contract has been not tendered in accordance with the [Company's Contract Lettings Procedure];
- 1.23 the instigation of any court proceedings where the directors have not taken appropriate legal advice or where such proceedings would be against that legal advice;
- 1.24 the authorisation of the levying of distress against the occupants of land or property in arrears where the directors have not taken appropriate legal advice or where such actions would be against that legal advice;
- 1.25 the making of any application for planning permission;
- 1.26 the implementation of any regeneration initiative other than in accordance with the then current Business Plan;
- 1.27 the commencement of any winding-up or dissolution of or the appointment of any liquidator, administrator or administrative receiver of the Company or any of its assets unless it shall have become insolvent.